



**UNIVERSITY OF THE PACIFIC**

Consolidated Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)



Three Embarcadero Center  
San Francisco, CA 94111

## Independent Auditors' Report

The Board of Regents  
University of the Pacific:

We have audited the accompanying consolidated balance sheet of the University of the Pacific as of June 30, 2003, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2002 financial statements and, in our report dated September 27, 2002, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of the Pacific as of June 30, 2003, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

September 26, 2003



**UNIVERSITY OF THE PACIFIC**

Consolidated Balance Sheet

Year ended June 30, 2003

(With comparative financial information as of June 30, 2002)

(In thousands)

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$ 21,281	21,470
Accounts receivable, net	13,193	13,840
Pledges receivable, net	16,409	17,023
Inventories, prepaid expenses, and other assets	6,495	5,614
Student loans receivable, net	26,590	26,083
Investments	196,045	202,553
Fixed assets, net	<u>167,539</u>	<u>146,731</u>
Total assets	<u>\$ 447,552</u>	<u>433,314</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 16,921	15,497
Advance deposits and deferred revenue	7,467	6,179
Self-insurance reserves	3,940	2,673
Early retirement reserves	1,971	2,381
Capital lease obligations	1,225	1,463
Notes and bonds payable	84,556	85,568
Trust and annuity obligations	10,037	10,815
Federal student loan funds	<u>24,067</u>	<u>23,819</u>
Total liabilities	<u>150,184</u>	<u>148,395</u>
Contingencies		
Net assets:		
Unrestricted	165,431	163,348
Temporarily restricted	31,213	30,138
Permanently restricted	<u>100,724</u>	<u>91,433</u>
Total net assets	<u>297,368</u>	<u>284,919</u>
Total liabilities and net assets	<u>\$ 447,552</u>	<u>433,314</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF THE PACIFIC**  
Consolidated Statement of Activities  
Year ended June 30, 2003  
(With summarized financial information for the year ended June 30, 2002)  
(In thousands)

	2003			Total	2002 Totals
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues, gains, and other support:					
Tuition and student fees	\$ 149,390	—	—	149,390	138,550
University-sponsored financial aid	(32,153)	—	—	(32,153)	(29,198)
Donor-sponsored financial aid	(3,119)	—	—	(3,119)	(3,186)
Net tuition and fees	114,118	—	—	114,118	106,166
Sales and services of auxiliary enterprises	21,412	—	—	21,412	19,000
Government grants and contracts	18,709	—	—	18,709	17,494
Private grants, gifts, and bequests	11,785	2,276	9,378	23,439	14,914
Investment return distributed	8,434	166	(5)	8,595	9,006
Dental clinic fees	9,136	—	—	9,136	7,792
Other	8,027	12	84	8,123	8,472
Actuarial gain (loss) on annuity and trust obligations	68	217	(166)	119	(214)
Net assets released from restrictions	1,596	(1,596)	—	—	—
Total revenues, gains, and other support	193,285	1,075	9,291	203,651	182,630
Expenses:					
Instructional and departmental research	94,068	—	—	94,068	83,770
Auxiliary enterprises	23,869	—	—	23,869	20,183
Sponsored programs	10,043	—	—	10,043	10,283
Academic support	7,231	—	—	7,231	7,024
Student services	10,962	—	—	10,962	10,363
Student aid	2,768	—	—	2,768	2,361
General administration	6,296	—	—	6,296	5,179
Fund-raising activities	5,963	—	—	5,963	5,661
Operations and maintenance at plant	12,524	—	—	12,524	12,313
Depreciation and amortization	12,443	—	—	12,443	9,720
Interest	3,997	—	—	3,997	3,758
Total expenses	190,164	—	—	190,164	170,615
Increase in net assets from operations	3,121	1,075	9,291	13,487	12,015
Other changes:					
Investment loss, net of distributions	(1,038)	—	—	(1,038)	(10,286)
Other	—	—	—	—	(144)
Increase in net assets	2,083	1,075	9,291	12,449	1,585
Net assets, beginning of year	163,348	30,138	91,433	284,919	283,334
Net assets, end of year	\$ 165,431	31,213	100,724	297,368	284,919

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF THE PACIFIC**  
Consolidated Statement of Cash Flows  
Year ended June 30, 2003  
(With comparative financial information as of June 30, 2002)  
(In thousands)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase in net assets	\$ 12,449	1,585
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,443	9,720
Noncash contributions	(12,331)	(1,596)
Other noncash items	—	144
Changes in assets and liabilities, net of effect of Feather River:		
Accounts receivable	647	(387)
Pledges receivable	614	1,230
Inventories, prepaid expenses, and other assets	(881)	343
Accounts payable and accrued liabilities	1,424	(1,277)
Advance deposits and deferred revenue	1,288	426
Self-insurance reserves	1,267	105
Early retirement services	(410)	(10)
Trust and annuity obligations	(778)	598
Federal student loan funds	248	928
Net realized and unrealized (gains) losses on investments	(2,083)	7,335
Interest and dividends restricted for long-term investment	5	23
Contributions restricted for long-term investment	(4,160)	(7,562)
Net cash provided by operating activities	<u>9,742</u>	<u>11,605</u>
Cash flows from investing activities:		
Proceeds from sale of investments	130,062	173,638
Purchase of investments	(109,140)	(189,649)
Purchase of fixed assets	(32,552)	(25,395)
Proceeds from student loans collections	6,841	5,078
Student loans issued	(7,348)	(6,752)
Feather River cash acquired	—	9
Net cash used in investing activities	<u>(12,137)</u>	<u>(43,071)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	4,160	7,562
Other financing activities:		
Proceeds from issuance of bonds	—	24,789
Payment on notes payable, bonds payable, and capital leases	(1,949)	(1,923)
Interest and dividends restricted for reinvestment	(5)	(23)
Net cash provided by financing activities	<u>2,206</u>	<u>30,405</u>
Net decrease in cash and cash equivalents	(189)	(1,061)
Cash and cash equivalents, beginning of year	<u>21,470</u>	<u>22,531</u>
Cash and cash equivalents, end of year	<u>\$ 21,281</u>	<u>21,470</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,744	3,216
Supplemental disclosure of noncash investing and financing activities:		
Equipment acquired under capital leases	\$ 699	766

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF THE PACIFIC

## Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

### (1) Significant Accounting Policies

#### (a) *Nature of Operations*

The University of the Pacific (University) was founded in 1851 and offers undergraduate and graduate programs of higher education through three campuses located in Northern California. Funding sources generally include tuition and fees charged to students, income of auxiliary enterprises, grants, contracts, gifts, and bequests.

#### (b) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting.

The financial statements include the accounts of the University as of and for the 12 months ended June 30, 2003 and Feather River Inn, Inc. (Feather River) as of and for the 12 months ended March 31, 2003. The comparative 2002 financial information includes Feather River as of and for the three months ended March 31, 2002. The University has had a controlling financial interest in Feather River since January 1, 2002.

The University classifies net assets and revenues, expenses, gains and losses into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, restricted, and unrestricted net assets.

- Permanently restricted net assets are comprised of the historical dollar amount of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained. Pledges, trusts, and remainder interests are reported at their estimated present values. Endowments are reported at the original amount of the gift plus the portion, if any, of earnings explicitly stipulated by the donor to be added to corpus.
- Temporarily restricted net assets include gifts, pledges, trusts, remainder interests, and income and gains on restricted contributions which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds, etc.)
- Unrestricted net assets are all the remaining net assets of the University. Unrestricted net assets are, in part, designated for specific purposes by action of the board of regents and may otherwise be limited by contractual agreements with outside parties.

In accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, (i) tuition and fees are reflected net of financial aid provided in the form of institutional scholarships; (ii) expenses include vested benefits of employees for future compensated absences; and (iii) funds administered as an intermediary for others, including student loan funds provided by federal agencies, are accounted for as liabilities rather than as net assets of the University.

# UNIVERSITY OF THE PACIFIC

## Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(c) Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less other than cash equivalents included in the University's investment pool.

The University maintains its operating cash accounts in several commercial banks. The accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation up to \$100,000 for each financial institution. The University has not experienced losses on these deposits to date.

**(d) Inventories**

Inventories, consisting principally of clinic supplies, are valued at the lower of average cost or market.

**(e) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value based on published market values. Investments in real estate and securities for which fair value is not readily determinable are carried at cost, if purchased, or at fair value at the date of receipt, if acquired by donation. These investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the statement of financial position.

Net appreciation (depreciation) in the fair value of those investments that are accounted for at fair value, including realized gains or losses and unrealized appreciation (depreciation) on those investments, as well as all dividends, interest, and other investment income, is shown in the statement of activities. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period that the gains and income are recognized. Losses on investments related to gifts that the donor required to be invested in perpetuity (i.e., endowment funds) are classified as decreases in unrestricted net assets; subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as increases in unrestricted net assets.

# UNIVERSITY OF THE PACIFIC

## Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(f) *Endowment Investment Return Spending Policy***

The University invests certain assets on a pooled basis under a methodology wherein the investment returns of the pool are allocated proportionately among the individual funds and activities participating in the pool. Board policy allows the board of regents to appropriate portions of the net appreciation resulting from investment of endowment corpus and from investment of amounts set aside by the board of regents as quasi-endowment investments as is prudent considering the University's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. Under the University's endowment spending policy, 5.5% of the average fair value at the end of the previous three years of endowment and quasi-endowment investments is appropriated to support current operations.

**(g) *Fixed Assets***

Fixed assets are recorded at cost, if purchased, or at fair market value at the date of gift, if acquired by donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years.

Repairs and maintenance are expensed as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the accounts and a gain or loss is recognized in the year of disposal.

**(h) *Contributions***

Unconditional contributions received, including unconditional promises or pledges, are recognized as revenue when the donors' unconditional commitment is received. Conditional promises and gifts are recorded as revenue when donor's conditions are substantially met. Pledges in excess of \$5,000 are recorded at the estimated present value of the future cash flows, net of an allowance for nonfulfillment. Promises made that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. Donor-restricted gifts, including investment return on endowments, which are received and either spent or deemed spent within the same year are reported as unrestricted revenues. Gifts of long-lived assets are reported as temporarily restricted net assets until expensed, at which time the restrictions are released and net asset amount is reclassified to the unrestricted category.

**(i) *Funds Held in Trust by Others***

Funds held in trust by others represent assets irrevocably held and administered by trustees other than the University with the University named as a beneficiary to derive income or a residual interest from the assets of such funds after the passage of time or occurrence of specified events. When the University is notified that funds have been put in a trust held by others with the University designated as beneficiary, contribution income is recognized as an increase in temporarily or permanently restricted net assets, depending on the nature of restriction imposed by the donor, at the estimated present value of the future cash flows to be received by the University. Under the terms of a trust agreement that has been classified as permanently restricted, the University can appropriate up to \$925,000 from funds held in this trust if it suffers an occurrence of severe financial hardship.

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(j) *Undistributed Estates***

Bequests are recorded as contribution income when the court orders distribution.

**(k) *Expenses***

Expenses are reported as decreases in unrestricted net assets.

**(l) *Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(m) *Self-Insurance***

The University is self-insured for workers' compensation, unemployment, dental, and disability benefits. Annual provisions to adjust reserves for claims are recorded as expenses of unrestricted net assets. Reserves for unpaid claims are estimated using actuarial methods. It is possible that the amounts paid in connection with self-insured risks will vary from amounts accrued as self-insurance reserves.

**(n) *Measure of Operations***

The statement of activities reports the change in net assets from operations, the excess of revenues, gains and support over expenses and losses exclusive of the portion of investment return designated by the University's board of regents for future years' operations and exclusive of revenues or expenses related to unusual or nonrecurring items. As to investment return, the board of regents designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to function as endowment funds (i.e., quasi-endowment funds) in support of operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool (note 1) and all investment income earned by investing cash in excess of daily requirements are used to support current operations and such amount is reported as a component of the change in net assets from operations. The balance of investment return, consisting of the excess of investment return on endowment and quasi-endowment funds over the spending rate, is reported in other changes in net assets.

**(o) *Income Taxes***

The University is exempt from income taxes on its activities as a University under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. Activities unrelated to those of a University are subject to tax at corporate rates.

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(p) Comparative Totals**

The statement of activities includes certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2002 from which the summarized information was derived.

**(q) Reclassifications**

Certain reclassifications have been made to the 2002 financial statements and summarized information to conform to the 2003 presentation.

**(2) Receivables**

**(a) Accounts Receivable**

Accounts receivable as of June 30, 2003 and 2002 are without collateral and consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Student accounts	\$ 2,321	3,326
Dental clinic	4,253	3,901
Government contracts and other	8,041	8,179
Total	14,615	15,406
Less allowance for doubtful accounts	(1,422)	(1,566)
Accounts receivable, net	\$ 13,193	13,840

**(b) Student Loans Receivable**

Student loans receivable as of June 30, 2003 and 2002 are without collateral and consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Federal government programs	\$ 26,540	25,854
Institutional programs	923	1,102
	27,463	26,956
Less allowance for doubtful loans	(873)	(873)
Student loans receivable, net	\$ 26,590	26,083

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(c) Pledges Receivable**

Pledges receivable as of June 30, 2003 and 2002 are without collateral and consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Pledges to be collected:		
In one year or less	\$ 4,946	6,164
Between one year and five years	12,965	11,763
In more than five years	578	891
Total pledges	18,489	18,818
Less allowance for nonfulfillment	(835)	(783)
Less discount to present value at 1.01% to 6.37%	(1,245)	(1,012)
	<b>\$ 16,409</b>	<b>17,023</b>

The pledges receivable as of June 30, 2003 and 2002 will, when collected, have the following restrictions (in thousands):

	<b>2003</b>	<b>2002</b>
Endowment with earnings expendable for departmental programs and activities	\$ 7,463	5,571
Endowments with earnings expendable for scholarships	452	330
Building construction	5,774	7,852
Departmental programs and activities	2,720	3,270
Pledges receivable, net	<b>\$ 16,409</b>	<b>17,023</b>

**(3) Investments**

Investments as of June 30, 2003 and 2002 consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Treasury mutual funds and other short-term investments	\$ 18,684	15,852
Long-term government and corporate bonds	76,870	89,625
Corporate stocks and mutual funds	84,787	85,148
Assets held by other trustees	1,447	1,513
Real and personal properties	14,257	10,415
Total	<b>\$ 196,045</b>	<b>202,553</b>

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

Investments include \$15,185,000 and \$15,254,000 held under split-interest trust agreements as of June 30, 2003 and 2002, respectively. Bond proceeds included in investments and restricted for construction were \$17,009,000 and \$31,416,000 as of June 30, 2003 and 2002, respectively. The aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at June 30, 2003 is less than the level required by donor stipulation is \$2,554,000.

The following summarizes the investment return during the year ended June 30, 2003 its classification in the statement of activities (in thousands):

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Dividends and interest	\$ 5,474	5,313	166	(5)
Realized and unrealized gain on investments accounted for at fair value, net	<u>2,083</u>	<u>2,083</u>	—	—
Total investment return, net	<u>\$ 7,557</u>	<u>7,396</u>	<u>166</u>	<u>(5)</u>
Investment return distributed	\$ 8,595	8,434	166	(5)
Investment loss, net of distributions	<u>(1,038)</u>	<u>(1,038)</u>	—	—
Total investment return, net	<u>\$ 7,557</u>	<u>7,396</u>	<u>166</u>	<u>(5)</u>

The following summarizes the investment return during the year ended June 30, 2002 its classification in the statement of activities (in thousands):

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Dividends and interest	\$ 6,055	5,738	340	(23)
Realized and unrealized loss on investments accounted for at fair value, net	<u>(7,335)</u>	<u>(7,335)</u>	—	—
Total investment return, net	<u>\$ (1,280)</u>	<u>(1,597)</u>	<u>340</u>	<u>(23)</u>
Investment return distributed	\$ 9,006	8,689	340	(23)
Investment loss, net of distributions	<u>(10,286)</u>	<u>(10,286)</u>	—	—
Total investment return, net	<u>\$ (1,280)</u>	<u>(1,597)</u>	<u>340</u>	<u>(23)</u>

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

***Pooled Funds***

Endowment and similar funds assets are generally pooled on a unit-market-value basis. Funds are added to or withdrawn from the pool at the unit-market value at the beginning of the six-month period after which the transaction takes place. Pooled funds as of June 30, 2003 and 2002 consisted of:

	<b>2003</b>	<b>2002</b>
Investments in pooled funds, at market value	\$ 118,741,000	112,195,000
Total number of units	74,820	70,502
Market value per unit	\$ 1,587	1,591

Professional fees for management of the pooled investments are recorded against investment returns and amounted to approximately \$467,000 and \$366,000 for the years ended June 30, 2003 and 2002, respectively.

**(4) Fixed Assets**

Fixed assets as of June 30, 2003 and 2002 consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Land	\$ 6,998	6,998
Buildings	182,714	164,105
Equipment	33,345	33,605
Library books and collections	21,862	19,962
Construction in progress	27,073	21,020
Leasehold improvements	1,399	1,331
	273,391	247,021
Less accumulated depreciation	(105,852)	(100,290)
	<b>\$ 167,539</b>	<b>146,731</b>

**UNIVERSITY OF THE PACIFIC**

Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

**(5) Notes and Bonds Payable**

Notes and bonds payable as of June 30, 2003 and 2002 consist of (in thousands):

	<b>2003</b>	<b>2002</b>
Bonds payable:		
California Educational Facilities Authority (CEFA) Project		
Revenue Bonds:		
Series 1997A, 4.350-5.450%, due in 2013	\$ 6,435	7,140
Series 1998, 3.650-5.000%, due 2018 to 2023	11,695	11,910
Series 2000, 5.750-5.875%, due 2020 to 2030	41,000	41,000
Series 2002, 2.200-5.375%, due 2003 to 2032	24,500	24,500
	83,630	84,550
Less net unamortized discount on bonds	(23)	(30)
Total bonds payable	83,607	84,520
Notes payable	949	1,048
	\$ 84,556	85,568

Scheduled maturities of bonds and notes payable are (in thousands):

	<b>Bonds</b>	<b>Notes</b>	<b>Total</b>
Year ending June 30:			
2004	\$ 1,300	116	1,416
2005	1,355	96	1,451
2006	1,415	59	1,474
2007	1,480	65	1,545
2008	1,545	70	1,615
Thereafter	76,535	543	77,078
	\$ 83,630	949	84,579
Less net unamortized discount			(23)
			\$ 84,556

The University has a \$4,000,000 line of credit with a bank due on demand or in June 2005. Such line of credit is without collateral. The interest rate is at prime (4% as of June 30, 2003) plus 0.25%. There were no borrowings under the line of credit as of June 30, 2003.

# UNIVERSITY OF THE PACIFIC

## Notes to Consolidated Financial Statements

June 30, 2003

(With comparative 2002 financial information)

### ***California Educational Facilities Authority (CEFA) Project Revenue Bonds***

In May 2002, the University issued CEFA Revenue Bonds, Series 2002 amounting to \$24,500,000. Such bonds are payable in varying annual installments through 2032 with interest paid semiannually at rates ranging from 2.200% – 5.375%. Net proceeds of \$24,375,000 will be utilized for various construction projects.

In June 2000, the University issued CEFA Revenue Bonds, Series 2000 amounting to \$41,000,000. Such bonds are payable in varying annual installments through 2030 with interest paid semiannually at rates ranging from 5.750% – 5.875%. Net proceeds of \$14,723,000 were placed in an irrevocable trust for the sole purpose of funding payments of principal and interest on the Series 1993 B Bonds.

In June 1998, the University issued CEFA Revenue Bonds, Series 1998 amounting to \$12,500,000. Such bonds are payable in varying annual installments through 2023, with interest paid semiannually at rates ranging from 3.65% to 5.00%. The net proceeds, after deducting issuance costs, amounted to approximately \$11,926,000.

In April 1997, the University participated in the issuance of CEFA Revenue Bonds, 1997 Series A and B. The University's portion of the bonds amounted to \$9,570,000 of Series A bonds. Upon issuance of the CEFA 1997 Series A bonds, the net proceeds were used to purchase U.S. government securities, which securities were placed into an irrevocable trust for the sole purpose of funding payments of principal and interest on the University's CEFA Series 1986 and 1987 bonds.

The University must maintain a ratio of available assets (as defined in the Indentures) to general liabilities (as defined in the Indentures) of at least 2:0 under the Series 1997A and 1998 bonds. The applicable agreements place certain other restrictions on the University, including cash reserve requirements for sinking funds.

The University has pledged as collateral a portion of its gross revenues equal to the annual payments on its CEFA bonds as they become due. Obligations under the 1997 Series A (Series B and A) loan agreements are several with other Series B and A borrowers, and no Series B and A borrower will be responsible for the default of another Series B and A borrower except to the extent of amounts in a borrower's Bond Reserve Fund (approximately \$476,000 for the University as of June 30, 2003). The University is not aware of any default by any Series B and A borrower.

### **(6) Retirement Benefits**

Defined contribution retirement benefits are provided for University employees principally through the Teachers Insurance and Annuity Association (TIAA-CREF), a national organization used to fund retirement benefits for educational institutions. Under this arrangement, the University and plan participants make monthly contributions to TIAA-CREF to fund retirement benefits. The University's share of the cost of these benefits for the years ended June 30, 2003 and 2002 was approximately \$5,434,000 and \$4,741,000, respectively.

# UNIVERSITY OF THE PACIFIC

## Notes to Consolidated Financial Statements

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### (7) Contingencies

The University is involved in various items of litigation, most of which involve employment matters. Management believes each of these matters has meritorious defenses and intends to defend these cases vigorously and believes the ultimate liability, if any, will not be material to the financial position of the University.

The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by university healthcare providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The University is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on the University's financial position.

### (8) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

#### (a) *Cash and Cash Equivalents*

The carrying amount approximates fair value, based on the short maturity of those instruments.

#### (b) *Loans Receivable*

The fair value of student loans receivable approximates their carrying value, based on current comparable loan rates.

#### (c) *Investments*

The fair value of investments is estimated based on quoted market prices for those investments that are invested in actively traded securities. For other investments for which there are no quoted market prices, an estimate of the amount that could be realized in a sale was made by management. As of June 30, 2003, management believes the fair value of all investments for which there are no quoted market prices approximates the carrying value.

#### (d) *Notes and Bonds Payable*

The fair value of the University's long-term debt is estimated based on the current rates available to the University for debt of the same remaining maturities. As of June 30, 2003, the fair value of the University's notes and bonds approximates \$88,673,000.

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**(9) Leases**

The University is obligated under various capital leases for equipment that expire at various dates during the next five years. As of June 30, 2003 and 2002, the gross amount of equipment recorded under capital leases was as follows:

	<u>2003</u>	<u>2002</u>
Equipment	\$ 2,452	3,068
Less accumulated depreciation	<u>(1,227)</u>	<u>(1,605)</u>
	<u>\$ 1,225</u>	<u>1,463</u>

Future minimum capital lease payments as of June 30, 2003 are as follows:

	<u>Capital leases</u>
Fiscal year ending June 30:	
2004	\$ 706
2005	429
2006	<u>182</u>
Total minimum lease payments	1,317
Less amounts representing interest	<u>(92)</u>
Present value of net minimum capital lease payments	<u>\$ 1,225</u>

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**(10) Composition of Net Assets**

The composition of the categories of net asset as of June 30, 2003 and 2002 consists of (in thousands):

	<b>2003</b>	<b>2002</b>
Unrestricted net assets:		
Undesignated net assets	\$ 6,275	4,579
Designated for specific purposes	40,069	59,632
Quasi-endowment and accumulated gains on permanent endowments whose income is unrestricted	37,156	36,926
Investment in fixed assets, net of long-term debt	81,931	62,211
	165,431	163,348
Temporarily restricted net assets:		
Amounts restricted by donors for specific purposes	22,719	19,016
Pledges receivable for specific purposes	8,494	11,122
	31,213	30,138
Permanently restricted net assets:		
Permanent endowment and similar funds	92,809	85,532
Pledges for permanent endowment	7,915	5,901
	100,724	91,433
	\$ 297,368	284,919

**(11) Expenses by Function**

Expenses by functional classification after allocating operations and maintenance of plant, depreciation expense, and interest expense are as follows for the years ended June 30, 2003 and 2002:

	<b>2003</b>	<b>2002</b>
Instruction and departmental research	\$ 114,315	101,438
Auxiliary enterprises	23,869	20,183
Sponsored programs	12,205	12,452
Academic support	8,787	8,506
Student services	13,321	12,548
Student aid	2,768	2,362
General administration	7,652	6,271
Fundraising activities	7,247	6,855
Expenses by function	\$ 190,164	170,615

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**(12) Related Party Transactions**

Included in revenues for the years ended June 30, 2003 and 2002, are contributions from board of regents members totaling \$2,063,000 and \$1,487,000, respectively.