



**SANTA CLARA UNIVERSITY**

Consolidated Financial Statements

June 30, 2022

(With Summarized Comparative Financial Information as of  
and for the year ended June 30, 2021)

(With Independent Auditors' Report Thereon)

**SANTA CLARA UNIVERSITY**  
Consolidated Financial Statements

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KPMG LLP  
Mission Towers I  
Suite 600  
3975 Freedom Circle  
Santa Clara, CA 95054

## Independent Auditors' Report

The Board of Trustees  
Santa Clara University:

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Santa Clara University (the University), which comprise the consolidated balance sheet as of June 30, 2022, and the related consolidated statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of the University as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the consolidated financial statements were issued.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Report on Summarized Comparative Information*

We have previously audited the University's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 25, 2022 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 solely 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 the effectiveness of the University's 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 25, 2022

**SANTA CLARA UNIVERSITY**

Consolidated Balance Sheet

June 30, 2022

(With comparative financial information as of June 30, 2021)

(In thousands of dollars)

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 67,019	54,515
Contributions receivable, net	60,022	64,142
Student and other receivables, net	9,806	8,364
Investments	1,667,242	1,733,014
Funds held in trust by others	26	26
Other assets	17,108	11,910
Right of use assets	34,540	38,380
Property, plant and equipment, net	<u>1,050,278</u>	<u>1,049,803</u>
Total assets	\$ <u>2,906,041</u>	<u>2,960,154</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 65,806	66,178
Deposits and deferred revenue	30,114	31,688
Amounts held on behalf of others	88,674	92,156
Annuity and trust obligations	6,700	8,796
Asset retirement obligations	3,209	3,054
Bonds and notes payable	325,457	335,007
Lease liabilities	47,706	50,686
U.S. government loan advances	<u>2,472</u>	<u>3,234</u>
Total liabilities	<u>570,138</u>	<u>590,799</u>
Net assets:		
Without donor restrictions	1,016,387	856,913
With donor restrictions	<u>1,319,516</u>	<u>1,512,442</u>
Total net assets	<u>2,335,903</u>	<u>2,369,355</u>
Total liabilities and net assets	\$ <u>2,906,041</u>	<u>2,960,154</u>

See accompanying notes to consolidated financial statements.

**SANTA CLARA UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2022

(With summarized financial information for the year ended June 30, 2021)

(In thousands of dollars)

	2022			2021
	Without donor Restrictions	With donor Restrictions	Total	
Operating:				
Revenues:				
Net tuition and fees (includes student financial aid of \$118,916 and \$116,793 in 2022 and 2021, respectively)	\$ 312,728	—	312,728	276,447
Contributions to annual funds	5,157	—	5,157	1,396
Grant revenues	9,848	—	9,848	7,826
Net return on operating investments	(2,758)	—	(2,758)	2,905
Other revenues	12,943	—	12,943	7,751
Auxiliary activities	46,307	—	46,307	8,710
Nonoperating net assets used in operations:				
Endowment appropriations used in operations	42,383	—	42,383	40,087
Released contributions used in operations	20,578	—	20,578	18,742
Total operating revenues and other support	447,186	—	447,186	363,864
Expenses:				
Academic related salaries and wages	122,886	—	122,886	113,772
Nonacademic salaries and wages	76,542	—	76,542	66,738
Benefits	67,260	—	67,260	57,373
Professional fees and contracted services	40,973	—	40,973	30,019
General operating expenses	69,755	—	69,755	43,018
Interest	14,924	—	14,924	10,325
Depreciation and amortization	53,256	—	53,256	51,557
Total expenses	445,596	—	445,596	372,802
Increase (decrease) in net assets from operations	1,590	—	1,590	(8,938)
Nonoperating:				
Contributions	54	102,840	102,894	82,235
Net (loss) return on nonoperating long-term investments	(14,992)	(60,060)	(75,052)	533,721
(Loss) gain on disposal of assets	(339)	—	(339)	261
Endowment appropriations used in operations	(42,383)	—	(42,383)	(40,087)
Released contributions used in operations	(20,578)	—	(20,578)	(18,742)
Net assets released from restrictions	235,789	(235,789)	—	—
Other changes, net	333	83	416	(5,198)
Change in net assets	159,474	(192,926)	(33,452)	543,252
Net assets at beginning of year	856,913	1,512,442	2,369,355	1,826,103
Net assets at end of year	\$ 1,016,387	1,319,516	2,335,903	2,369,355

See accompanying notes to consolidated financial statements.

**SANTA CLARA UNIVERSITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2022

(With comparative financial information for the year ended June 30, 2021)

(In thousands of dollars)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (33,452)	543,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,256	51,557
Accrued interest on zero coupon bonds	326	309
Amortization of original bond issue discount/premium and issuance costs	(972)	(964)
Loss (gain) on disposal of assets	339	(261)
Noncash gifts	(7,352)	(13,409)
Proceeds from sale of donated securities	1,501	929
Net realized and unrealized loss (gain) on investments	90,338	(527,706)
Contributions restricted for long-term investment	(74,588)	(71,639)
Changes in operating assets and liabilities:		
Contributions receivable	4,120	12,299
Student and other receivables	(1,442)	4,864
Other assets	(5,198)	(1,804)
Accounts payable and accrued expenses	(1,824)	(8,141)
Deposits and deferred revenue	(1,574)	631
Amounts held on behalf of others	(3,482)	34,964
Annuity and trust obligations	(2,096)	1,515
Asset retirement obligations	155	146
Net cash provided by operating activities	<u>18,055</u>	<u>26,542</u>
Cash flows from investing activities:		
Purchase of investments	(379,244)	(272,416)
Proceeds from sale of investments	354,831	290,147
Purchase of property, plant and equipment	(48,226)	(111,790)
Proceeds from sale of plant assets	—	3,302
Net cash used in investing activities	<u>(72,639)</u>	<u>(90,757)</u>
Cash flows from financing activities:		
Payments on bonds and notes payable	(8,904)	(7,529)
Draw downs from bond trustee for qualified expenditures	—	1,341
Principal payments on lease obligations	(2,980)	(3,205)
Change in U.S. government loan advances, net	(762)	(1,165)
Proceeds from sale of donated securities and real estate	5,146	3,332
Contributions restricted for long-term investment	74,588	71,639
Net cash provided by financing activities	<u>67,088</u>	<u>64,413</u>
Net increase in cash and cash equivalents	12,504	198
Cash and cash equivalents at beginning of year	<u>54,515</u>	<u>54,317</u>
Cash and cash equivalents at end of year	\$ <u>67,019</u>	\$ <u>54,515</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 17,206	17,502
The University received noncash gifts of:		
Marketable and non-marketable securities	\$ 6,648	13,361
Real Estate	152	—
Equipment	552	48
Noncash investing and financing activities:		
Purchase of property, plant and equipment in Accounts Payable	\$ 1,452	6,840

See accompanying notes to consolidated financial statements.

## SANTA CLARA UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2022

#### **(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 and the Bronco Bench Foundation are affiliated entities and their 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's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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 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. Assets with characteristics of cash and cash equivalents that are held in endowment funds are reported as investments and not included in cash and cash equivalents within the statement of cash flows.

##### **(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.

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### Notes to Consolidated Financial Statements

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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 consist 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.

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### Notes to Consolidated Financial Statements

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*(iv) Leases*

The University's 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.

*(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 right of use assets 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, 2022. Also included in deposits and deferred revenue is \$6,046,000 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.

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### Notes to Consolidated Financial Statements

June 30, 2022

#### **(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.

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The University recognized \$9,203,000 and \$7,515,000 as of June 30, 2022 and 2021, respectively, in contributions revenue as a result of the CARES Act. The portion used to award COVID-19 relief to students is included in operating expenses and the remaining amount was used to offset lost revenues and refunds of housing and dining charges.

#### **(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 \$77,336,000 of gross contributions receivable at June 30, 2022, \$57,545,000 is due from ten donors.

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### Notes to Consolidated Financial Statements

June 30, 2022

#### **(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 nonoperating contributions, net return on nonoperating long-term investments underlying board designated endowments, (loss) gain on disposal of assets, and certain nonrecurring activities.

#### **(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, 2021, from which the summarized information was derived.

#### **(r) Recent Accounting Pronouncements**

In September 2020, the FASB issued ASU No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which enhances the presentation and disclosure of contributed nonfinancial assets. It requires contributed nonfinancial assets (including fixed assets, use of facilities or utilities, materials and supplies, intangible assets and services) to be presented in a separate line item on the statement of activities. Additionally, the standard required further disaggregation and qualitative information by type in the footnotes. The new standard is effective for the University on July 1, 2021. The University determined this new standard did not have a significant impact to its consolidated financial statements.

## **(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

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Notes to Consolidated Financial Statements

June 30, 2022

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.

Net assets consisted of the following as of June 30, 2022 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
Without donor restrictions:			
Operations, scholarship support, other	\$ 163,249	—	163,249
Invested in property, plant, and equipment	602,207	—	602,207
Board-designated quasi-endowments	250,931	—	250,931
With donor restrictions for time and/or purpose:			
Donor-restricted quasi-endowment funds and unappropriated endowment earnings	—	832,482	832,482
Capital construction	—	482	482
Education and other program support	—	5,924	5,924
Financial aid and student loan program	—	3,696	3,696
Pledges	—	68,246	68,246
Annuity and life income funds	—	4,546	4,546
With donor restrictions in perpetuity:			
Financial aid endowments	—	205,491	205,491
Education and other program support endowments	—	122,000	122,000
Academic chair endowments	—	60,675	60,675
Pledges	—	7,565	7,565
Annuity and life income funds	—	8,409	8,409
	<u>\$ 1,016,387</u>	<u>1,319,516</u>	<u>2,335,903</u>

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Net assets consisted of the following as of June 30, 2021 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
Without donor restrictions:			
Operations, scholarship support, other	\$ 146,193	—	146,193
Invested in property, plant, and equipment	438,642	—	438,642
Board-designated quasi-endowments	272,078	—	272,078
With donor restrictions for time and/or purpose:			
Donor-restricted quasi-endowment funds and unappropriated endowment earnings	—	910,261	910,261
Capital construction	—	140,553	140,553
Education and other program support	—	7,668	7,668
Financial aid and student loan program	—	4,799	4,799
Pledges	—	70,576	70,576
Annuity and life income funds	—	5,033	5,033
With donor restrictions in perpetuity:			
Financial aid endowments	—	182,574	182,574
Education and other program support endowments	—	113,146	113,146
Academic chair endowments	—	59,583	59,583
Pledges	—	8,532	8,532
Annuity and life income funds	—	9,717	9,717
	<u>\$ 856,913</u>	<u>1,512,442</u>	<u>2,369,355</u>

**(3) Contributions Receivable**

Contributions receivable consisted of the following as of June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Unconditional promises to be collected in:		
Less than one year	\$ 19,144	12,602
One to five years	34,492	41,919
More than five years	23,700	26,110
	<u>77,336</u>	<u>80,631</u>
Less allowance for uncollectible contributions	(8,471)	(7,332)
Less discount to present value	(8,843)	(9,157)
Total contributions receivable	<u>\$ 60,022</u>	<u>64,142</u>

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Notes to Consolidated Financial Statements

June 30, 2022

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 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, 2022 and 2021 (in thousands):

	<b>2022</b>	<b>2021</b>
Government grants	\$ 1,289	1,356
Notes, loans, and other receivables	7,455	6,250
Student receivables	2,138	1,680
Accrued interest receivable	12	16
	10,894	9,302
Less allowance for doubtful accounts	(1,088)	(938)
Total student and other receivables	\$ 9,806	8,364

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, 2022 and 2021, student loans held by the University included in notes, loans, and other receivables above consisted of the following (in thousands):

	<b>2022</b>	<b>2021</b>
Federal government programs	\$ 2,161	2,806
Institutional programs	13	26
	2,174	2,832
Less allowance for doubtful accounts	(3)	(3)
Total student loans	\$ 2,171	2,829

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 \$2,472,000 at June 30, 2022 and \$3,234,000 at June 30, 2021 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, 2022 and 2021, no material amounts were past due under other student loan programs.

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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 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, 2022 and 2021 are summarized as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Pooled cash and cash equivalents	\$ 37,769	47,357
Mutual funds	165,325	190,252
Equity holdings	93,005	56,203
Fixed income holdings	141,240	94,988
Commingled funds	146,534	160,736
Hedge funds	463,894	486,605
Private equity	121,604	139,031
Real assets	81,263	76,701
Venture capital	359,216	429,050
Real estate	38,679	37,837
Beneficial interest in funds held by others	9,797	9,604
Notes and other	3,578	3,012
Net pending trades	5,338	1,638
Total investments	<u>\$ 1,667,242</u>	<u>1,733,014</u>

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The following tables summarize investment values by category of investment as of June 30, 2022 and 2021 (in thousands). Consistent with ASU 2015-07, investments measured at net asset value (NAV) are not classified in the fair value hierarchy:

	Investments measured at NAV	2022			Total fair value
		Investments classified in the fair value hierarchy			
		Level 1	Level 2	Level 3	
Pooled cash and cash equivalents	\$ —	37,769	—	—	37,769
Mutual funds:					
Bonds	—	63,045	—	—	63,045
Equity	—	83,386	—	—	83,386
International equity	—	15,646	—	—	15,646
Real estate	—	3,248	—	—	3,248
Equity holdings:					
Domestic	—	93,005	—	—	93,005
Fixed income holdings:					
Corporate bonds	—	—	82,729	—	82,729
U.S. treasury bonds	—	—	58,511	—	58,511
Commingled funds:					
International equity	121,951	—	—	—	121,951
Corporate bonds	11,747	—	—	—	11,747
U.S. Equities	12,836	—	—	—	12,836
Hedge funds:					
Equity	34,630	—	—	—	34,630
Distressed debt	19,681	—	—	—	19,681
Fund of funds	400,925	—	—	—	400,925
Global opportunistic	8,658	—	—	—	8,658
Private equity	121,579	—	—	25	121,604
Real assets	77,082	—	—	4,181	81,263
Venture capital	354,375	—	—	4,841	359,216
Real estate	—	—	38,679	—	38,679
Beneficial interest in funds held by others	9,797	—	—	—	9,797
Notes and other	—	1,463	—	2,115	3,578
Net pending trades	—	5,338	—	—	5,338
<b>Total investments</b>	<b>\$ 1,173,261</b>	<b>302,900</b>	<b>179,919</b>	<b>11,162</b>	<b>1,667,242</b>

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	2021				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	\$ —	47,357	—	—	47,357
Mutual funds:					
Bonds	—	69,777	—	—	69,777
Equity	—	95,106	—	—	95,106
International equity	—	21,605	—	—	21,605
Real estate	—	3,764	—	—	3,764
Equity holdings:					
Domestic	—	56,203	—	—	56,203
Fixed income holdings:					
Corporate bonds	—	—	79,547	—	79,547
U.S. treasury bonds	—	—	15,441	—	15,441
Commingled funds:					
International equity	147,618	—	—	—	147,618
Corporate bonds	13,118	—	—	—	13,118
Hedge funds:					
Equity	51,500	—	—	—	51,500
Distressed debt	27,408	—	—	—	27,408
Fund of funds	406,368	—	—	—	406,368
Global opportunistic	1,329	—	—	—	1,329
Private equity	139,006	—	—	25	139,031
Real assets	71,162	—	—	5,539	76,701
Venture capital	423,681	—	—	5,369	429,050
Real estate	—	—	37,837	—	37,837
Beneficial interest in funds held by others	9,604	—	—	—	9,604
Notes and other	—	962	—	2,050	3,012
Net pending trades	—	1,638	—	—	1,638
Total investments	\$ <u>1,290,794</u>	<u>296,412</u>	<u>132,825</u>	<u>12,983</u>	<u>1,733,014</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.

**Mutual Funds** – Mutual funds consist of several distinct funds with varying portfolio compositions and objectives. These investments are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level 1.

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**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 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, 2022 and 2021, for assets classified in the fair value hierarchy.

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The following table presents information for applicable investments regarding their funding commitments, redemption, and restrictions as of June 30, 2022 (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	\$ 121,951	—	weekly, monthly, n/a	6–10 days
Corporate bonds	11,747	—	monthly	6–7 days
U. S. equities	12,836	8,333	annually, see below	60 days
Hedge funds:				
Equity	34,630	—	monthly, quarterly	10–95 days
Distressed debt	19,681	1,300	monthly, annually, n/a	90 days, n/a, see below
Fund of funds	400,925	—	monthly, annually	90–365 days
Global opportunistic	8,658	—	quarterly, n/a	90 days, n/a
Private equity	121,604	70,991	see below	see below
Real assets	81,263	28,441	quarterly, n/a, see below	30-90 days, n/a
Venture capital	359,216	81,374	semi-annually, n/a, see below	120 days, n/a
Beneficial interest in funds held by others				
	<u>9,797</u>	<u>—</u>	see below	see below
	<u>\$ 1,182,308</u>	<u>190,439</u>		

The University holds investments in private equity, real assets, and venture capital in the amounts of \$121,604,000, \$81,263,000, and \$359,216,000, respectively. The majority of these investments do not allow for periodic redemption, but rather distributions are received through the liquidation of the underlying assets. At June 30, 2022, they had estimated termination dates that range from 2022 to 2033. The University holds \$12,836,000 in commingled U.S. equities funds which have a soft lock expiring in 2026. Additionally, within distressed debt hedge funds the University holds \$8,367,000 in closed-end funds with estimated termination date that range from 2022 to 2024. 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.

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The following schedule summarizes investment returns during 2022 and 2021, presented in “Net return on operating investments” and “Net return on nonoperating long-term investments” in the consolidated statement of activities (in thousands):

	<u>2022</u>	<u>2021</u>
Interest, dividends and other income	\$ 20,801	16,891
Net realized gains	119,765	34,105
Net unrealized (losses) gains	(210,103)	493,601
Direct management fees and other	<u>(8,273)</u>	<u>(7,971)</u>
Net (loss) return on investments	<u>\$ (77,810)</u>	<u>536,626</u>

**(6) Endowment**

The University’s endowment consists of approximately 980 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

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**(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.

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Changes in endowment net assets and net asset composition for the year ended June 30, 2022, not including contributions receivable of \$7,440,000, are as follows (in thousands):

	<b>2022</b>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2021	\$ 272,078	1,265,564	1,537,642
Investment return:			
Investment income	2,760	14,129	16,889
Net realized and unrealized loss on investments	<u>(19,206)</u>	<u>(69,047)</u>	<u>(88,253)</u>
Total investment return	(16,446)	(54,918)	(71,364)
Contributions	54	46,448	46,502
Appropriation of endowment assets for expenditure	(5,805)	(36,578)	(42,383)
Other changes:			
Transfers to board-designated endowment funds	<u>1,050</u>	<u>132</u>	<u>1,182</u>
Endowment net assets, June 30, 2022	<u>\$ 250,931</u>	<u>1,220,648</u>	<u>1,471,579</u>
Composition of endowment net assets:			
Donor-restricted endowment funds	\$ (387)	1,220,648	1,220,261
Board-designated endowment funds	<u>251,318</u>	<u>—</u>	<u>251,318</u>
Total endowment net assets	<u>\$ 250,931</u>	<u>1,220,648</u>	<u>1,471,579</u>

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Changes in endowment net assets and net asset composition for the year ended June 30, 2021, not including contributions receivable of \$8,532,000, are as follows (in thousands):

	<b>2021</b>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ 182,056	852,111	1,034,167
Investment return:			
Investment income	3,524	10,794	14,318
Net realized and unrealized gain on investments	<u>91,784</u>	<u>423,638</u>	<u>515,422</u>
Total investment return	95,308	434,432	529,740
Contributions	152	12,251	12,403
Appropriation of endowment assets for expenditure	(6,438)	(33,649)	(40,087)
Other changes:			
Transfers to board-designated endowment funds	1,000	—	1,000
Maturity of annuities	<u>—</u>	<u>419</u>	<u>419</u>
Endowment net assets, June 30, 2021	<u>\$ 272,078</u>	<u>1,265,564</u>	<u>1,537,642</u>
Composition of endowment net assets:			
Donor-restricted endowment funds	\$ —	1,265,564	1,265,564
Board-designated endowment funds	<u>272,078</u>	<u>—</u>	<u>272,078</u>
Total endowment net assets	<u>\$ 272,078</u>	<u>1,265,564</u>	<u>1,537,642</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, 2022, deficiencies of this nature totaling \$387,000 among 38 funds, are reported in net assets without donor restrictions. As of June 30, 2021, there were no deficiencies of this nature.

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**(7) Plant Assets**

Plant assets as of June 30, 2022 and 2021 are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Land	\$ 83,679	83,032
Buildings	1,131,522	890,925
Improvements other than buildings	113,015	112,310
Equipment	169,649	148,010
Library books	58,911	61,378
	<u>1,556,776</u>	<u>1,295,655</u>
Accumulated depreciation and amortization	<u>(509,934)</u>	<u>(464,170)</u>
	1,046,842	831,485
Construction in progress	<u>3,436</u>	<u>218,318</u>
Total plant assets	<u>\$ 1,050,278</u>	<u>1,049,803</u>

**(8) Bonds and Notes Payable**

Bonds and notes payable as of June 30, 2022 and 2021 are as follows (in thousands):

	<u>2022</u>	<u>2021</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	\$ 51,530	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	93,070	95,530
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	31,359	35,722

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	<u>2022</u>	<u>2021</u>
1.94% Bank of America Revenue Bonds maturing serially through July 1, 2025, secured by the full faith and credit of the University	\$ 3,275	4,075
	301,799	310,377
Unamortized premium and bond issuance costs, net	<u>23,658</u>	<u>24,630</u>
Total bonds and notes payable	\$ <u>325,457</u>	<u>335,007</u>

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, 2022 and 2021, \$1,520,000 and \$6,419,000 of interest was capitalized, respectively. For the years ended June 30, 2022 and 2021, total interest expense, net of amounts capitalized, was \$14,924,000 and \$10,325,000, respectively. During the years ended June 30, 2022 and 2021, \$3,006,000 and \$3,152,000, respectively, represents interest expense associated with the University's lease obligations.

The annual debt service requirements subsequent to June 30, 2022 are as follows (in thousands):

	<u>Principal maturities</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 12,434	13,090	25,524
2024	12,939	12,570	25,509
2025	13,469	12,015	25,484
2026	14,076	11,482	25,558
2027	14,577	10,880	25,457
Thereafter	<u>234,304</u>	<u>117,545</u>	<u>351,849</u>
	301,799	177,582	479,381
Unamortized premium and bond issuance costs, net	<u>23,658</u>	—	<u>23,658</u>
	\$ <u>325,457</u>	<u>177,582</u>	<u>503,039</u>

The University has an unsecured revolving credit agreement that matures annually in September of each year. At June 30, 2022, the total amount available under this agreement was \$60,000,000. In September 2022, the University renewed the agreement and lowered the amount available to \$40,000,000. The current unsecured revolving credit agreement that matures in September 2023. As of June 30, 2022 and 2021, no amounts were outstanding on this line of credit.

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#### **(9) Lease Liabilities**

The following information applies to lease liabilities as of June 30, 2022:

On July 1, 2020, the date of adoption of ASC 842, the University had two existing leases. In September 2011, the University entered into a non-cancellable lease for 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 finance lease was \$45,553,000, which is the present value of future lease payments, discounted using the implicit rate of 8%. The net amount recorded as right of use assets under this lease at June 30, 2022 was \$20,246,000. The amortization expense for the lease is calculated on a straight-line basis over the useful life of 234 months included within the University's depreciation and amortization expense. This amount was \$2,336,000 for the year ended June 30, 2022.

In November 2014, the University entered into a noncancelable lease for 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 finance lease was \$23,800,000, which is the present value of future lease payments, discounted using the implicit rate of 5%. The net amount recorded as right of use under this lease at June 30, 2022 was \$14,567,000. The amortization expense for this 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 year ended June 30, 2022. Lease costs associated with these two leases was reported in the statement of activities as interest was \$3,003,000 and depreciation and amortization was \$2,983,000.

As a result of the adoption of ASC 842, the University made the new required lease disclosures for periods after the effective date, and carried forward ASC 840 disclosures for comparative periods.

Under ASC 842, the University has elected to not apply the recognition requirements to leases of less than twelve months. These leases are expensed on a straight-line basis and are not included within the University's lease asset or liability.

This standard does not have material impact on the University's results of operations or cash flows. Payments under the University's lease agreements are fixed for terms ranging from ten to twelve years.

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Maturities of lease liabilities under non-cancellable leases as of June 30, 2022 are as follows (in thousands):

	<u><b>Finance leases</b></u>
Year ending June 30:	
2023	\$ 6,061
2024	6,137
2025	6,217
2026	6,298
2027	6,382
Thereafter	<u>34,984</u>
Total undiscounted lease payments	66,079
Less imputed interest	<u>(18,373)</u>
Total lease liabilities	<u><u>\$ 47,706</u></u>

For June 30, 2021 under ASC 840, the University's future minimum capital lease payments for the same two leases were as follows (in thousands):

	<u><b>Capital leases</b></u>
Year ending June 30:	
2021	\$ 5,986
2022	6,061
2023	6,137
2024	6,216
2025	6,298
Thereafter	<u>41,364</u>
Total minimum lease payments	72,062
Less amount representing interest	<u>(21,376)</u>
Present value of net minimum capital lease payments	<u><u>\$ 50,686</u></u>

**(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 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

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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, 2022 and 2021, existing financial assets and liquidity resources available for general expenditures within one year were as follows (in thousands):

	<b>2022</b>	<b>2021</b>
Financial assets:		
Cash and cash equivalents	\$ 61,822	49,315
Student and other receivables	3,439	3,052
Contributions receivable for operations and capital projects	1,105	5,612
Investments – operating	150,187	104,596
Investments – appropriated endowment spending payout	48,000	42,800
Funds held in trust by others	26	26
Total financial assets available within one year	264,579	205,401
Liquidity resources:		
Bank line of credit	60,000	60,000
Total financial assets and liquid resources available within one year	\$ 324,579	265,401

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, 2022. As noted in note 8, in September 2022, the University lowered the amount available under the bank line of credit from \$60,000,000 to \$40,000,000.

The University also has board-designated endowments of \$251,318,000 as of June 30, 2022. 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 deemed necessary and approved by the University Board of Trustees. However, both the board-designated and donor-restricted endowment funds contain investments that are subject to market fluctuations and have 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 eligible faculty, staff, and administrative employees through Internal Revenue Code (IRC), Section 401(a) and 403(b) plans. During 2022 and 2021, the University contributed approximately \$19,843,000 and \$8,682,000, respectively, to the defined contribution 401(a) retirement plan on behalf of its faculty, staff, and administrative employees. From September 2020 through June 2021, the rate of defined contributions was reduced as part of the University's containment initiatives implemented due to the COVID-19 pandemic. In October 2021, the University increased the

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employer contribution equal to 15% of benefit-eligible employees' base compensation through October 15, 2022. The contribution rate will change to 10% effective October 16, 2022. The University does not contribute to the 403(b) plan.

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

The University's primary program activity is instruction, academic support and research. 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 \$7,943,000 and \$5,276,000 in 2022 and 2021, respectively, are included in instruction, academic support and research. Expenses associated with fundraising activities of the University were \$14,243,000 and \$12,525,000 in 2022 and 2021, respectively, are included in administrative support.

Expenses by natural and functional classification for the year ended June 30, 2022, 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	\$ 122,034	852	—	—	—	—	122,886
Nonacademic salaries and wages	—	6,701	27,047	2,381	33,083	7,330	76,542
Benefits expense	40,038	2,372	9,872	997	11,578	2,403	67,260
Professional fees and contracted services	17,908	2,486	4,041	1,083	6,801	8,654	40,973
General operating expenses	22,707	1,215	13,539	7,745	11,788	12,761	69,755
Allocated expenses:							
Interest expense	6,789	—	782	6,347	505	501	14,924
Depreciation expense	25,402	391	6,862	13,130	3,709	3,762	53,256
Facilities and maintenance of plant	17,857	211	11,283	2,304	3,756	(35,411)	—
Total expenses	\$ 252,735	14,228	73,426	33,987	71,220	—	445,596

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Expenses by natural and functional classification for the year ended June 30, 2021, 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	\$ 113,246	526	—	—	—	—	113,772
Nonacademic salaries and wages	—	6,490	23,532	2,124	26,413	8,179	66,738
Benefits expense	34,043	2,149	8,051	908	9,112	3,110	57,373
Professional fees and contracted services	9,409	2,431	1,924	2,643	6,334	7,278	30,019
General operating expenses	10,034	624	13,965	6,299	8,295	3,801	43,018
Allocated expenses:							
Interest expense	2,219		562	6,498	537	509	10,325
Depreciation expense	21,969	233	8,036	13,887	3,150	4,282	51,557
Facilities and maintenance of plant	14,739	119	6,776	2,338	3,187	(27,159)	—
Total expenses	<u>\$ 205,659</u>	<u>12,572</u>	<u>62,846</u>	<u>34,697</u>	<u>57,028</u>	<u>—</u>	<u>372,802</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 \$2,180,000 and \$2,621,000 in 2022 and 2021, respectively, which is included in academic related salaries and wages and nonacademic salaries and wages in the accompanying consolidated statement of activities.

As of June 30, 2022, and 2021, \$14,830,000 and \$18,050,000, 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. The third payment of \$25,000,000 was received during the year ended June 30, 2020. The fourth payment of \$12,500,000 was received during the year ended June 30, 2021. The last installment of \$12,500,000 was received during the year ended June 30, 2022.

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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, 2022 is \$86,864,000. The University also holds \$1,484,000 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 \$326,000 as of June 30, 2022 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, 2022, the University has contractual obligations of approximately \$14,723,000 for completion of capital projects under construction. These obligations are expected to be payable over the next one and a half years and will be financed with 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 25, 2022, the date on which the consolidated financial statements were issued. There are no subsequent events that require disclosure.