Report of Independent Auditors
and Financial Statements for

University of Portland

June 30, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

To the Board of Regents
University of Portland

We have audited the accompanying statements of financial position of the University of Portland (the University) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the year ended June 30, 2012 and the 13 month period ended June 30, 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Portland as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year ended June 30, 2012 and for the 13 month period ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
December 5, 2012

UNIVERSITY OF PORTLAND
STATEMENTS OF FINANCIAL POSITION
(in thousands)

	June 30, 2012	June 30, 2011
ASSETS		
ASSETS		
Cash and cash equivalents	$ 8,333	$ 7,838
Accounts receivable, net	2,509	2,019
Prepaid expenses and other	773	1,071
Investments – beneficial interest in assets held by others	97,955	92,502
Investments	30,848	32,428
Investments deposited in debt service reserve	6,863	6,177
Pledges receivable, net	9,618	13,411
Student loans receivable, net	3,591	3,993
Property, plant, and equipment, net	177,603	172,271
Other assets	2,118	1,935
Total assets	$ 340,211	$ 333,645
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,175	$ 6,540
Deferred revenues and deposits	6,976	7,775
Annuities payable	5,058	5,387
Bonds payable	76,528	78,804
Advances from federal government for student loans	2,706	3,043
Other liabilities	-	1,000
Total liabilities	100,443	102,549
NET ASSETS		
Unrestricted	124,391	112,582
Temporarily restricted	42,321	47,958
Permanently restricted	73,056	70,556
Total net assets	239,768	231,096
Total liabilities and net assets	$ 340,211	$ 333,645

See accompanying notes.

UNIVERSITY OF PORTLAND
STATEMENT OF ACTIVITIES – JUNE 30, 2012
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Student charges				
Regular degree programs	$ 123,545	$ -	$ -	$ 123,545
Less scholarships	(57,059)	-	-	(57,059)
Net regular degree programs	66,486	-	-	66,486
Room and board	18,124	-	-	18,124
Off-campus programs	6,062	-	-	6,062
Government grants	1,077	-	-	1,077
Grants and contracts	874	-	-	874
Gifts and contributions	4,551	530	-	5,081
Investment return on endowment, distributed	577	2,562	-	3,139
Other investment gains	179	-	-	179
Other revenues and support	4,755	-	-	4,755
Total revenues and gains	102,685	3,092	-	105,777
Net assets released from restrictions	11,418	(11,418)	-	-
Total revenues, gains, and other support	114,103	(8,326)	-	105,777
Expenses				
Instruction	38,155	-	-	38,155
Off-campus programs	3,301	-	-	3,301
Research	799	-	-	799
Libraries and instruction media	3,788	-	-	3,788
Student services	9,430	-	-	9,430
General institutional expense	21,051	-	-	21,051
Auxiliary enterprises	26,207	-	-	26,207
Total operating expenses	102,731	-	-	102,731
Increase (decrease) in net assets from operating activities	11,372	(8,326)	-	3,046
NONOPERATING ACTIVITIES				
Endowment gains (losses), net of amounts distributed	15	(192)	-	(177)
Change in value of split interest agreements	-	(40)	(212)	(252)
Gifts and contributions	-	3,149	2,906	6,055
Changes in net asset classification	432	(224)	(208)	-
Other investment income (loss)	(10)	(4)	14	-
Increase in net assets from nonoperating activities	437	2,689	2,500	5,626
INCREASE (DECREASE) IN NET ASSETS	11,809	(5,637)	2,500	8,672
NET ASSETS, beginning of year	112,582	47,958	70,556	231,096
NET ASSETS, end of year	$ 124,391	$ 42,321	$ 73,056	$ 239,768

See accompanying notes.

UNIVERSITY OF PORTLAND
STATEMENT OF ACTIVITIES – 13 MONTHS ENDED JUNE 30, 2011
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Student charges				
Regular degree programs	$ 119,871	$ -	$ -	$ 119,871
Less scholarships	(54,664)	-	-	(54,664)
Net regular degree programs	65,207	-	-	65,207
Room and board	17,468	-	-	17,468
Off-campus programs	6,924	-	-	6,924
Government grants	1,187	-	-	1,187
Grants and contracts	855	-	-	855
Gifts and contributions	2,730	1,122	-	3,852
Investment return on endowment, distributed	1,266	2,298	-	3,564
Other investment gains	211	-	-	211
Other revenues and support	5,184	-	-	5,184
Total revenues and gains	101,032	3,420	-	104,452
Net assets released from restrictions	7,048	(7,048)	-	-
Total revenues, gains, and other support	108,080	(3,628)	-	104,452
Expenses				
Instruction	37,859	-	-	37,859
Off-campus programs	4,004	-	-	4,004
Research	1,234	-	-	1,234
Libraries and instruction media	3,801	-	-	3,801
Student services	9,258	-	-	9,258
General institutional expense	21,282	-	-	21,282
Auxiliary enterprises	25,983	-	-	25,983
Total operating expenses	103,421	-	-	103,421
Increase (decrease) in net assets from operating activities	4,659	(3,628)	-	1,031
NONOPERATING ACTIVITIES				
Endowment gains, net of amounts distributed	2,259	9,977	-	12,236
Change in value of split interest agreements	-	65	408	473
Gifts and contributions	-	4,551	6,782	11,333
Changes in net asset classification	(2,774)	767	2,007	-
Other investment income	50	36	806	892
Increase in net assets from nonoperating activities	(465)	15,396	10,003	24,934
INCREASE IN NET ASSETS	4,194	11,768	10,003	25,965
NET ASSETS, beginning of year	108,388	36,190	60,553	205,131
NET ASSETS, end of year	$ 112,582	$ 47,958	$ 70,556	$ 231,096

UNIVERSITY OF PORTLAND
STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended June 30, 2012	13 Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,672	$ 25,965
Adjustments to reconcile increase in net assets to net cash from operating activities		
Bad debt expense	298	200
Depreciation expense	5,790	6,018
Provision for doubtful pledges receivable	(26)	1,077
(Decrease) increase in pledges receivable discount	(872)	3,445
Contributions restricted for long-term investment	(9,931)	(16,605)
Contributions subject to annuity and unitrust agreements	(325)	(47)
Change in value of assets held in charitable trusts	(252)	(473)
Net unrealized and realized gains on investments	(2,604)	(16,902)
Loss on disposal of property	33	264
Increase (decrease) in cash due to changes in assets and liabilities		
Accounts and student loans receivable	(386)	2,474
Prepaid expenses and other	298	(183)
Pledges receivable	4,691	578
Other assets	(183)	125
Accounts payable, accrued liabilities, deferred revenues, and deposits	1,836	(1,103)
Other liabilities	(1,000)	(1,000)
Annuities payable	(329)	155
Net cash from operating activities	5,710	3,988
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of assets held by others	(2,750)	(4,500)
Purchases of investments	(10,986)	(29,437)
Proceeds from sale of investments	12,033	25,410
Purchases of property, plant, and equipment	(11,175)	(8,432)
Proceeds from sale of property, plant, and equipment	20	-
Net cash used in investing activities	(12,858)	(16,959)

See accompanying notes.

(in thousands)

	Years Ended June 30, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for		
Investment in endowment	$ 3,367	$ 8,244
Investment in plant	6,559	8,361
Loan fund	5	-
Investment subject to annuity and unitrust agreements	325	47
Decrease in advances from federal government for student loans	(337)	(380)
Payments on bonds payable	(2,276)	(2,167)
Net cash from financing activities	7,643	14,105
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 495	$ 1,134
CASH AND CASH EQUIVALENTS, beginning of year	7,838	6,704
CASH AND CASH EQUIVALENTS, end of year	$ 8,333	$ 7,838
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, including capitalized interest of $346 and $356 for the year ended June 30, 2012 and the 13 month period ended June 30, 2011, respectively	$ 3,527	$ 3,659

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – The University of Portland (the University) is a private institution of higher education accredited by the Northwest Commission on Colleges and Universities (NWCCU). The University offers students a number of graduate and undergraduate degrees in programs covering a wide variety of scholastic disciplines. The University is a not-for-profit organization funded by student tuition revenue as well as outside contributions.

Change in reporting period – During the prior year, the University changed its reporting period from a fiscal year ending on May 31 to a fiscal year ending on June 30 to better coincide with its activities and to better align the University's financial reporting with quarterly investment return information. This change resulted in a one-time 13 month reporting period for the fiscal year 2011. Accordingly, these financial statements include results for the 13 month period ended June 30, 2011, compared with the year ended June 30, 2012.

Basis of presentation – These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net asset balances and transactions into three classes of net assets – unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that require they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless such revenues are limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The University's measure of operations presented in the Statement of Activities includes revenues from tuition and fees, grants and contracts, unrestricted contributions, investment income from unrestricted investments except those gains and losses earned by unrestricted funds functioning as endowments that have not been appropriated for expenditure in the current year, amounts appropriated for expenditure from restricted endowments in the current year, and revenues from auxiliary enterprises and other sources, as well as net assets released from restriction based upon the satisfaction of those restrictions. Operating expenses are reported by functional categories, after allocating costs for plant maintenance, information services, interest on long term indebtedness and depreciation.

Non-operating activities presented in the Statement of Activities include gifts for buildings and other depreciable assets, unconditional promises to give, investment gains and losses on loan funds and permanently restricted endowments, gains and losses earned by unrestricted funds functioning as endowments that have not been appropriated for expenditure in the current year, changes in the value of split-interest agreements, and gains and losses from changes in the value of assets due to the fluctuation of exchange rates.

Tuition and fees – Student tuition and fees are recorded as revenue on a ratable basis over the term of instruction. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (DOE). Disbursements under each program are subject to disallowance by the DOE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the DOE.

Contributions and promises to give – Contributions, in cash or in-kind are recognized in the period in which they are received. Unconditional promises to give are recognized as revenues in the period in which the unconditional promise is received. Contributions received with restrictions that are met within the same reporting period are classified as unrestricted revenues. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and the nature of the fund-raising activity.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Contributed services are reported when specialized services are performed, or would otherwise be purchased or performed by salaried personnel, and when the University exercises control over the duties of the donor's services. These services totaling approximately $280 and $336, at June 30, 2012 and 2011, respectively, have been recorded as gifts and contributions revenue and instruction expense on the accompanying statements of activities.

Income and realized and unrealized net gains on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if applicable law or the terms of the gift require that they be added to the principal of a permanent endowment fund
- As increases in temporarily restricted net assets if applicable law or the terms of the gift impose restrictions on the use of the income
- As increases in unrestricted net assets in all other cases

Gifts contributed for the purchase of property, plant and equipment are reported as increases to temporarily restricted net assets and are released when spent.

Cash and cash equivalents – Cash and cash equivalents consist primarily of demand deposits, certificates of deposit, and U.S. government securities with original maturity dates of 90 days or less.

Beneficial interest in assets held by others – The University invests the majority of its endowment with a religious affiliate that shares the University's Catholic ministry and educational mission. These assets are held in the affiliate's endowment and are invested for the University's benefit. The endowment is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The University has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2012.

The University may redeem its interest as necessary. Whenever a request is made, the affiliate is required to distribute the funds within thirty days if the redemption value does not exceed $10,000, within ninety days if the redemption value exceeds $10,000 but does not exceed $50,000, and within one hundred eighty days if the redemption value exceeds $50,000.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Receivables – Accounts receivable represent amounts due from various organizations and are recorded at the invoiced amount. Student accounts and loans receivable are recorded at the invoiced amount. Student accounts receivable do not bear interest. Loans receivable include amounts currently receivable (see Note 3). The allowance for doubtful accounts for all receivables represents the University's best estimate of the amount of probable credit losses in the University's existing accounts receivable and student loans receivable. The University determines the allowance by performing on-going evaluations of its creditors and students and their ability to make payments. The University determines the adequacy of the allowance based on length of time past due, historical experience and judgment of economic conditions. Account and loan balances are charged off against the allowance after all means of collection have been exhausted and potential recovery is considered remote.

Property, plant, and equipment – Property, plant, and equipment are recorded at cost on the date of acquisition or fair value at the date of donation in the case of gifts.

The University computes depreciation using the straight-line method over the estimated useful lives of fixed assets as follows:

Land improvements	60 years
Buildings	60 years
Library holdings	20 years
Real estate holdings	20 years
Furniture, fixtures, and equipment	10 years
Computer equipment	5 years

Additions and betterments of $5 or more are capitalized except for furniture and fixtures, data handling equipment, and library acquisitions which are capitalized at any value. Repairs and maintenance that do not extend the useful lives of the respective assets are expensed currently.

Deferred revenues and deposits – Deferred revenues and deposits consist primarily of tuition fees and housing deposits related to future academic periods.

Charitable gift annuities and charitable remainder unitrusts – The University has entered into several Charitable Gift Annuity Agreements and Charitable Remainder Unitrusts whereby the donor contributes assets in exchange for distributions based on the value of trust assets for a specified period of time to the donor or other beneficiaries. At the end of the specified time, the remaining assets are available for the University's use. Assets received are recorded at fair value at reporting period and, as required by state law, are invested primarily in U.S. government obligations. A liability equal to the present value of the future distributions is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. On an annual basis, the University recalculates the liability based on applicable mortality tables and discount rates. As of June 30, 2012, the University used 2000 CM mortality tables with a discount rate of 4.5%.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – At June 30, 2012 and 2011, the carrying values of cash, accounts and notes receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments.

Income taxes – The University is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the University qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The University recognizes interest accrued and penalties related to unrecognized tax benefits in administrative expense. During the year ended June 30, 2012 and the 13 month period ended June 30, 2011, the University recognized no interest and penalties. The University had no unrecognized tax benefits at June 30, 2012 or 2011.

The University files an exempt organization income tax return, and an unrelated business income tax return in the U.S. federal jurisdiction and files a copy with the state charities division. The appropriate state returns are also filed for any unrelated business income. With few exceptions, the University is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2008.

Endowments – The University is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which identifies specific factors that must be considered in the University's policies on investing and spending endowed funds (see Note 11).

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

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Related party transactions – Members of the University's Board of Regents and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Regents can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in its financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are issued. The University has evaluated subsequent events through December 5, 2012, the date the financial statements were issued.

(in thousands)

Note 2 – Pledges Receivable

The University calculates pledges receivable at the present value of estimated future cash flows using a 4.9% to 6% discount rate. The annual payments are scheduled to be received as follows:

	June 30, 2012	June 30, 2011
Less than one year	$ 2,671	$ 4,256
One to five years	9,126	12,119
More than five years	14,783	14,896
	26,580	31,271
Less discount	(10,174)	(11,046)
Less reserve for uncollectible accounts	(6,788)	(6,814)
Pledges receivable, net	$ 9,618	$ 13,411

Pledges due from three related party donors represent 69% of pledges receivable outstanding at June 30, 2012.

(in thousands)

Note 3 – Student Loans Receivable

Student loans receivable represents primarily Federal Perkins and Nursing Student loans that are generally payable with interest at 3% and 5% over approximately 11 years following university attendance. Principal payments, interest and losses due to cancellation are shared by the University and the U.S. government in proportion to their share of funds provided. The program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Employment cancellations are absorbed in full by the U.S. government. Student loans are considered past due if payment is not received by the 15th day of the month. After 60 days the loan is sent to a collection agency. The student loans receivable are as follows:

	June 30,	
	2012	2011
Federal Perkins loans	$ 3,417	$ 3,613
Federal Nursing loans	759	662
Other loans	12	20
	4,188	4,295
Less reserve for uncollectible accounts	(597)	(302)
Total student loans receivable	$ 3,591	$ 3,993

At June 30, 2012 and 2011, student loans receivable represented 0.11% and 0.12% of total assets, respectively.

The availability of funds for loans under the Perkins program is dependent on reimbursements to the pool from repayments on outstanding loans. There were no funds advanced by the Federal government for the year ended June 30, 2012 and the 13 month period ended June 30, 2011. Funds advanced in prior years by the Federal government, totaling $2,706 and $3,043 at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

(in thousands)

Note 3 – Student Loans Receivable (continued)

The following amounts were past due under student loan programs:

	June 30, 2012	June 30, 2011
1-60 Days	$ 273	$ 7
60-90 Days	15	4
90+ Days	731	689
Total Past Due	$ 1,019	$ 700

The University has recorded an allowance for doubtful accounts against the outstanding loan balances of $597 and $302 at June 30, 2012 and 2011, respectively. There were no write-offs of loan funds during the year ended June 30, 2012 and the 13 month period ended June 30, 2011.

Note 4 – Investments

The fair value of investments is as follows:

	June 30, 2012	June 30, 2011
Money market funds	$ 877	$ 6,088
Equity holdings	10,479	9,863
Mutual funds	10	9
U.S. government securities	11,245	6,990
Corporate bonds	7,142	6,348
Private equity funds	7,370	9,021
Cash surrender value of life insurance	588	286
	37,711	38,605
Beneficial interest in assets held by others	97,955	92,502
	$ 135,666	$ 131,107

(in thousands)

Note 4 – Investments (continued)

The following schedule summarizes the investment return and its presentation in the statements of activities:

	Year Ended June 30, 2012	13 Months Ended June 30, 2011
Interest and dividend income	$ 1,101	$ 1,354
Net realized and unrealized gains on investments carried at fair value	1,788	16,022
Total investment return	2,889	17,376
Less investment return on endowment, distributed	(3,139)	(3,564)
Less other operating investment gains (losses)	(179)	(211)
Nonoperating investment return	$ (429)	$ 13,601

Nonoperating returns reported on the statement of activities:

	Year Ended June 30, 2012	13 Months Ended June 30, 2011
Endowment gains (losses), net of amounts distributed	$ (177)	$ 12,236
Change in value of split interest agreements	(252)	473
Other investment income (losses)	-	892
Nonoperating investment return	$ (429)	$ 13,601

The University may employ derivatives and other strategies to hedge against market risks, arbitrage mispricing of related securities, and to replicate long or short positions more cost effectively. Accordingly, derivatives in the investment portfolio may include currency forward contracts, interest rate and currency swaps, call and put options, debt and equity futures contracts, equity swaps and other vehicles that may be appropriate in certain circumstances.

The University did not directly hold any derivative securities as detailed above, but held shares of commingled investment vehicles, such as hedge fund of funds, which held such investments. Derivatives held by limited partnerships and commingled investment trusts in which the University invests, involve varying degrees of off-balance sheet risk, and may result in loss due to changes in the market.

Note 5 – Fair Value of Assets

The University defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the University's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Inputs are unadjusted, and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and/or the risk inherent in the inputs to the model.

The University used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Money market funds – Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

Equity holdings – Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

U.S. government securities – Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

Mutual funds – Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

Corporate bonds – Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

Cash surrender value of life insurance – Fair value is based on the cash surrender value provided by each policy's respective insurer.

Note 5 – Fair Value of Assets (continued)

Private equity funds – Investments in private equity funds are carried at fair value as determined by the net asset value of the fund as determined in good faith by the fund manager. Because of inherent uncertainty in valuing investments in private equity funds for which no active market exists, the estimated value may differ significantly from the value that could be realized in a secondary market transaction, and the ultimate amounts realized could be significantly different from the values reported.

Investment strategies of such funds include the use of margin and other forms of leverage including taking short positions, swaps, futures, options, warrants, private placements, forward contracts, trade claims and credit default swaps and real estate instruments, when deemed appropriate by fund managers. Other event-driven investment strategies include; merger arbitrage, distressed securities and special situations. All investment objectives and strategies used by the fund managers comply with the University's Investment Policy.

The University is unable to redeem its investment in these private equity funds until the liquidation of the funds. The remaining lives of these funds range from 1 to 6 years with all commitments due on demand. At June 30, 2012, the University had outstanding commitments to invest an additional $477 with certain alternative investment managers through December 31, 2018. These commitments may or may not be called upon by the private equity funds and the University deems it unlikely that the private equity firms will call upon these commitments.

Beneficial interest in assets held by others – Fair value is based on the net asset value as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the University.

(in thousands)

Note 5 – Fair Value of Assets (continued)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 877	$ -	$ -	$ 877
Equity holdings	10,479	-	-	10,479
Mutual funds	10	-	-	10
Cash surrender value of life insurance	588	-	-	588
U.S. government securities	-	11,245	-	11,245
Corporate bonds	-	7,142	-	7,142
Alternative investments				
Real estate private equity funds	-	-	724	724
Restructured companies private equity funds	-	-	1,222	1,222
Event driven private equity funds	-	-	2,754	2,754
Financially distressed private equity funds	-	-	604	604
Multi-strategy private equity funds	-	-	2,066	2,066
Beneficial interest in assets held by others	-	-	97,955	97,955
	$ 11,954	$ 18,387	$ 105,325	$ 135,666

(in thousands)

Note 5 – Fair Value of Assets (continued)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 6,088	$ -	$ -	$ 6,088
Equity holdings	9,863	-	-	9,863
Mutual funds	9	-	-	9
Cash surrender value of life insurance	286	-	-	286
U.S. government securities	6,990	-	-	6,990
Corporate bonds	6,348	-	-	6,348
Alternative investments				
Real estate private equity funds	-	-	938	938
Restructured companies private equity funds	-	-	1,826	1,826
Event driven private equity funds	-	-	3,289	3,289
Financially distressed private equity funds	-	-	690	690
Multi-strategy private equity funds	-	-	2,278	2,278
Beneficial interest in assets held by others	-	-	92,502	92,502
	$ 29,584	$ -	$ 101,523	$ 131,107

(in thousands)

Note 5 – Fair Value of Assets (continued)

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the year ended June 30, 2012 and the 13 month period ended June 30, 2011:

	Real Estate Private Equity Funds	Restructured Companies Private Equity Funds	Event Driven Private Equity Funds	Financially Distressed Private Equity Funds	Multi-strategy Private Equity Funds	Beneficial Interest in Assets Held by Others	Total
Balance at June 1, 2010	$ 1,192	$ 2,195	$ 2,860	$ 788	$ 2,168	$ 69,785	$ 78,988
Purchases	72	-	-	-	126	7,886	8,084
Sales	(234)	(705)	-	(159)	(409)	-	(1,507)
Net realized/unrealized gains (losses)	(92)	336	429	61	393	14,831	15,958
Balance at June 30, 2011	$ 938	$ 1,826	$ 3,289	$ 690	$ 2,278	$ 92,502	$ 101,523
Total amount of gains (losses) included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at June 30, 2011	$ (147)	$ 336	$ 429	$ 61	$ 393	$ 8,210	$ 9,282
Balance at July 1, 2011	$ 938	$ 1,826	$ 3,289	$ 690	$ 2,278	$ 92,502	$ 101,523
Purchases	-	-	-	-	-	2,750	2,750
Sales	(193)	(664)	(600)	(117)	(333)	-	(1,907)
Net realized/unrealized gains (losses)	(21)	60	65	31	121	2,703	2,959
Balance at June 30, 2012	$ 724	$ 1,222	$ 2,754	$ 604	$ 2,066	$ 97,955	$ 105,325
Total amount of gains included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at June 30, 2012	$ 724	$ 60	$ 65	$ 31	$ 121	$ 2,703	$ 3,704

The University's policy is to recognize transfers in and out as of the actual date of the event or change in circumstances that caused the transfer. During the year ended June 30, 2012, the University transferred their U.S. government securities and corporate bonds from Level 1 to Level 2, totaling $13,338. There were no transfers between level 1 and 2 for the 13 month period ended June 30, 2011.

(in thousands)

Note 5 – Fair Value of Assets (continued)

The University uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major class:

	Fair Value June 30, 2012	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Private equity funds					
Real estate private equity funds (a)	$ 724	$ -	N/A*	N/A*	N/A*
Restructured companies private equity funds (b)	1,222	100	N/A*	N/A*	N/A*
Event driven private equity funds (c)	2,754	-	N/A*	N/A*	N/A*
Financially distressed private equity funds (d)	604	-	N/A*	N/A*	N/A*
Multi-strategy private equity funds (e)	2,066	377	N/A*	N/A*	N/A*
Beneficial interest in assets held by others					
Multi-strategy (f)	97,955	-	Quarterly	30 – 180 days	N/A
	$ 105,325	$ 477			

* These funds are in private equity structure, with no ability to be redeemed.

(a) These partnerships invest in real properties and real estate-related assets.

(b) These partnerships invest primarily in the securities of entities which are undergoing, are considered likely to undergo, or have undergone (i) reorganization under the federal bankruptcy law or similar laws in other countries or (ii) other extraordinary transactions, such as debt restructuring, reorganizations and liquidations outside of bankruptcy.

(c) The primary objective is to achieve long-term capital appreciation primarily through investments in equity and debt obligations of corporations, partnerships, limited liability companies, and other similar entities that the managers believe are undervalued, offer an opportunity for growth if funded appropriately, and provide an attractive risk/return profile.

(d) These partnerships invest in equity and debt obligations of companies which are undervalued because they are (i) financially distressed, (ii) formerly financially distressed and attempting to return to the mainstream financial markets, (iii) in the hands of owners who wish to bow out of that role, or (iv) lacking capital with which to respond to either problems or opportunities.

(e) These partnerships invest in closed-end private equity limited partnerships specializing in venture capital, buyout, mezzanine/subordinated debt, restructuring/distressed debt and special situation.

(f) Investment objectives seek to preserve the real purchasing power of the investment, while providing a stable source of financial support. To satisfy its long-term rate of return objectives, a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) is used. In addition, a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints is used.

(in thousands)

Note 6 – Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	June 30, 2012	June 30, 2011
Land and improvements	$ 5,436	$ 4,991
Buildings	171,541	171,113
Furniture, fixtures, and equipment	45,897	42,112
Library holdings	16,702	16,395
Rental properties	7,624	7,595
	247,200	242,206
Less accumulated depreciation	(87,022)	(81,309)
	160,178	160,897
Construction in progress	17,425	11,374
Property, plant, and equipment, net	$ 177,603	$ 172,271

Depreciation expense totaled approximately $5,790 and $6,018 for the year ended June 30, 2012 and the 13 month period ended June 30, 2011, respectively.

Note 7 – Commitments and Contingencies

The University leases certain office equipment and facilities under an operating lease agreement. Future minimum payments under this lease are as follows for the years ending June 30:

2013	$ 426
2014	470
2015	470
2016	417
2017	-
Thereafter	-
	$ 1,783

The University incurred operating lease expenses of approximately $459 and $806 for the year ended June 30, 2012 and the 13 month period ended June 30, 2011, respectively.

Note 7 – Commitments and Contingencies (continued)

In addition, the University has a commitment to pay a total of $3,000, in three equal annual installments of $1,000 to a trust fund controlled by the United States Environmental Protection Agency (EPA). The purpose of this fund is to support the environmental remediation of a 35 acre parcel of property adjacent to the Willamette river that was acquired in December 2008. The $4,200 remediation trust fund ($1,200 being funded by the seller and $3,000 by the University in three equal installments) was established by the EPA, in conjunction with a scope of work document, at the time that the property was purchased. Specific remediation activities will be conducted by the University under the supervision of the EPA and paid for from the trust fund. At the completion of the remediation activity, any remaining balance in the trust fund may be used by the EPA at their discretion.

The three $1,000 installments of the University's $3,000 share of this remediation trust fund were due December 31, 2009, 2010, and 2011, respectively. There is no remaining balance as of June 30, 2012. The balance due as of June 30, 2011 was $1,000.

The University has placed its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC), established by eight similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a $2,000 standby letter of credit of which the University is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverage, the maximum contingent liability exposure to the University is approximately $238. As of June 30, 2012 and 2011, no amounts were outstanding against the standby letter of credit.

The University is obligated under a Guarantee Bond agreement with the Province of Alberta to provide educational services in the Province. Under the terms of the agreement, if all services required are completed by the University, the obligation shall be null and void. As of June 30, 2012, the University is scheduled to provide the services as agreed upon. As such no liability has been recorded.

Note 8 – Note Payable to Bank

The University has an annually renewable line of credit on which it can borrow up to a maximum of $15 million. The line of credit is payable on demand, or on January 31, 2013, if no demand, and bears interest at either the bank's prime rate plus 0.25% or at LIBOR plus 1.75% at the time of borrowing. There was no outstanding balance on the line of credit as of June 30, 2012 or 2011.

(in thousands)

Note 9 – Bonds Payable

In fiscal year 2008, the University issued the University of Portland Projects 2007 Series A bonds for $86,570. A portion of the proceeds were used to pay off the 1997 series bonds and to defease legally and in substance the 2000 series bonds. The remaining proceeds were used for various building improvement and expansion projects.

Bonds payable consist of the following:

	June 30, 2012	June 30, 2011
Bonds payable, 2007 series, in annual principal installments of between $1,675 and $5,815, interest payable semiannually at 4.0% to 5.0%, secured by real property and revenues, due 2032	$ 76,528	$ 78,804
Total bonds payable	$ 76,528	$ 78,804

The following is a summary of scheduled maturities of bonds payable for the years ending June 30:

2013	$ 2,391
2014	2,506
2015	2,616
2016	2,716
2017	2,831
Thereafter	63,468
	$ 76,528

The fair value of the University's debt obligations is approximately $82,441 and $78,800 at June 30, 2012 and 2011, respectively.

The University is required to maintain deposits for debt service reserve in accordance with terms of the bond indentures. These deposits, which are included in investments, were approximately $6,863 and $6,177 at June 30, 2012 and 2011, respectively, and are held in a reserve account with Wells Fargo Bank. In addition to the debt service reserve, this account may include earnings on investments and amounts received as gifts from donors for projects financed by the bonds. These amounts in excess of the required reserve are applied to pending principal and/or interest payments on the debt.

Interest expense was approximately $3,499 and $3,960 for the year ended June 30, 2012 and the 13 month period ended June 30, 2011, respectively.

Note 10 – Defined Contribution Plan

The University has a defined contribution retirement plan covering substantially all employees under arrangements with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) 403(b) plan. Retirement plan expense was approximately $3,550 and $3,693 for the year ended June 30, 2012 and the 13 month period ended June 30, 2011, respectively.

Note 11 – Endowments

The University's endowment consists of approximately 420 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The State of Oregon has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), the provisions of which apply to endowment funds. The Board of Regents of the University has interpreted the Act 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, 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

(in thousands)

Note 11 – Endowments (continued)

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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $162 and $223 as of June 30, 2012 and 2011, respectively.

Return objectives and risk parameters – The University 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. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that is intended to produce results over the long-term that meet or exceed the aggregate amount needed to support both the endowment spending policy and growth in principal commensurate with the rate of inflation.

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 yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year 4.5 percent of its endowment fund’s average market value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment, which is expected to exceed this appropriation by, at least, the general rate of inflation. This is consistent with the organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity, or for a specified term, as well as to provide additional real growth through new gifts and investment.

Endowment net asset composition by type of fund at June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (162)	$ 26,018	$ 64,178	$ 90,034
Funds functioning as endowment	19,289	-	-	19,289
	$ 19,127	$ 26,018	$ 64,178	$ 109,323

(in thousands)

Note 11 – Endowments (continued)

Changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,336	$ 26,434	$ 61,422	$ 106,192
Investment return				
Investment income	218	874	-	1,092
Net appreciation	373	1,496	-	1,869
Total investment return	591	2,370	-	2,961
Contributions	111	-	2,592	2,703
Investment return on endowment, distributed	(577)	(2,562)	-	(3,139)
Other changes	666	(224)	164	606
Endowment net assets, end of year	$ 19,127	$ 26,018	$ 64,178	$ 109,323

Endowment net asset composition by type of fund at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (223)	$ 26,434	$ 61,422	$ 87,633
Funds functioning as endowment	18,559	-	-	18,559
	$ 18,336	$ 26,434	$ 61,422	$ 106,192

(in thousands)

Note 11 – Endowments (continued)

Changes in endowment net assets for the 13 month period ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,596	$ 15,933	$ 52,646	$ 87,175
Investment return				
Investment income	261	916	-	1,177
Net appreciation	3,229	11,359	-	14,588
Total investment return	3,490	12,275	-	15,765
Contributions	219	-	6,765	6,984
Investment return on endowment, distributed	(1,266)	(2,298)	-	(3,564)
Other changes	(2,703)	524	2,011	(168)
Endowment net assets, end of year	$ 18,336	$ 26,434	$ 61,422	$ 106,192

Note 12 – Net Assets Released from Restrictions

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	Year Ended June 30, 2012	13 Months Ended June 30, 2011
Capital projects	$ 8,194	$ 4,806
Endowment related	2,561	2,298
Scholarships	663	(355)
Operations support	-	299
	$ 11,418	$ 7,048

(in thousands)

Note 13 – Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	June 30, 2012	June 30, 2011
Investments restricted for payments to annuity and trust beneficiaries	$ 968	$ 995
Unappropriated appreciation on permanently restricted endowments	26,018	26,434
Gifts and bequests restricted for investment in land, buildings, and equipment	13,663	18,708
Scholarships	1,344	1,477
Other temporary restricted net assets	328	344
Total temporarily restricted net assets	$ 42,321	$ 47,958

Note 14 – Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	June 30, 2012	June 30, 2011
Endowment funds	$ 64,178	$ 61,422
Annuities and trusts	4,913	5,214
Loan fund	3,965	3,920
Total permanently restricted net assets	$ 73,056	$ 70,556

Note 15 – University Support Fund-Raising Expense

Included in general institutional expense was approximately $2,526 and $2,583, for the year ended June 30, 2012 and the 13 month period ended June 30, 2011 respectively, of expenses related to fund-raising, exclusive of expenditures for alumni relations and news and publications.

Note 16 – Legal Contingencies

The University is subject to legal proceedings generally incidental to its business. Although the final outcome of any legal proceeding is subject to many variables and cannot be predicted with any degree of certainty, the University presently believes that the ultimate outcome resulting from these proceedings would not have a material effect on the University's financial position or changes in its net assets.

Note 17 – Concentration of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and other investments, and accounts and loans receivable. The University places substantially all of its cash and liquid investments with financial institutions; however, cash balances generally exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by an investment manager. Student loans and receivables are due from a variety of sources. As of June 30, 2012 and 2011, management considers the University to have no significant concentration of credit risk.

Beneficial interest in assets held by others represents 29% of total assets.