



**SANTA CLARA UNIVERSITY**

Consolidated Financial Statements

June 30, 2019

(With Summarized Comparative Financial Information as of  
and for the year ended June 30, 2018)

(With Independent Auditors' Report Thereon)

**SANTA CLARA UNIVERSITY**  
Consolidated Financial Statements

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheet	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-29



KPMG LLP  
Mission Towers I  
Suite 100  
3975 Freedom Circle Drive  
Santa Clara, CA 95054

## Independent Auditors' Report

The President and Board of Trustees  
Santa Clara University:

### *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Santa Clara University (the University), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Santa Clara University as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



*Report on Summarized Comparative Information*

We have previously audited the University's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

*KPMG LLP*

Santa Clara, California  
October 18, 2019

**SANTA CLARA UNIVERSITY**

Consolidated Balance Sheet

June 30, 2019

(With comparative financial information as of June 30, 2018)

(In thousands of dollars)

Assets	2019	2018
Cash and cash equivalents	\$ 81,604	84,872
Contributions receivable, net	83,331	75,570
Student and other receivables, net	13,540	12,372
Investments	1,207,660	1,114,675
Funds held in trust by others	17,800	88,330
Other assets	10,204	9,831
Property, plant and equipment, net	937,936	856,907
Total assets	\$ 2,352,075	2,242,557
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 66,442	60,441
Deposits and deferred revenue	28,662	24,966
Amounts held on behalf of others	54,783	51,460
Annuity and trust obligations	7,412	7,092
Asset retirement obligations	2,815	3,922
Bonds and notes payable	350,776	358,482
Obligations under capitalized leases	57,405	60,902
U.S. government loan advances	6,869	6,811
Total liabilities	575,164	574,076
Net assets:		
Without donor restrictions	747,949	738,299
With donor restrictions	1,028,962	930,182
Total net assets	1,776,911	1,668,481
Total liabilities and net assets	\$ 2,352,075	2,242,557

See accompanying notes to consolidated financial statements.

**SANTA CLARA UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

(In thousands of dollars)

	2019			2018
	Without donor Restrictions	With donor Restrictions	Total	
Operating:				
Revenues:				
Net tuition and fees (includes student financial aid of \$107,590 and \$102,860 in 2019 and 2018, respectively)	\$ 271,180	—	271,180	257,271
Contributions to annual funds	4,459	—	4,459	3,989
Grant revenues	6,146	—	6,146	6,246
Net return on operating investments	5,347	—	5,347	737
Other revenues	13,911	—	13,911	14,046
Auxiliary activities	44,314	—	44,314	42,119
Nonoperating net assets used in operations:				
Endowment appropriations used in operations	39,537	—	39,537	37,820
Released contributions used in operations	14,404	—	14,404	14,754
Total operating revenues and other support	399,298	—	399,298	376,982
Expenses:				
Academic related salaries and wages	111,343	—	111,343	106,613
Nonacademic salaries and wages	67,371	—	67,371	63,682
Benefits	58,494	—	58,494	55,285
Professional fees and contracted services	33,192	—	33,192	28,828
General operating expenses	63,171	—	63,171	58,370
Interest	16,046	—	16,046	14,627
Depreciation	47,457	—	47,457	46,868
Total expenses	397,074	—	397,074	374,273
Increase in net assets from operations	2,224	—	2,224	2,709
Nonoperating:				
Contributions	183	95,722	95,905	46,312
Net return on nonoperating long-term investments	7,025	55,862	62,887	101,954
Gain on disposal of assets	7	—	7	2,475
Loss on defeasance of bonds	—	—	—	(910)
Endowment appropriations used in operations	(39,537)	—	(39,537)	(37,820)
Released contributions used in operations	(14,404)	—	(14,404)	(14,754)
Net assets released from restrictions	54,998	(54,998)	—	—
Other changes, net	(846)	2,194	1,348	2,129
Change in net assets	9,650	98,780	108,430	102,095
Net assets at beginning of year	738,299	930,182	1,668,481	1,566,386
Net assets at end of year	\$ 747,949	1,028,962	1,776,911	1,668,481

See accompanying notes to consolidated financial statements.

**SANTA CLARA UNIVERSITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2019

(With comparative financial information for the year ended June 30, 2018)

(In thousands of dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 108,430	102,095
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	47,457	46,868
Accrued interest on zero coupon bonds	102	111
Amortization of original bond issue discount/premium and issuance costs	(980)	(807)
Loss on defeasance of debt	—	910
Gain on disposal of assets	(7)	(2,475)
Noncash gifts	(6,028)	(3,349)
Proceeds from sale of donated securities	1,869	689
Net realized and unrealized gain on investments	(53,370)	(92,775)
Contributions restricted for long-term investment	(68,018)	(23,862)
Changes in operating assets and liabilities:		
Contributions receivable	(7,761)	(12,280)
Student and other receivables	(1,168)	(146)
Other assets	(373)	(2,323)
Accounts payable and accrued expenses	6,001	15,136
Deposits and deferred revenue	3,696	6,441
Amounts held on behalf of others	3,323	1,988
Annuity and trust obligations	320	122
Asset retirement obligations	(1,107)	132
Net cash provided by operating activities	<u>32,386</u>	<u>36,475</u>
Cash flows from investing activities:		
Purchase of investments	(478,334)	(226,332)
Proceeds from sale of investments	438,692	253,403
Purchase of property, plant and equipment	(128,469)	(88,814)
Net cash used in investing activities	<u>(168,111)</u>	<u>(61,743)</u>
Cash flows from financing activities:		
Proceeds from issuance of bonds	4,875	138,590
Payoff of debt	(4,830)	—
Debt issuance costs	(45)	(1,660)
Payments on bonds and notes payable	(6,828)	(4,748)
New bond proceeds deposited with bond trustee	—	(137,954)
Draw downs from bond trustee for qualified expenditures	70,530	65,370
Principal payments on capital lease obligations	(3,497)	(5,692)
Change in U.S. government loan advances, net	58	(602)
Proceeds from sale of donated securities and real estate	4,176	2,252
Contributions restricted for long-term investment	68,018	23,862
Net cash provided by financing activities	<u>132,457</u>	<u>79,418</u>
Net (decrease) increase in cash and cash equivalents	(3,268)	54,150
Cash and cash equivalents at beginning of year	<u>84,872</u>	<u>30,722</u>
Cash and cash equivalents at end of year	\$ <u>81,604</u>	\$ <u>84,872</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 15,614	15,205
The University received noncash gifts of:		
Marketable securities	\$ 4,568	2,891
Real estate	1,450	—
Equipment	10	458
Noncash investing and financing activities:		
Defeasance of bonds	\$ —	25,441
Furniture acquired under capital lease	—	1,778

See accompanying notes to consolidated financial statements.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

#### **(1) Organization and Summary of Significant Accounting Policies**

##### **(a) Organization**

The President and Board of Trustees of Santa Clara College (dba Santa Clara University) is an independent, coeducational institution of higher learning offering undergraduate and graduate degrees in more than 50 fields of study. Santa Clara University was founded in 1851 by the Society of Jesus on the site of Mission Santa Clara de Asis in Northern California. The Jesuit School of Theology of Santa Clara University is an affiliated entity and its financial information has been consolidated with Santa Clara University (collectively referred to as the University) and all interaffiliate transactions have been eliminated.

The University's primary source of revenue is tuition and fees from undergraduate, graduate, and law programs through the College of Arts & Sciences, Leavey School of Business, and the schools of Engineering, Education and Counseling Psychology, and Law as well as the Jesuit School of Theology. Other sources of revenue include room and board, contributions, grants, return on investments, and other sales and services

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

The University displays its net assets and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as net assets without donor restrictions and net assets with donor restrictions. Refer to note 1(s) and note 2 for further information regarding net asset classifications.

##### **(c) Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of operating cash, money market funds, and treasury instruments with original maturities of three months or less.

##### **(d) Contributions**

Unconditional promises to give are initially recorded at fair value. In subsequent periods, unconditional promises to give are recorded at the estimated net present value, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category. The University records contributions of land, buildings, or equipment as revenue without donor restriction unless the donor places restrictions on their use.

##### **(e) Investments**

In accordance with U.S. generally accepted accounting principles, the University reports investments at fair value based upon a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.



## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

Level 2 – Inputs of other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the University's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The majority of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient, in accordance with Accounting Standards Update No. 2015-07 (ASU 2015-07), *Fair Value Measurement Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)*. Such assets are not classified in the fair value hierarchy.

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

Funds held in trust by others consists of the unexpended proceeds of bonds payable which will be used for construction of certain facilities.

**(g) Fair Value of Financial Instruments**

The University did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

Fair value of the University's financial instruments is determined using the estimates, methods, and assumptions as set forth below. See note 5 for further information regarding investments and their fair value.

**(i) Cash Equivalents, Student and Other Receivables, Accounts Payable, and Accrued Expenses**

Fair value approximates book value due to the short maturity of these instruments. A reasonable estimate of the fair value of student loans extended under government loan programs has not been made as the loans can only be assigned to the U.S. government or its designees.

**(ii) Contributions Receivable**

Contributions receivable are reported based on the discounted value of estimated cash flows. Pledges are discounted at an interest rate that reflects the risks inherent in those cash flows. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. Book value approximates fair value.

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

Funds held in trust by others are reported at fair value and are invested in short-term, highly liquid securities considered Level 1 in the fair value hierarchy.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

*(iv) Capital Lease Obligations*

The University's capital lease obligations bear interest at rates which approximate prevailing market rates for instruments with similar characteristics and, accordingly, the carrying value approximates fair value.

*(v) Alternative Investments*

Alternative investments, such as private equity interests, are recorded based on valuations provided by the general partners or external investment managers. As these generally are investments without a ready market to compare, the inputs into the determination of fair value require significant judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Management reviews and evaluates the valuations and has determined that the valuation methods and assumptions result in reasonable estimates of fair value. Refer to note 5 for fair value determination.

*(vi) Annuity and Trust Obligations*

The carrying amount of annuity and trust obligations approximates fair value as the instruments are recorded at the estimated net present value of future cash flows. The estimated fair value, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy.

***(h) Collections***

The University's collections are made up of artifacts of historical significance and art objects that are held for educational, research, and curatorial purposes. The collections, which have been acquired through contributions since the University's inception, are not recognized as assets in the accompanying consolidated balance sheet.

***(i) Property, Plant and Equipment***

Property, plant and equipment assets are stated at cost at the date of acquisition, or fair value at the date of donation in the case of gifts in kind. Depreciation of property, plant, and equipment assets is computed using the straight-line method over estimated useful lives of 3 to 50 years. Amortization of capital leases is provided over the estimated useful lives of the assets or over the life of the lease, as applicable, using the straight-line method.

***(j) Deposits and Deferred Revenue***

Deposits and deferred revenue consist of deposits and tuition and fees collected for not yet completed summer and fall terms and other miscellaneous deferred revenue. Deposits and deferred revenue relating to tuition and fee revenue, less any refunds issued will be recognized as revenue as services are rendered over the academic terms occurring in the year ending June 30, 2020. Also included in deposits and deferred revenue is \$8,313,000 which relates to a contract agreement. Revenue for this contract will be recognized each year over the life of the contract which expires in June 2030. The University applies the practical expedient in Accounting Standards Codification (ASC) 606-10-50-14 and therefore does not disclose information about performance obligations that have an origination and expected duration within the fiscal year.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

#### **(k) Annuity and Trust Obligations**

The University has a variety of gift agreements, including charitable gift annuities and charitable remainder trusts, for which the University is the trustee. An estimated liability has been recorded for charitable gift annuities based upon Internal Revenue Service (IRS) actuarial tables. For charitable remainder trusts, the difference between the fair value of trust investments and the estimated University's remainder interests has been recorded as a liability.

#### **(l) Bond Premiums and Issuance Costs**

Bond premiums and issuance costs are amortized using a method that approximates the effective interest method over the life of the associated bond issue. Bond premiums are included in bonds and notes payable, and issuance costs are netted against bonds and notes payable in the accompanying consolidated balance sheet.

#### **(m) Revenue Recognition**

Student tuition, fees, and room and board are recognized in the period the services are provided. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first three weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for tuition are due approximately three to four weeks prior to the start of the academic term. Contributions, including unconditional promises to give, are recognized in the period received and are reported as increases in the appropriate category of net assets. Conditional contributions are not recorded as revenue until the conditions on which they depend have been substantially met. Return on investments are recorded on the accrual basis of accounting. Other sources of revenue are recognized in the fiscal year in which they are earned.

#### **(n) Credit Concentration**

Financial instruments that potentially subject the University to concentration of credit risk are cash, cash equivalents, investments, and receivables. The University's cash, cash equivalents, and investments are held by recognized financial institutions. The University deposits its cash with several financial institutions and its deposits, at times, exceed insured amounts. The University requires its investment managers to follow the University's investment policy, and the investment managers are subject to periodic review by the University's investment committee. The University's investments are comprised primarily of a diversified portfolio of marketable equity securities, investment-grade debt and alternative assets. The credit risk with respect to student receivables is considered minimal due primarily to the wide dispersion of the receivables. Of the \$92,768,000 of gross contributions receivable at June 30, 2019, \$72,456,000 is due from ten donors.

#### **(o) Operations**

Operating activities in the accompanying consolidated statements of activities include all revenues earned without donor restrictions and all expenses incurred by the University except net return on nonoperating long-term investments underlying board designated endowments, gain on disposal of assets, loss on impairment of assets to be disposed, and certain nonrecurring activities.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

**(p) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(q) Prior Year Summarized Comparative Information**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**(r) Reclassifications**

Certain reclassifications have been made to the 2018 comparative information to conform to the 2019 financial statement presentation.

**(s) Recent Accounting Pronouncements**

Presentation of Financial Statements of Not-for-Profit Entities: During 2019, the University adopted Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

The standard requires the University to reclassify its net asset categories from three categories into two categories – those with donor-imposed restrictions and those without. It also requires that capital gifts for construction be classified as net assets with donor restrictions until the associated asset is placed in service and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosure for board-designated amounts, composition of net assets without donor restriction, liquidity and expenses by both their natural and functional classification.

Net assets have been reclassified for 2018 due to the adoption of ASU 2016-14 as follows:

	<b>ASU 2016-14 Classifications</b>		<b>Total net assets</b>
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	
Unrestricted	\$ 738,299	—	738,299
Temporarily restricted	—	601,962	601,962
Permanently restricted	—	328,220	328,220
	<u>\$ 738,299</u>	<u>930,182</u>	<u>1,668,481</u>

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

Revenue from Contracts with Customers: The University adopted ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, during the year ended June 30, 2019. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The University's revenue is derived primarily from academic programs taught to students. Tuition and related fees are recognized as revenue over the course of the academic term or program for which it is earned. Nontuition related revenue is recognized as services are performed or goods are delivered. The adoption of ASU 2014-09 did not result in a material change to the timing of when revenue is recognized.

The University used the modified retrospective method applied to contracts that have remaining obligations as of July 1, 2018. Under this approach, the University did not restate comparative periods in the consolidated financial statements.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: The University adopted ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, during the year ended June 30, 2019. The ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The adoption did not result in a material change to how the University accounts for revenue from contributions, grants and contracts.

## (2) Net Assets

Net assets are reported in two categories based on the existence or absence of donor-imposed restrictions, as follows:

- Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions and are available for use in general operations or invested in property, plant and equipment. Net assets without donor restrictions may be designated for specific purposes by action of the board.
- Net assets with donor restrictions represent net assets that are subject to the following donor-imposed restrictions:
  - Net assets with donor restrictions for time and purpose represent net assets with donor-imposed restrictions that will be met either by actions of the University or the passage of time. When restrictions expire or assets are expended according to donor restrictions, net assets are reclassified to net assets without restrictions and are reported in the consolidated statement of activities as net assets released from restrictions.
  - Net assets with donor-imposed restrictions in perpetuity represent net assets subject to donor-imposed restrictions that are to be permanently maintained by the University. These consist of assets donated with stipulations that they be invested to provide a permanent source of income. It is the policy of the University to maintain the historic dollar value of these gifts in perpetuity. Generally, donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

Net assets consisted of the following as of June 30, 2019 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
Without donor restrictions:			
Operations, scholarship support, other	\$ 125,683	—	125,683
Invested in property, plant, and equipment	440,527	—	440,527
Board-designated quasi-endowments	181,739	—	181,739
With donor restrictions for time and/or purpose:			
Donor-restricted quasi-endowment funds and unappropriated endowment earnings	—	504,544	504,544
Capital construction	—	81,280	81,280
Education and other program support	—	14,361	14,361
Financial aid and student loan program	—	2,576	2,576
Pledges	—	75,494	75,494
Annuity and life income funds	—	4,533	4,533
With donor restrictions in perpetuity:			
Financial aid endowments	—	168,595	168,595
Education and other program support endowments	—	106,915	106,915
Academic chair endowments	—	57,967	57,967
Pledges	—	6,875	6,875
Annuity and life income funds	—	5,822	5,822
	<u>\$ 747,949</u>	<u>1,028,962</u>	<u>1,776,911</u>

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

Net assets consisted of the following as of June 30, 2018 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
Without donor restrictions:			
Operations, scholarship support, other	\$ 120,279	—	120,279
Invested in property, plant, and equipment	438,716	—	438,716
Board-designated quasi-endowments	179,304	—	179,304
With donor restrictions for time and/or purpose:			
Donor-restricted quasi-endowment funds and unappropriated endowment earnings	—	481,568	481,568
Capital construction	—	37,458	37,458
Education and other program support	—	9,342	9,342
Financial aid and student loan program	—	2,494	2,494
Pledges	—	69,846	69,846
Annuity and life income funds	—	1,254	1,254
With donor restrictions in perpetuity:			
Financial aid endowments	—	158,061	158,061
Education and other program support endowments	—	102,381	102,381
Academic chair endowments	—	57,934	57,934
Pledges	—	4,594	4,594
Annuity and life income funds	—	5,250	5,250
	<u>\$ 738,299</u>	<u>930,182</u>	<u>1,668,481</u>

**(3) Contributions Receivable**

Contributions receivable consisted of the following as of June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Unconditional promises to be collected in:		
Less than one year	\$ 14,941	24,824
One to five years	63,902	46,266
More than five years	13,925	13,071
	<u>92,768</u>	<u>84,161</u>
Less allowance for uncollectible contributions	(2,860)	(2,640)
Less discount to present value	(6,577)	(5,951)
	<u>\$ 83,331</u>	<u>75,570</u>

The discount rate utilized for purposes of calculating the present value of contributions receivable ranges from 2.0% – 4.5% based on the year the unconditional promise to give is received. The discount rate is

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

determined at the time the unconditional promise to give is initially recognized and is not revised subsequently.

**(4) Student and Other Receivables**

Student and other receivables consisted of the following as of June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Government grants	\$ 1,952	1,844
Notes, loans, and other receivables	9,713	9,132
Student receivables	1,466	1,231
Accrued interest receivable	<u>977</u>	<u>620</u>
	14,108	12,827
Less allowance for doubtful accounts	<u>(568)</u>	<u>(455)</u>
	<u>\$ 13,540</u>	<u>12,372</u>

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources.

At June 30, 2019 and 2018, student loans held by the University included in notes, loans, and other receivables above consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Federal government programs	\$ 4,840	6,128
Institutional programs	<u>25</u>	<u>14</u>
	4,865	6,142
Less allowance for doubtful accounts	<u>(3)</u>	<u>(3)</u>
	<u>\$ 4,862</u>	<u>6,139</u>

The University participates in the Federal Perkins Loan Program (the Program). The availability of funds for loans under the Program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$6,869,000 at June 30, 2019 and \$6,811,000 at June 30, 2018 are ultimately refundable to the government and are classified as liabilities in the consolidated balance sheet. Outstanding loans canceled under the Program result in a reduction of funds available for loan and a decrease in the liability to the government. At June 30, 2019 and 2018, no material amounts were past due under other student loan programs.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be



**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

permanently uncollectible. Amounts due under the Program are guaranteed by the government and, therefore, no reserves are placed on past due balances.

**(5) Investments**

Investments as of June 30, 2019 and 2018 are summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Pooled cash and cash equivalents	\$ 71,275	9,939
Certificate of deposit investments	646	1,141
Mutual funds	124,809	115,523
Equity holdings	39,407	41,507
Fixed income holdings	143,899	88,976
Commingled funds	144,759	134,485
Hedge funds	246,611	233,973
Private equity	91,784	88,814
Real assets	106,687	133,388
Venture capital	175,934	134,617
Real estate	33,286	32,790
Beneficial interest in funds held by others	8,046	7,903
Notes and other	2,452	3,189
Net pending trades	18,065	88,430
	<u>\$ 1,207,660</u>	<u>1,114,675</u>

**SANTA CLARA UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2019

The following tables summarize investment values by category of investment as of June 30, 2019 and 2018 (in thousands). Consistent with ASU 2015-07, investments measured at net asset value (NAV) are not classified in the fair value hierarchy:

	2019				Total fair value
	Investments measured at NAV	Investments classified in the fair value hierarchy			
		Level 1	Level 2	Level 3	
Pooled cash and cash equivalents	\$ —	71,275	—	—	71,275
Certificate of deposit investments	—	—	646	—	646
Mutual funds:					
Bonds	—	43,505	—	—	43,505
Equity	—	61,253	—	—	61,253
International equity	—	17,333	—	—	17,333
Real estate	—	2,718	—	—	2,718
Equity holdings:					
Domestic	—	39,407	—	—	39,407
Fixed income holdings:					
Corporate bonds	—	—	75,514	—	75,514
Municipal bonds	—	—	2,375	—	2,375
U.S. treasury bonds	—	—	66,010	—	66,010
Commingled funds:					
International equity	111,848	—	—	—	111,848
Corporate bonds	11,959	—	—	—	11,959
International government bonds	20,952	—	—	—	20,952
Hedge funds:					
Equity	22,782	—	—	—	22,782
Distressed debt	28,694	—	—	—	28,694
Fund of funds	193,404	—	—	—	193,404
Global opportunistic	1,731	—	—	—	1,731
Private equity	91,784	—	—	—	91,784
Real assets	102,175	—	—	4,512	106,687
Venture capital	173,190	—	—	2,744	175,934
Real estate	—	—	33,286	—	33,286
Beneficial interest in funds held by others	8,046	—	—	—	8,046
Notes and other	—	410	—	2,042	2,452
Net pending trades	—	18,065	—	—	18,065
	<u>\$ 766,565</u>	<u>253,966</u>	<u>177,831</u>	<u>9,298</u>	<u>1,207,660</u>

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

	2018				Total fair value
	Investments measured at NAV	Investments classified in the fair value hierarchy			
		Level 1	Level 2	Level 3	
Pooled cash and cash equivalents	\$ —	9,939	—	—	9,939
Certificate of deposit investments	—	—	1,141	—	1,141
Mutual funds:					
Bonds	—	40,860	—	—	40,860
Equity	—	54,912	—	—	54,912
International equity	—	17,488	—	—	17,488
Real estate	—	2,263	—	—	2,263
Equity holdings:					
Domestic	—	41,507	—	—	41,507
Fixed income holdings:					
Corporate bonds	—	—	73,939	—	73,939
Municipal bonds	—	—	3,719	—	3,719
U.S. treasury bonds	—	—	11,318	—	11,318
Commingled funds:					
International equity	103,456	—	—	—	103,456
Corporate bonds	11,121	—	—	—	11,121
International government bonds	19,908	—	—	—	19,908
Hedge funds:					
Equity	37,043	—	—	—	37,043
Distressed debt	29,642	—	—	—	29,642
Fund of funds	165,665	—	—	—	165,665
Global opportunistic	1,623	—	—	—	1,623
Private equity	88,814	—	—	—	88,814
Real assets	127,965	—	—	5,423	133,388
Venture capital	132,817	—	—	1,800	134,617
Real estate	—	—	32,790	—	32,790
Beneficial interest in funds held by others	7,903	—	—	—	7,903
Notes and other	—	172	—	3,017	3,189
Net pending trades	—	88,430	—	—	88,430
	<u>\$ 725,957</u>	<u>255,571</u>	<u>122,907</u>	<u>10,240</u>	<u>1,114,675</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument included in the fair value hierarchy:

**Pooled cash and cash equivalents** – Pooled cash and cash equivalents consist of cash and cash equivalents held in the investment pool for capital contributions, manager related fees and expenses, and funding of new investments. Inflows to cash and cash equivalents include investment activities from partner distributions, manager redemptions, and income received. Cash and cash equivalents are recorded at fair value using quoted market prices and are classified as Level 1.

**Certificate of deposit investments** – The fair value of certificate of deposit investments, which are derived from various sources and pricing matrices, are classified as Level 2.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

**Equity holdings** – Investments in equity holdings are measured at fair value using quoted market prices. They are classified as Level 1 and are traded in an active market for which closing stock prices are readily available.

**Fixed income holdings** – Investments in fixed income holdings include corporate bonds, municipal bonds, and U.S. treasury bonds. Fixed income holdings are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for similar assets in active markets.

**Real estate investments** – Investments in real estate include commercial and residential property holdings. Real estate investments are classified as Level 2 based on multiple sources of information such as appraisals and market comparables.

**Net pending trades** – Net pending trades consist of a) purchases made before year-end where the University has transferred cash to the fund manager but is not invested in the underlying fund until the next fiscal year, and b) withdrawals or distributions, where the investment has been sold but cash proceeds have not been received by the University at June 30. Net pending trades are recorded at fair value using quoted market prices and are classified as Level 1.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

There were no transfers between Level 1 and Level 2 investments, or between Level 2 and Level 3, for the years ended June 30, 2019 and 2018, for assets classified in the fair value hierarchy.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

The following table presents information for applicable investments regarding their funding commitments, redemption, and restrictions as of June 30, 2019 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Commingled funds:				
International equity	\$ 111,848	—	weekly, monthly, n/a	3–10 days
Corporate bonds	11,959	—	monthly	6–7 days
International government bonds	20,952	—	monthly	10 days
Hedge funds:				
Equity	22,782	—	monthly, quarterly	10–90 days
Distressed debt	28,694	1,300	annually, n/a	90 days
Fund of funds	193,404	—	monthly, annually	90–365 days
Global opportunistic	1,731	—	n/a	n/a
Private equity	91,784	66,011	see below	see below
Real assets	106,687	53,437	daily, see below	note, see below
Venture capital	175,934	39,692	see below	see below
Beneficial interest in funds held by others	8,046	—	see below	see below
	<u>\$ 773,821</u>	<u>160,440</u>		

The University holds investments in private equity, real assets, and venture capital in the amounts of \$91,784,000, \$85,628,000, and \$175,934,000, respectively, which do not allow for periodic redemption, but rather distributions are received through the liquidation of the underlying assets. At June 30, 2019, they had estimated termination dates that ranged from 2019 to 2037. Additionally, within distressed debt hedge funds the University holds \$13,664,000 in closed-end funds with estimated termination date that ranged from 2020 to 2024. The lockup periods of all fund of funds hedge funds had expired as of 6/30/19. The global opportunity hedge funds holding does not allow for periodic redemption. The University also holds beneficial interest in funds that are managed by others. These funds, per donor restriction, are to be held in perpetuity by the third party and can never be redeemed.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

The following schedule summarizes investment returns during 2019 and 2018, presented in “Net return on operating investments” and “Net return on nonoperating long-term investments” in the consolidated statement of activities (in thousands):

	<u>2019</u>	<u>2018</u>
Interest, dividends and other income	\$ 20,436	16,050
Net realized gains	54,428	42,910
Net unrealized gains	(1,058)	49,865
Direct management fees and other	<u>(5,572)</u>	<u>(6,134)</u>
Net return on investments	<u>\$ 68,234</u>	<u>102,691</u>

**(6) Endowment**

The University’s endowment consists of approximately 875 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. Net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

The University’s governing board has interpreted UPMIFA enacted in the State of California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Together, these amounts become the perpetual value of the funds. Net endowment return on investments that have not been appropriated for expenditure are classified as net assets with donor restrictions for time and/or purpose.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

**(b) Return Objectives and Risk Parameters**

The University's governing board has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets to create intergenerational equity. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds.

**(c) Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current equities, fixed income, and alternative investments. Targeted asset allocation percentages for each of these components are reviewed periodically throughout the year for potential adjustment of asset mix while evaluating the relative risk of each component.

**(d) Spending Policy**

Endowment spending is determined using a weighted average calculation of two components. The first component is the prior year spending allocated for each endowment increased by an inflationary factor weighted by 40%. The second component is a 12-quarter rolling market value average times an established spending rate of 4.5% weighted by 60%. The combination of these two calculations is the endowment spending allocation.

Changes in endowment net assets and net asset composition for the year ended June 30, 2019, not including contributions receivable of \$6,875,000, are as follows (in thousands):

	<b>2019</b>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 179,304	799,944	979,248
Investment return:			
Investment income	2,001	12,991	14,992
Net realized and unrealized gain on investments	<u>5,010</u>	<u>40,884</u>	<u>45,894</u>
Total investment return	7,011	53,875	60,886
Contributions	3	17,688	17,691
Appropriation of endowment assets for expenditure	(6,077)	(33,460)	(39,537)
Other changes:			
Transfers to board-designated endowment funds	1,498	(281)	1,217
Maturity of annuities	<u>—</u>	<u>255</u>	<u>255</u>
Endowment net assets, June 30, 2019	<u>\$ 181,739</u>	<u>838,021</u>	<u>1,019,760</u>

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

	<b>2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Composition of endowment net assets:			
Donor-restricted endowment funds	\$ —	838,021	838,021
Board-designated endowment funds	181,739	—	181,739
Total endowment net assets	<u>\$ 181,739</u>	<u>838,021</u>	<u>1,019,760</u>

Changes in endowment net assets and net asset composition for the year ended June 30, 2018, not including contributions receivable of \$4,594,000, are as follows (in thousands):

	<b>2018</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2017	\$ 167,950	737,908	905,858
Investment return:			
Investment income	1,122	6,142	7,264
Net realized and unrealized gain on investments	15,227	77,935	93,162
Total investment return	16,349	84,077	100,426
Contributions	1	8,993	8,994
Appropriation of endowment assets for expenditure	(6,390)	(31,430)	(37,820)
Other changes:			
Transfers to board-designated endowment funds	1,394	(368)	1,026
Maturity of annuities	—	764	764
Endowment net assets, June 30, 2018	<u>\$ 179,304</u>	<u>799,944</u>	<u>979,248</u>
Composition of endowment net assets:			
Donor-restricted endowment funds	\$ —	799,944	799,944
Board-designated endowment funds	179,304	—	179,304
Total endowment net assets	<u>\$ 179,304</u>	<u>799,944</u>	<u>979,248</u>

**(e) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. For June 30, 2019 and June 30, 2018, there were no deficiencies of this nature.



**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

**(7) Plant Assets**

Plant assets as of June 30, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Land	\$ 83,589	83,589
Buildings	852,767	822,725
Improvements other than buildings	109,632	110,004
Equipment	152,716	155,498
Library books	<u>65,519</u>	<u>67,080</u>
	1,264,223	1,238,896
Accumulated depreciation and amortization	<u>(421,822)</u>	<u>(420,316)</u>
	842,401	818,580
Construction in progress	<u>95,535</u>	<u>38,327</u>
	<u>\$ 937,936</u>	<u>856,907</u>

**(8) Bonds and Notes Payable**

Bonds and notes payable as of June 30, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
4% to 5% California Educational Facilities Authority (CEFA) Revenue Bonds Series 2017C maturing serially through April 1, 2037 and CEFA term bonds totaling \$29,760 maturing April 1, 2042, 2046 and 2048, secured by the full faith and credit of the University	\$ 52,485	52,485
2.475% to 5% CEFA Revenue Bonds Series 2017A&B maturing serially through April 1, 2037 and CEFA term bonds totaling \$73,930 maturing April 1, 2037, 2040, and 2047, secured by the full faith and credit of the University	122,565	122,565
3% to 5% CEFA Revenue Bonds Series 2015 maturing serially through April 1, 2036 and CEFA term bonds totaling \$54,440 maturing April 1, 2039 and 2045, secured by the full faith and credit of the University	100,100	102,230
3.5% to 5.25% CEFA Series 1999 bonds maturing serially through September 1, 2020 and CEFA term bonds totaling \$37,845 maturing September 1, 2023 and 2026, fully insured as to principal and interest, secured by the full faith and credit of the University	45,522	50,740

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

	<b>2019</b>	<b>2018</b>
1.94% Bank of America Revenue Bonds maturing serially through July 1, 2025, secured by the full faith and credit of the University	\$ 4,875	—
LIBOR + 30 bps Wells Fargo Term Note maturing serially through July 1, 2019, secured by the full faith and credit of the University	—	5,670
	325,547	333,690
Unamortized premium and bond issuance costs, net	25,229	24,792
	\$ 350,776	358,482

In June 2019 the University issued revenue bonds with Bank of America with a principal balance of \$4,875,000. The bonds were used to pay off the \$4,830,000 remaining on the term note with Wells Fargo and costs associated with the debt issuance.

In August 2017, Series 2017A&B revenue bonds were issued through the California Educational Facilities Authority (CEFA) on behalf of the University in the par amount of \$122,565,000. Series 2017A was a taxable issuance in the par amount of \$97,530,000 and Series 2017B was a tax-exempt issuance in the par amount of \$25,035,000. The Series 2017B bonds were issued with an original issue premium of \$5,369,000, which is being amortized over the life of the bonds. Approximately \$75,000,000 of the proceeds from the 2017A Series bonds will be used for capital buildings and improvements on the campus. The remaining proceeds from the Series 2017A and the proceeds from the Series 2017B bonds were deposited in an escrow fund to defease and redeem the remaining Series 2008 and Series 2010 bonds with aggregate principal amounts of \$5,685,000 and \$42,995,000, respectively, and to pay costs associated with the bond issuance. An accounting loss of \$910,000 was incurred as a result of this defeasance. However, the defeasance will result in a present value cash flow savings of approximately \$3,785,000 to the University by reducing future debt service payments.

In December 2017, 2017C tax-exempt revenue bonds were issued through the California Educational Facilities Authority (CEFA) on behalf of the University in the par amount of \$52,485,000. The bonds were issued with an original issue premium of \$10,612,000, which is being amortized over the life of the bonds. The proceeds will be used for capital buildings and improvements on the campus and to pay costs associated with the bond issuance.

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. During the years ended June 30, 2019 and 2018, \$1,199,000 and \$1,413,000 of interest was capitalized, respectively. For the years ended June 30, 2019 and 2018, total interest expense, net of amounts capitalized, was \$16,046,000 and \$14,627,000, respectively. During the years ended June 30, 2019 and 2018, \$3,423,000 and \$3,528,000, respectively, represents interest expense associated with the University's capital lease obligations.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

The annual debt service requirements subsequent to June 30, 2019 are as follows (in thousands):

	<u>Principal maturities</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2020	\$ 6,905	14,190	21,095
2021	8,025	13,851	21,876
2022	9,600	13,501	23,101
2023	12,434	13,090	25,524
2024	12,939	12,570	25,509
Thereafter	<u>275,644</u>	<u>151,904</u>	<u>427,548</u>
	325,547	219,106	544,653
Unamortized premium and bond issuance costs, net	<u>25,229</u>	—	<u>25,229</u>
	<u>\$ 350,776</u>	<u>219,106</u>	<u>569,882</u>

The University has \$60,000,000 available under an unsecured revolving credit agreement that matures in September 2020. As of June 30, 2019 and 2018, no amounts were outstanding on lines of credit.

**(9) Capital Leases**

The University has an agreement to lease a student residential housing facility. Two members of the University's Board of Trustees and their families have material financial interests in the entities that developed and are leasing the facility to the University. The lease term is for 234 months ending February 2031. At the end of the lease term, the University has two successive options to extend the lease for additional eight-year terms. The gross amount of buildings recorded under this capital lease was \$45,553,000 at June 30, 2019 and June 30, 2018. The amortization expense for the capital lease is calculated on a straight-line basis over the useful life of 234 months and included within the University's depreciation and amortization expense. This amount was \$2,336,000 for the years ended June 30, 2019 and June 30, 2018.

In November 2014, the University entered into an agreement to lease a commercial office building, which was remodeled to be used as office and classroom space. Two members of the University's Board of Trustees and their families have material financial interests in the entities that developed and are leasing the facility to the University. The lease term is for 234 months ending April 2034. At the end of the lease term, the University has two successive options to extend the lease for additional ten-year terms. The gross amount of buildings recorded under this capital lease was \$23,800,000 at June 30, 2019 and June 30, 2018. The amortization expense for the capital lease is calculated on a straight-line basis over the useful life of 234 months and included within the University's depreciation and amortization expense. This amount was \$1,231,000 for the years ended June 30, 2019 and June 30, 2018.

**SANTA CLARA UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2019

Future minimum capital lease payments as of June 30, 2019 are as follows (in thousands):

		<b>Capital lease</b>
Year ending June 30:		
2020	\$	6,809
2021		6,355
2022		5,986
2023		6,061
2024		6,137
Thereafter		53,879
Total minimum lease payments		85,227
Less amount representing interest		27,822
Present value of net minimum capital lease payments	\$	57,405

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

#### (10) Availability of Financial Assets for General Expenditures

Resources available to the University to fund general expenditures, such as operating expenses, scheduled principal and interest payments on bonds and capital leases, and capital construction costs have seasonal variations related to the timing of tuition payments, receipts of gifts and pledge payments, and transfers from the endowment. The University actively monitors liquidity required to meet general expenditures, while also maximizing the investment of funds in excess of daily requirements utilizing a combination of short and long-term operating investment strategies. In addition, management monitors the timing and availability of its financial assets in order to align cash inflows with anticipated outflows. The University's financial assets are included in cash and cash equivalents, contributions receivable, student and other receivables, investments, and funds held in trust by others. At June 30, 2019, existing financial assets and liquidity resources available for general expenditures within one year were as follows (in thousands):

Financial assets:

Cash and cash equivalents	\$	73,778
Student and other receivables		3,851
Contributions receivable for operations and capital projects		10,758
Investments – operating		152,283
Investments – appropriated endowment spending payout		40,063
Funds held in trust by others		<u>17,800</u>
Total financial assets available within one year		298,533

Liquidity resources:

Bank line of credit		<u>60,000</u>
Total financial assets and liquid resources available within one year	\$	<u><u>358,533</u></u>

In addition to financial assets and liquid resources available to meet general expenditures over the next year, the University seeks to operate within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identified the sources and uses of the University's cash generated by operating activities for the year ending June 30, 2019.

The University also has board-designated endowments of \$181,739,000 as of June 30, 2019. Although the University does not routinely spend from its board-designated endowment funds other than amounts appropriated for general expenditures, amounts from these endowments could be made available if necessary. However, both the board-designated and donor-restricted endowment funds contain investments with lock-up provisions that reduce the total that could be made available (see note 5 for disclosures pertaining to investments).

#### (11) Defined Contribution Plan

The University provides retirement benefits for faculty, staff, and administrative employees through Internal Revenue Code (IRC), Section 401(a) and 403(b) plans. During 2019 and 2018, the University contributed approximately \$14,840,000 and \$14,211,000, respectively, to the defined contribution 401(a) retirement plan on behalf of its faculty, staff, and administrative employees. Contributions over the next five years are

**SANTA CLARA UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2019

expected to be comparable to historical contributions, with moderate increases expected from salary increases and headcount changes. The University does not contribute to the 403(b) plan.

**(12) Expenses by Natural and Functional Classification**

The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation are allocated among functional classifications based on usage of space, square footage, building costs, and debt proceeds usage. Information technology costs are allocated based on software usage and the overall number of employees in the various functional categories. All other costs are charged directly to the appropriate functional category. Research expenses of \$6,050,000 are included in academic instruction and support. Expenses associated with fundraising activities of the University were \$16,583,000 and \$13,987,000 in 2019 and 2018, respectively, are included in administrative support.

Expenses by natural and functional classification for the year ended June 30, 2019, were as follows (in thousands):

	Program activities				Supporting activities		Total
	Instruction, academic support and research	Public service	Student services	Auxiliaries	Administrative support	Facilities operation and maintenance	
Academic related salaries and wages	\$ 110,820	523	—	—	—	—	111,343
Nonacademic salaries and wages	—	6,070	24,097	2,296	25,871	9,037	67,371
Benefits	35,082	2,270	8,342	935	8,457	3,408	58,494
Professional fees and contracted services	12,652	1,035	2,929	1,094	6,777	8,705	33,192
General operating expenses	15,636	3,013	17,348	7,401	13,628	6,145	63,171
Allocated expenses:							
Interest	7,557	—	803	5,920	571	1,195	16,046
Depreciation	21,419	133	7,127	11,623	2,952	4,203	47,457
Facilities and maintenance of plant	18,024	130	6,754	4,547	3,238	(32,693)	—
Total expenses	<u>\$ 221,190</u>	<u>13,174</u>	<u>67,400</u>	<u>33,816</u>	<u>61,494</u>	<u>—</u>	<u>397,074</u>
Total 2018 expenses	<u>\$ 208,037</u>	<u>12,089</u>	<u>62,030</u>	<u>33,840</u>	<u>58,277</u>	<u>—</u>	<u>374,273</u>

**(13) Income Taxes**

The University is recognized by the Internal Revenue Service as an organization exempt from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and is also exempt under California Revenue and Taxation Code Section 23701d. However, the University is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. The University receives some unrelated business income. Taxes on such income, if any, are not material to the University's consolidated financial statements.

**(14) Related-Party Transactions and Amounts Held on Behalf of Others**

The Jesuit Community is a separate entity and provides the University with teaching and administrative services. Compensation paid to the Jesuit Community for those services approximated \$3,287,000 and \$3,520,000 in 2019 and 2018, respectively, which is included in expenses in the accompanying consolidated statement of activities.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2019

As of June 30, 2019 and 2018, \$29,519,000 and \$22,837,000, respectively, of gross contributions receivable are due from members of the Board of Trustees.

In fiscal year 2017 the University received a \$100,000,000 conditional pledge from a member of the University's Board of Trustees to support the construction of The Sobrato Campus for Discovery and Innovation. The first payment of \$25,000,000 was received during the year ended June 30, 2017. The second payment of \$25,000,000 was received during the year ended June 30, 2019. \$50,000,000 is conditional on the University securing a targeted amount of cash and or/written pledges from other donors and completing construction of The Sobrato Campus for Discovery and Innovation by specified dates. Due to its conditional nature, the \$50,000,000 pledge balance has not been recorded as a contribution receivable or contribution revenue.

During 2006, the University entered into an agreement with the Mission Cemetery owned by the Jesuit Community to participate in the University's investment activity by transferring cash into the University's endowment investment portfolio. The Mission Cemetery's investment at fair value is reflected in Amounts Held on Behalf of Others in the University's consolidated balance sheet. The fair value of the investment at June 30, 2019 is \$52,317,000. The University also holds \$2,146,000 in Amounts Held on Behalf of Others for the California Province of the Society of Jesus (CPSJ) Insurance Group of which it is a member and whose administrators are employees of the University. The remaining balance of \$320,000 as of June 30, 2019 in Amounts Held on Behalf of Others is held by the University on behalf of various other outside agencies.

As discussed in note 9, two members of the University's Board of Trustees and their families have material financial interests in the entities that developed and are leasing facilities to the University.

#### **(15) Commitments and Contingencies**

As of June 30, 2019, the University has contractual obligations of approximately \$246,337,000 for completion of capital projects under construction. These obligations are expected to be payable over the next two and half years and will be financed with certain debt proceeds, unexpended funds, and gifts. The University self-insures unemployment benefits. It is management's opinion that the amount provided in accrued expenses to cover expected claims is adequate.

The University is subject to audits for amounts received under federal government student financial aid awards and research grants from the federal government. Management believes such audits will not result in any material liabilities against the University.

The University is a defendant in various legal actions. While the outcome of these actions is not currently determinable, management is of the opinion that any uninsured liability from such actions will not have a material effect on the University's financial position.

#### **(16) Subsequent Events**

The University has evaluated subsequent events from the date of the consolidated statement of financial position through October 18, 2019, the date on which the consolidated financial statements were issued. There are no subsequent events that require disclosure.