PACIFIC UNIVERSITY

Independent Auditors' Report in
Accordance with OMB Circular A-133

Year ended June 30, 2011

PACIFIC UNIVERSITY

Table of Contents

	Page
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	1
Schedule of Expenditures of Federal Awards	4
Notes to Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs for the year ended June 30, 2011	6

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Directors
Pacific University:

Compliance

We have audited Pacific University's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pacific University's major federal programs for the year ended June 30, 2011. Pacific University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pacific University's management. Our responsibility is to express an opinion on Pacific University's compliance based on our audit.

We did not audit Pacific University's compliance with the requirements governing maintaining contact with and billing borrowers in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Campus Partners' compliance with the requirements governing the functions that it performs for Pacific University for the year ended June 30, 2011 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partners' compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pacific University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pacific University's compliance with those requirements.

In our opinion, Pacific University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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Internal Control over Compliance

Management of Pacific University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pacific University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pacific University's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers under the Federal Perkins Loan Program in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement is performed by Campus Partners. Internal control over compliance related to such functions for the year ended June 30, 2011 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.* Our report does not include the results of the other accountants' testing of Campus Partner's internal control over compliance related to such functions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Pacific University as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 9, 2011, except as to the
paragraph relating to the schedule
of expenditures of federal awards,
which is as of October 19, 2011

PACIFIC UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

	Federal CFDA number		Federal expenditures
Student financial assistance:			
U.S. Department of Education:			
Perkins loan program – note 2	84.038	$	37,486
Federal work-study program	84.033		778,521
Federal supplemental educational opportunity grant	84.007		190,415
Pell grant program	84.063		2,192,721
ACG grants	84.375		99,050
Smart grants	84.376		140,000
Teach grants	84.379		146,999
Fund for the Improvement of Postsecondary Education (FIPSE)	84.116		8,472
U.S. Department of Health and Human Services:			
Health professional student loans	93.342		45,000
Total student financial assistance			3,638,664
Research and development:			
National science foundation:			
NSF grant – G2CS computer camp grant	47.049		158,115
NSF grant – weed research	47.049		21,134
Total research and development			179,249
Other awards:			
National science foundation:			
NSF grant – Noyce ARRA funding	47.082		104,578
NSF grant – Woodburn stem teaching grant	47.049		96,300
U.S. Department of Health and Human Services:			
Community based dental partnership	93.924		4,928
NIH – Mindfulness Assessment	93.213		37,143
Total other awards			242,949
Total expenditures of federal awards		$	4,060,862

See accompanying notes to schedule of expenditures of federal awards.

PACIFIC UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

June 30, 2011

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the Schedule) includes all federal monies expended by Pacific University (the University) during the year ended June 30, 2011. This schedule has been prepared on the accrual basis of accounting.

For purposes of the Schedule, federal monies include all grants, contracts, loans, and loan guarantee agreements entered into directly between the University and agencies and departments of the Federal government as well as any federal awards passed through other governmental agencies.

(2) Loan Program Administration

The University administers the following loan programs with outstanding loan balances as of June 30, 2011 as follows:

	CFDA number		Outstanding balance at June 30, 2011
Perkins loans	84.038	$	4,603,686
Health professional loans	93.342		2,237,015

(3) Federal Direct Loan Program

During the fiscal year ended June 30, 2011, the University processed the following amount of new loans under the Federal Direct Loan Program (which includes subsidized Stafford, unsubsidized Stafford, and PLUS Loans):

	CFDA number		Amount
Direct loans – Unsubsidized	84.268	$	30,735,016
Direct loans – Subsidized	84.268		16,544,846
Direct loans – Parent PLUS	84.268		3,743,195
Direct loans – Grad PLUS	84.268		13,812,097
Total		$	64,835,154

(4) Administrative Costs

The amount of Perkins loan and Federal Work-study disbursements shown on the Schedule includes the current year administrative cost allowance of $1,600 and $38,926, respectively.

PACIFIC UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinion**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None reported**

Material weaknesses: **No**

(c) The type of report issued on compliance for major programs: **Unqualified opinion**

(d) Noncompliance which is material to the financial statements: **No**

(e) Significant deficiencies in internal control over major programs: **None reported**

Material weaknesses: **No**

(f) Any audit findings which are required to be reported under Section 0.501(a) of OMB Circular A-133: **No**

(g) Major programs: Student Financial Assistance Cluster

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: No

(3) Findings and Questioned Costs Relating to Federal Awards: No