



WILLAMETTE  
UNIVERSITY

2013–14 Financial Report

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# WILLAMETTE UNIVERSITY ANNUAL FINANCIAL REPORT

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May 31, 2014 and 2013

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**KPMG LLP**  
Suite 3800  
1300 South West Fifth Avenue  
Portland, OR 97201

## **Independent Auditors' Report**

The Board of Trustees  
Willamette University:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Willamette University (the University) (an Oregon nonprofit corporation), which comprise the statements of financial position as of May 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

#### ***Auditors' Responsibility***

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

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

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



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

October 2, 2014

**WILLAMETTE UNIVERSITY**  
**STATEMENTS OF FINANCIAL POSITION**

May 31, 2014 and May 31, 2013  
(in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,085	\$ 29,214
Accounts receivable, net	1,991	1,575
Inventories and other assets	1,945	2,281
Pledges receivable, net	6,377	8,120
Student loans receivable, net	7,834	8,033
Investments	259,413	239,007
Beneficial interest in trusts held by others	992	1,134
Plant facilities, net	145,096	140,800
<b>Total assets</b>	<b>\$ 448,733</b>	<b>\$ 430,164</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 18,500	\$ 19,489
Deferred revenues	2,587	2,074
Annuities and trusts payable	11,054	9,834
Bonds payable	61,184	62,386
Government advances for student loans	7,093	7,023
<b>Total liabilities</b>	<b>100,418</b>	<b>100,806</b>
 <b>Net Assets:</b>		
Unrestricted		
Available for operations	5,852	2,324
Designated for endowment	17,633	14,457
Invested in plant facilities	30,887	29,656
<b>Total unrestricted net assets</b>	<b>54,372</b>	<b>46,437</b>
Temporarily restricted		
Accumulated endowment gains	85,739	79,397
Trusts and annuities	1,711	1,516
Invested in plant facilities	55,791	54,892
Unexpended funds received for specific purposes	11,106	11,928
<b>Total temporarily restricted net assets</b>	<b>154,347</b>	<b>147,733</b>
Permanently restricted		
Endowment	131,378	126,771
Endowment - assets held in perpetual trust by others	1,929	1,862
Trusts and annuities	6,289	6,242
Student loans	-	313
<b>Total permanently restricted net assets</b>	<b>139,596</b>	<b>135,188</b>
 <b>Total net assets</b>	 <b>348,315</b>	 <b>329,358</b>
 <b>Total liabilities and net assets</b>	 <b>\$ 448,733</b>	 <b>\$ 430,164</b>

**WILLAMETTE UNIVERSITY**  
**STATEMENT OF ACTIVITIES**

For the year ended May 31, 2014  
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Tuition and fees	\$ 106,926	\$ -	\$ -	\$ 106,926
Less student scholarships	(46,115)	-	-	(46,115)
Net tuition and fees	60,811	-	-	60,811
Room and board fees	14,233	-	-	14,233
Contributions	2,681	4,477	3,546	10,704
Endowment income distributed	6,661	5,865	-	12,526
Auxiliary enterprises	2,060	-	-	2,060
Federal grants	577	1,273	-	1,850
Other revenues	1,126	288	-	1,414
Net assets released from restrictions	11,831	(11,831)	-	-
<b>Total revenues</b>	<b>99,980</b>	<b>72</b>	<b>3,546</b>	<b>103,598</b>
<b>Expenses:</b>				
Instruction	39,720	-	-	39,720
Research	2,348	-	-	2,348
Academic support	18,615	-	-	18,615
Student services	10,841	-	-	10,841
General institutional support	11,286	-	-	11,286
Room and board program	11,109	-	-	11,109
Auxiliary enterprises	2,068	-	-	2,068
<b>Total expenses</b>	<b>95,987</b>	<b>-</b>	<b>-</b>	<b>95,987</b>
<b>Change in net assets before other changes</b>	<b>3,993</b>	<b>72</b>	<b>3,546</b>	<b>7,611</b>
<b>Other changes in net assets:</b>				
Endowment income, net of distributions	2,954	6,342	243	9,539
Adjustment related to annuities and trusts	-	181	655	836
Post retirement benefits liability adjustment	961	-	-	961
Other	27	19	(36)	10
<b>Change in net assets</b>	<b>7,935</b>	<b>6,614</b>	<b>4,408</b>	<b>18,957</b>
Net assets at beginning of year	46,437	147,733	135,188	329,358
Net assets at end of year	<u>\$ 54,372</u>	<u>\$ 154,347</u>	<u>\$ 139,596</u>	<u>\$ 348,315</u>



**WILLAMETTE UNIVERSITY**  
**STATEMENT OF ACTIVITIES**

For the year ended May 31, 2013  
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Tuition and fees	\$ 106,024	\$ -	\$ -	\$ 106,024
Less student scholarships	(44,585)	-	-	(44,585)
Net tuition and fees	61,439	-	-	61,439
Room and board fees	13,919	-	-	13,919
Contributions	2,033	5,993	2,273	10,299
Endowment income distributed	7,016	6,157	-	13,173
Auxiliary enterprises	2,291	-	-	2,291
Federal grants	380	1,399	-	1,779
Other revenues	884	257	-	1,141
Net assets released from restrictions	12,189	(12,189)	-	-
<b>Total revenues</b>	<b>100,151</b>	<b>1,617</b>	<b>2,273</b>	<b>104,041</b>
<b>Expenses:</b>				
Instruction	41,297	-	-	41,297
Research	2,284	-	-	2,284
Academic support	18,277	-	-	18,277
Student services	10,847	-	-	10,847
General institutional support	10,803	-	-	10,803
Room and board program	10,854	-	-	10,854
Auxiliary enterprises	2,344	-	-	2,344
<b>Total expenses</b>	<b>96,706</b>	<b>-</b>	<b>-</b>	<b>96,706</b>
<b>Change in net assets before other changes</b>	<b>3,445</b>	<b>1,617</b>	<b>2,273</b>	<b>7,335</b>
<b>Other changes in net assets:</b>				
Endowment income, net of distributions	2,336	3,858	250	6,444
Adjustment related to annuities and trusts	-	(82)	1,337	1,255
Post retirement benefits liability adjustment	(213)	-	-	(213)
Other	231	(548)	302	(15)
<b>Change in net assets</b>	<b>5,799</b>	<b>4,845</b>	<b>4,162</b>	<b>14,806</b>
Net assets at beginning of year	40,638	142,888	131,026	314,552
Net assets at end of year	<u>\$ 46,437</u>	<u>\$ 147,733</u>	<u>\$ 135,188</u>	<u>\$ 329,358</u>

**WILLAMETTE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**

For the years ended May 31, 2014 and 2013  
(in thousands)

	2014	2013
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 18,957	\$ 14,806
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,628	5,240
Net realized and unrealized change in investment values	(20,596)	(18,261)
Contributions restricted for long-term investments	(6,920)	(5,023)
Proceeds subject to annuity and trust agreements	(105)	(920)
Noncash contributions	(719)	(185)
Changes in operating assets and liabilities:		
Accounts receivable, net	(416)	349
Interest and dividends receivable	(96)	136
Inventories and other assets	336	(137)
Pledges receivable, net	1,743	866
Student loans receivable, net	199	362
Beneficial interest in trusts held by others	142	(228)
Accounts payable and accrued liabilities	(963)	879
Deferred revenue	513	(443)
Annuities and trusts payable	1,220	1,310
<b>Net change in cash from operating activities</b>	<u>(1,077)</u>	<u>(1,249)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(91,378)	(95,763)
Proceeds from maturities/sales of investments	91,664	102,266
Purchases of plant facilities	(9,281)	(4,792)
<b>Net change in cash from investing activities</b>	<u>(8,995)</u>	<u>1,711</u>
<b>Cash flows from financing activities:</b>		
Cash contributions restricted for:		
Investment in endowment	3,546	2,022
Investment in plant facilities	3,374	3,001
Investment subject to annuity and trust agreements	105	920
Principal payments on notes payable	(27)	(38)
Principal payments on bonds payable	(1,125)	(1,050)
Change in government advances for student loans	70	96
<b>Net change in cash from financing activities</b>	<u>5,943</u>	<u>4,951</u>
<b>Net change in cash and cash equivalents</b>	(4,129)	5,413
Cash and cash equivalents at beginning of year	29,214	23,801
Cash and cash equivalents at end of year	<u>\$ 25,085</u>	<u>\$ 29,214</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,672	\$ 2,717
Noncash contributions	719	185

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2014 and 2013  
(in thousands)

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Willamette University (the University) is a private institution of higher education accredited by the Northwest Commission on Colleges and Universities. The University offers students a number of graduate and undergraduate degrees in programs covering a wide variety of scholastic disciplines. The University is an Oregon not-for-profit organization funded by student tuition revenue, endowment income, and outside contributions.

#### ***General***

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 assets and transactions into three classes as follows:

*Unrestricted Net Assets* – Net assets not subject to donor imposed restrictions.

*Temporarily Restricted Net Assets* – Net assets subject to donor imposed restrictions that will be met by either actions of the University or the passage of time.

*Permanently Restricted Net Assets* – Net assets subject to donor imposed restrictions that they be permanently maintained 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 their use is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets with the exception of activity related to life income agreements. 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 restrictions 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 a release from temporarily restricted net assets to unrestricted net assets in the statements of activities. In the event that a donor imposed restriction is fulfilled in the same reporting period as investment gains and income are recognized, the investment activity is reported as unrestricted in nature.

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

- Increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law require they be added to the principal of a permanently restricted net asset.
- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.
- Increases in unrestricted net assets in all other cases.

Contributions, including unconditional promises to give, are recognized as revenues in the period in which the unconditional promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a 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 nature of fund raising activity. Contributions of assets other than cash are recorded at their estimated fair value. Contributions for capitalized long lived assets are released from restriction over the estimated useful lives of the assets using the University's depreciation policies.

#### ***Use of Estimates***

The preparation of 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2014 and 2013  
(in thousands)

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued***

#### ***Assets Held in Charitable Trusts***

The University serves as the trustee for various charitable trusts. Under the terms of these trust agreements, the University makes distributions to income beneficiaries for a given term or for the life of the income beneficiaries. Assets remaining in the trusts will be transferred to the University at the end of the term or upon death of the income beneficiaries. The University carries the assets held in charitable trusts as investments at their estimated fair values. The related liability is recorded at the estimated present value of the amounts due to the income beneficiaries, at the end of the reporting period.

Assets held in trust by others represent resources neither in the possession nor under the control of the University, but held and administered by outside trustees, from which the University derives income or has a residual interest in the related assets. Assets held in trust by others are recognized at the estimated fair value of the assets or the present value of the estimated future cash flows when the trust is established and/or the University is notified of its existence. Changes in the fair value of these assets and changes in their related liabilities are reflected in adjustment related to annuities and trusts in the statements of activities.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include bank demand deposits, petty cash, and money market accounts with original maturities of three months or less at the date of purchase, which are not considered restricted long term investments. For valuation purposes, cash and cash equivalents have observable inputs (see Fair Value Measurements for more information on observable inputs). The amount of cash and cash equivalents on deposit fluctuates and may exceed the limit of \$250,000 insured by the Federal Deposit Insurance Corporation per depositor per insured bank for each account ownership category.

#### ***Investments***

Investments in marketable equity securities and all debt securities are stated at fair value. The alternative investments, which are not readily marketable, are carried at estimated fair values. The University reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments. When allowable, the University uses the reported net asset value (NAV) as a practical expedient to fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. Realized and unrealized gains and losses on endowment investments are reflected in the statements of activities as endowment income (loss).

#### ***Charitable Gift Agreements***

The University uses an actuarial method of recording certain split interest agreements. Under this method, the present value of the payments to beneficiaries is determined based upon life expectancy tables when the gift is received. The estimated present value of those payments is recorded as a liability and the remainder as temporarily or permanently restricted net assets depending on donor imposed restrictions. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses.

The discount rate used by the University in calculating the present value of all split-interest agreements is 6% at May 31, 2014 and 2013.

#### ***Inventory***

Inventory consists primarily of books and supplies and is recorded at the lower of cost (first in, first out) or market.

#### ***Bond Issuance Costs***

Bond issuance costs include amounts paid by the University in connection with the issuance of the 2007 and 2010 Oregon Facilities Authority Revenue Bonds. Bond issuance costs are classified as a component of inventories and other assets in the statements of financial position. Amortization of the bond issuance costs is calculated using a method that approximates the effective yield over the life of the bonds.

#### ***Plant Facilities, net***

Plant facilities are stated at cost at the date of acquisition, or fair value at the date of receipt, if contributed. Routine repair and maintenance expenses and replacement costs are expensed as incurred.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2014 and 2013  
(in thousands)

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued***

The University computes depreciation using the straight line method over the estimated useful lives of plant facilities, except land, as follows:

Land improvements	25 years
Buildings	50 years
Furniture, fixtures and equipment	5 - 15 years
Library holdings	25 years

#### ***Deferred revenue***

Deferred revenue consists primarily of prepayments of tuition and fees related to future academic terms.

#### ***Fair Value Measurements***

The University follows the provisions of Accounting Standards Codification (ASC) 820, Fair Value Measurements, which 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 and establishes a framework for measuring fair value.

ASC 820 establishes a three level valuation hierarchy for 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 quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs 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 reporting entity'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.

#### ***Income Taxes***

The Internal Revenue Service (IRS) has recognized the University as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business income under Sections 511 through 515. Unrelated business income is insignificant, and therefore, no tax provision has been made.

U.S. generally accepted accounting principles require the University's management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the University and has concluded that as of May 31, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The University's management believes it is no longer subject to income tax examinations for years prior to fiscal 2010.

#### ***Reclassifications***

Certain amounts from the prior year have been reclassified to conform to current year presentation.

**WILLAMETTE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

May 31, 2014 and 2013  
(in thousands)

**NOTE 2 – PLEDGES RECEIVABLE**

The University records pledges receivable at the present value of estimated future cash flows using discount rates ranging from 0.9% to 6% for pledges receivable outstanding at May 31, 2014 and 2013. Annual payments are scheduled to be received as follows (amounts in thousands):

	2014	2013
Less than one year	\$ 4,624	\$ 6,524
One to five years	1,891	1,714
More than five years	75	100
	<u>6,590</u>	<u>8,338</u>
Less:		
Discount	(47)	(52)
Reserve for uncollectible accounts	(166)	(166)
Pledges receivable, net	<u>\$ 6,377</u>	<u>\$ 8,120</u>

As of May 31, 2014, conditional promises in the amount of \$390 were received by the University, but did not meet the criteria for recognition.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Student accounts receivable consists of amounts due from students for tuition, room, board, and other enrollment related charges. In addition, the University has other miscellaneous receivables that are paid to the University shortly after the end of the fiscal year. At May 31, 2014 and 2013, these receivable balances were as follows (amounts in thousands):

	2014	2013
Student accounts	\$ 1,203	\$ 1,097
Student accounts in collections	561	473
Other receivables	681	430
	<u>2,445</u>	<u>2,000</u>
Less: Allowance for doubtful accounts	(454)	(425)
Accounts receivable, net	<u>\$ 1,991</u>	<u>\$ 1,575</u>

The University determines the adequacy of the allowance for doubtful accounts based on various factors including length of time past due, historical experience, and consideration of economic conditions. Balances are written off only after all means of collection have been exhausted and collection is considered remote.

**NOTE 4 - STUDENT LOANS RECEIVABLE**

The University's student loans receivable consists of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government and institutional loan funds created by the University to assist students in funding their education. These loans are recorded based on the outstanding principal balance, less an allowance for estimated losses.

Balances of student loans receivable, net consist of the following as of May 31, 2014 and 2013:

	2014			2013		
	Perkins loans	Institutional	Total	Perkins loans	Institutional	Total
Receivable	\$ 7,823	11	7,834	\$ 8,008	25	8,033
Less: Allowance for estimated losses	-	-	-	-	-	-
Student loans receivable, net	<u>\$ 7,823</u>	<u>11</u>	<u>7,834</u>	<u>\$ 8,008</u>	<u>25</u>	<u>8,033</u>

**WILLAMETTE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

May 31, 2014 and 2013  
(in thousands)

**NOTE 4 - STUDENT LOANS RECEIVABLE** *Continued*

The availability of funds for loans under the Federal Perkins Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the Federal Perkins Loan programs of \$7,093 and \$7,023 are ultimately refundable to the government and are classified as a liability in the statement of financial position as of May 31, 2014 and 2013.

Since student loans under the Federal Perkins Loan program can be assigned to the U.S. government when they are no longer collectible, a Perkins loan write off will reduce the amount refundable to the government. Due to this program provision, the University does not maintain an allowance for doubtful accounts with regard to Perkins loans. Nonperforming Perkins loans were \$995 and \$1,129 as of May 31, 2014 and 2013.

**NOTE 5 - INVESTMENTS**

Investments at May 31, 2014 and 2013 are as follows:

	2014	2013
Fixed income funds	\$ 34,135	\$ 24,298
Equity strategy funds	136,856	119,170
Real assets	28,743	30,274
Hedge funds	45,953	52,952
Other investments	13,726	12,313
Total investments	<u>\$ 259,413</u>	<u>\$ 239,007</u>

**(a) Overall Investment Objective**

The overall investment objective of the University is to produce the maximum total return (net income plus appreciation) consistent with prudent management and preservation of purchasing power (preservation of principal adjusted for inflation). The University diversifies its investments among various asset classes incorporating multiple strategies and managers. The University has contracted with Commonfund Strategic Solutions (Commonfund), to serve as its investment advisor. The University's Endowment Committee oversees the University's investment program in accordance with established guidelines approved by the Board of Trustees.

**(b) Investment Strategies**

The University's investment portfolio has been divided into five investment categories: fixed income funds, equity strategy funds, real assets, hedge funds, and other investments. Asset allocations are determined by the Endowment Committee and are reviewed at least annually. Fixed income funds are used to provide a hedge against deflation and a stable component of return. Equity strategy funds are selected to provide principal appreciation that exceeds inflation. Some equity strategy investments may be illiquid, like private equity, venture capital, and distressed debt. The expected return on illiquid investments is greater than marketable securities. The purpose of the real assets segment is to provide a hedge against inflation. Hedged strategies include funds used to reduce volatility of the overall portfolio and to provide an alternative source of return from that of the equity capital markets.

**(c) Basis of Reporting**

Investments are reported at estimated fair value using the provisions of ASC 820, as discussed in footnote 1, Fair Value Measurements. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in certain investments that do not have readily determinable fair values, including private equity investments and investments in hedge funds, energy fund partnerships, real estate and other funds, are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2014 and 2013, the University had no plans or intentions to sell investments at amounts different from NAV. These investments are reported as Level 3 items in the following tables.

**WILLAMETTE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

May 31, 2014 and 2013  
(in thousands)

**NOTE 5 - INVESTMENTS** *Continued*

The following tables summarize the University's investments and other assets by major category in the fair value hierarchy as of May 31, 2014 and 2013:

	2014				Redemption/ liquidation terms	Days' required notice
	Total	Level 1	Level 2	Level 3		
Beneficial interest in trusts held by others	992	-	-	992	Illiquid (a)	N/A
Investments:						
Fixed income:						
Money market funds	8,058	8,058	-	-	Daily-weekly	One
Bonds and notes	5,268	2,406	2,862	-	Daily	One-three
High quality bond funds	18,174	1,576	16,598	-	Daily-weekly	One-five
Global fixed income funds	2,488	508	1,980	-	Daily-monthly	One-five
High yield bond funds	147	147	-	-	Daily	One
Total	<u>34,135</u>	<u>12,695</u>	<u>21,440</u>	<u>-</u>		
Equity strategies:						
Trading leveraged equity	56	56	-	-	Daily	One
Small to mid-cap equity funds	201	201	-	-	Daily	One
Large cap equity funds	1,584	1,584	-	-	Daily	One
International equity funds	79,161	780	78,381	-	Daily-monthly	One-five
Emerging markets equity funds	225	225	-	-	Daily	One
Equity index funds	14,147	-	14,147	-	See note (b)	See note (b)
Private equity partnerships	41,482	-	-	41,482	Illiquid (c)	N/A
Total	<u>136,856</u>	<u>2,846</u>	<u>92,528</u>	<u>41,482</u>		
Real assets:						
Treasury inflation protected securities funds	2,413	-	2,413	-	Monthly	Five
Commodities	2,420	-	2,420	-	Monthly	Five
Energy fund partnerships	12,418	-	-	12,418	Illiquid (d)	N/A
Real estate	11,492	825	-	10,667	See note (e)	See note (e)
Total	<u>28,743</u>	<u>825</u>	<u>4,833</u>	<u>23,085</u>		
Hedge funds:						
Directional funds	26,706	-	-	26,706	Quarterly	95
Relative value	19,247	-	-	19,247	Semi-annually	95
Total	<u>45,953</u>	<u>-</u>	<u>-</u>	<u>45,953</u>		
Other investments:						
Charitable remainder trusts	11,780	-	-	11,780	Illiquid (a)	N/A
Perpetual trusts	1,929	-	-	1,929	Illiquid (a)	N/A
Royalties	17	-	-	17	Annually	One
Total	<u>13,726</u>	<u>-</u>	<u>-</u>	<u>13,726</u>		
Total investments	<u>259,413</u>	<u>16,366</u>	<u>118,801</u>	<u>124,246</u>		
Total assets	<u>\$ 260,405</u>	<u>16,366</u>	<u>118,801</u>	<u>125,238</u>		

(a) The University is the beneficiary of charitable remainder trusts and perpetual trusts and may serve as co-trustee for charitable remainder trusts; however, the investments are frequently under the control of the donor or an outside trustee.



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**NOTE 5 - INVESTMENTS** *Continued*

- (b) Two funds can be liquidated on a daily basis with one day notification. One fund can be redeemed on a quarterly basis with 65 days notice.
- (c) Approximately \$23,000 of these funds are expected to liquidate within five years and the remaining \$18,000 is expected to liquidate within six to ten years. Each investment fund's liquidation date is established by the partnership and defined in the partnership agreement. Three partnerships added two years to their liquidation dates during the year ended May 31, 2014, in accordance with allowable terms within the partnership agreements.
- (d) Approximately \$11,900 of these funds are expected to liquidate within five years and the remaining \$500 is expected to liquidate in nine years. Each fund's liquidation date is established by the partnership and defined in the partnership agreement. There were no changes in liquidation dates of existing funds during the year ended May 31, 2014.
- (e) Real estate funds in the Level 1 category can be redeemed on a daily basis and require one day's notice. There are five funds in Level 3 and each fund has a different redemption schedule. They are as follows: (i) One fund is in dissolution, which will continue until the last investment is disposed of, and liquidation occurs; (ii) One fund can be liquidated on a quarterly basis with 120 days notice; (iii) One fund is scheduled to terminate in 2021; (iv) One fund adopted a plan to dissolve in November 2012 that calls for liquidation of all property in a twelve to eighteen month period; and (v) One fund is scheduled to terminate in 2024.

	2013				Redemption/ liquidation terms	Days' required notice
	Total	Level 1	Level 2	Level 3		
Beneficial interest in trusts held by others	\$ 1,134	-	-	1,134	Illiquid (a)	N/A
Investments:						
Fixed income:						
Money market funds	6,588	6,588	-	-	Daily	One
Bonds and notes	362	329	33	-	Daily	One-three
High quality bond funds	14,352	1,597	12,755	-	Daily-weekly	One-five
Global fixed income funds	3,142	485	2,657	-	Daily-monthly	One-five
Short and intermediate term bond funds	57	57	-	-	Daily	Two
High yield bond funds	159	159	-	-	Daily	One
Total	24,660	9,215	15,445	-		
Equity strategies:						
Single currency funds	36	36	-	-	Daily	Four
Blended equity funds	58	58	-	-	Daily	One-four
Small to mid-cap equity funds	254	254	-	-	Daily-weekly	One-five
Large cap equity funds	1,642	1,642	-	-	Monthly	Five
International equity funds	75,802	806	74,996	-	Daily-monthly	One-five
Emerging markets equity funds	220	220	-	-	Daily-monthly	One-thirty
Equity index funds	964	108	856	-	Daily	One
Private equity partnerships	40,194	-	-	40,194	Illiquid (b)	N/A
Total	119,170	3,124	75,852	40,194		
Real assets:						
Treasury inflation protected securities funds	6,385	-	6,385	-	Monthly	Five
Commodities	6,583	-	6,583	-	Monthly	Five
Energy fund partnerships	12,002	-	-	12,002	Illiquid (c)	N/A
Real estate	5,304	813	-	4,491	See note (d)	See note (d)
Total	30,274	813	12,968	16,493		

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**NOTE 5 - INVESTMENTS** *Continued*

	2013				Redemption/ liquidation terms	Days' required notice
	Total	Level 1	Level 2	Level 3		
Hedge funds:						
Directional funds	32,616	-	-	32,616	See note (e)	See note (e)
Relative value	20,336	-	-	20,336	Annually	95
Total	<u>52,952</u>	<u>-</u>	<u>-</u>	<u>52,952</u>		
Other investments:						
Charitable remainder trusts	10,070	-	-	10,070	Illiquid (a)	N/A
Perpetual trusts	1,862	-	-	1,862	Illiquid (a)	N/A
Royalties	19	-	-	19	Annually	One
Total	<u>11,951</u>	<u>-</u>	<u>-</u>	<u>11,951</u>		
Total investments	<u>239,007</u>	<u>13,152</u>	<u>104,265</u>	<u>121,590</u>		
Total assets	<u>\$ 240,141</u>	<u>13,152</u>	<u>104,265</u>	<u>122,724</u>		

- (a) The University is the beneficiary of charitable remainder trusts and perpetual trusts and may serve as co-trustee for charitable remainder trusts; however, the investments are frequently under the control of the donor or an outside trustee.
- (b) Approximately \$20,000 of these funds are expected to liquidate within five years and the remaining \$20,000 is expected to liquidate within six to eleven years. Each investment fund's liquidation date is established by the partnership and defined in the partnership agreement. Three partnerships added two years to their liquidation dates during the year ended May 31, 2013, in accordance with allowable terms within the partnership.
- (c) Approximately \$11,900 of these funds are expected to liquidate within four years and the remaining \$100 is expected to liquidate in eleven years. Each fund's liquidation date is established by the partnership and defined in the partnership agreement. One new fund was added, but there were no changes in liquidation dates of existing funds during the year ended May 31, 2013.
- (d) Real estate funds in the Level 1 category can be redeemed on a daily basis and require one day's notice. There are four funds in Level 3 and each fund has a different redemption schedule. They are as follows: (i) One fund can be liquidated on a quarterly basis with 120 days' notice; (ii) One fund is in dissolution, which will continue until the last investment is disposed of, and liquidation occurs; (iii) One fund is scheduled to terminate in 2021; and (iv) One fund adopted a plan to dissolve in November 2012 that calls for liquidation of all property in a twelve to eighteen month period.

Investment liquidity as of May 31, 2014 is aggregated below based on expected redemption or sale period:

	Investments' fair values
Daily	\$ 17,741
Weekly	21,055
Monthly	85,193
Quarterly	44,635
Semi-annually	19,246
Annually	18
Currently being liquidated	39
Illiquid	71,486
	<u>\$ 259,413</u>

**WILLAMETTE UNIVERSITY**  
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**NOTE 5 - INVESTMENTS** *Continued*

For financial instruments measured at fair value, the following methods and assumptions were used to estimate the fair values:

- The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party is classified as Level 3 as the fair values are based on a combination of Level 1 inputs (observable market values of the trusts' investment portfolios) and significant unobservable inputs (real estate and entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.
- U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 1 because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities. Even though these shares and units in nonregistered investment funds are classified in levels 2 and 3, some of the underlying securities are marketable or not difficult to value. In addition to evaluating the transparency of inputs as described in the section *Fair Value Measurements* in Note 1, the University's ability to redeem its interest at or near the date of the statements of financial position is also considered in determining the level in which a fund's fair value measurement is classified. The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

The following table presents the University's activities for the fiscal year ended May 31, 2014 for investments classified in Level 3:

	Balances, May 31, 2013	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Settlements	Transfers between levels	Balances, May 31, 2014
Beneficial interest in trusts held by others	\$ 1,134	65	-	-	-	(207)	\$ 992
Private equity partnerships	40,194	5,708	5,418	(9,838)	-	-	41,482
Energy fund partnerships	12,002	197	648	(429)	-	-	12,418
Real estate	4,491	548	5,657	(29)	-	-	10,667
Directional hedge funds	32,616	1,890	-	(7,800)	-	-	26,706
Relative value hedge funds	20,336	911	-	(2,000)	-	-	19,247
Other investments	11,951	610	140	-	-	1,025	13,726
	<u>\$ 122,724</u>	<u>9,929</u>	<u>11,863</u>	<u>(20,096)</u>	<u>-</u>	<u>818</u>	<u>\$ 125,238</u>

The following table presents the University's activities for the fiscal year ended May 31, 2013 for investments classified in Level 3:

	Balances, May 31, 2012	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Settlements	Transfers between levels	Balances, May 31, 2013
Beneficial interest in trusts held by others	\$ 906	228	-	-	-	-	\$ 1,134
Private equity partnerships	44,288	(1,505)	5,406	(7,995)	-	-	40,194
Energy fund partnerships	13,798	(1,025)	414	(1,185)	-	-	12,002
Real estate	4,217	116	937	(779)	-	-	4,491
Directional hedge funds	29,360	2,936	1,000	(680)	-	-	32,616
Relative value hedge funds	18,018	2,318	-	-	-	-	20,336
Other investments	9,805	1,235	911	-	-	-	11,951
	<u>\$ 120,392</u>	<u>4,303</u>	<u>8,668</u>	<u>(10,639)</u>	<u>-</u>	<u>-</u>	<u>\$ 122,724</u>

**WILLAMETTE UNIVERSITY**  
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**NOTE 5 - INVESTMENTS *Continued***

At May 31, 2014 the University has approximately \$125 million in investments with underlying financial instruments that are not readily marketable compared to approximately \$123 million at May 31, 2013. These investments represent approximately 48% and 51% of total investments and approximately 36% and 37% of net assets at both May 31, 2014 and 2013, respectively. These financial instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of full portfolio composition. Because these investments are not readily marketable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Transfers occur when an existing asset's classification changes due to changes in the observable inputs available for that asset.

As of May 31, 2014 the University has committed a total of approximately \$146 million to alternative investments in the form of limited partnership/trust investments compared to approximately \$133 million at May 31, 2013. As of May 31, 2014, the University has funded approximately \$112 million of these commitments compared to \$100 million at May 31, 2013. At May 31, 2014, the remaining unfunded balance of approximately \$34 million is due at the request of the general partners/advisors. The termination of these partnerships/trusts is based upon specific provisions in the agreements.

**NOTE 6 - ENDOWMENT AND QUASI-ENDOWMENT FUNDS**

The University's endowment consists of approximately 500 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. As required by U.S. generally accepted accounting principles (GAAP), 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.

***Interpretation of Relevant Law***

The University's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Oregon to allow board definition of prudent spending from donor-restricted endowment funds absent explicit donor instruction. For accounting purposes, the University classifies as permanently restricted net assets (a) the original value of the 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 as 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 UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The possible effect of inflation and deflation
- The purposes of the University and the donor-restricted endowment fund
- The expected total return from income and the appreciation of investments
- General economic conditions
- Other resources of the University
- The investment policies of the University

Endowment net asset composition by type of fund consists of the following as of May 31, 2014 and 2013:

	2014			2013		
	Donor-restricted	Board-designated	Total	Donor-restricted	Board-designated	Total
Unrestricted net assets	\$ (5,665)	23,298	17,633	\$ (7,726)	22,183	14,457
Temporarily restricted net assets	85,739	-	85,739	79,397	-	79,397
Permanently restricted net assets	131,378	-	131,378	126,771	-	126,771
Total	<u>\$ 211,452</u>	<u>23,298</u>	<u>234,750</u>	<u>\$ 198,442</u>	<u>22,183</u>	<u>220,625</u>

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**NOTE 6 - ENDOWMENT AND QUASI-ENDOWMENT FUNDS** *Continued*

Changes in endowment net assets, including quasi-endowments, for the years ended May 31, 2014 and 2013 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, May 31, 2012	\$ 11,819	75,539	124,662	212,020
Investment return:				
Investment income	-	1,791	-	1,791
Net appreciation realized and unrealized	9,352	8,224	250	17,826
Total investment return	9,352	10,015	250	19,617
Contributions	113	-	1,895	2,008
Appropriation of endowment assets for expenditures	(7,016)	(6,157)	-	(13,173)
Other changes:				
Annuity and trust maturities	9	-	126	135
Transfers - other	180	-	(162)	18
Endowment net assets, May 31, 2013	<u>\$ 14,457</u>	<u>79,397</u>	<u>126,771</u>	<u>220,625</u>
Investment return:				
Investment income	-	1,895	-	1,895
Net appreciation realized and unrealized	9,615	10,312	243	20,170
Total investment return	9,615	12,207	243	22,065
Contributions	272	-	3,456	3,728
Appropriation of endowment assets for expenditures	(6,661)	(5,865)	-	(12,526)
Other changes:				
Annuity and trust maturities	20	-	612	632
Transfers - other	(70)	-	296	226
Endowment net assets, May 31, 2014	<u>\$ 17,633</u>	<u>85,739</u>	<u>131,378</u>	<u>234,750</u>

***Funds with Deficiencies***

The fair value of assets associated with individual donor-restricted endowment funds may fall below historic dollar value. Deficiencies of this nature were \$5,665 and \$7,726 as of May 31, 2014 and 2013, respectively, and are reported in unrestricted net assets.

Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. Future expenditures from funds with deficiencies are subject to the same criteria generally used in appropriation determinations - see Interpretation of Relevant Law.

***Return Objectives and Risk Parameters***

The University has adopted investment and spending policies for endowment assets that seek to produce the maximum total return (net income plus appreciation) consistent with prudent management and preservation of purchasing power (preservation of principal adjusted for inflation); provide a consistent or increasing level of support on an inflation-adjusted basis over the long term; and maintain intergenerational equity between the current generation and future generations of beneficiaries.

***Spending Policy***

The University has a policy of appropriating for distribution each year 5% to 6% of its endowment fund's average fair value over the prior five years through the fiscal year-end preceding the fiscal year in which the distribution is planned. The University has a long-range plan to lower the distribution to 5% of the funds' average fair value over the prior five years. The effective spending rate (calculated as spending net of reinvestments divided by the five year average market value as of the beginning of the year) for the fiscal years ended May 31, 2014 and 2013 was 5.62% and 5.92%, respectively.

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**NOTE 6 - ENDOWMENT AND QUASI-ENDOWMENT FUNDS** *Continued*

Substantially all of the University's endowment funds are pooled for investment purposes. Income earned on endowment fund investments is allocated on the basis of each fund's proportionate interest in the pooled investment portfolio. The components of total endowment investments return are reflected below:

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 1,895	\$ 1,791
Net realized gains	7,107	7,754
Net change in cumulative unrealized gains	13,468	10,507
Investment fees and other	(405)	(435)
Total endowment investments return	<u>\$ 22,065</u>	<u>\$ 19,617</u>
Endowment investments return included in revenues	12,526	13,173
Endowment investments return included in other changes in net assets	9,539	6,444
Total endowment investments return	<u>\$ 22,065</u>	<u>\$ 19,617</u>

**NOTE 7 - PLANT FACILITIES, NET**

Plant facilities consist of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 22,517	\$ 21,423
Buildings	166,037	159,162
Furniture, fixtures and equipment	6,415	5,688
Library holdings	37,598	36,611
Art collection	4,396	3,625
Construction in progress	57	683
Accumulated depreciation	(91,924)	(86,392)
Plant facilities, net	<u>\$ 145,096</u>	<u>\$ 140,800</u>

The University recorded depreciation expense of \$5,704 and \$5,285, respectively, during the years ended May 31, 2014 and 2013.

The University has acquired art and other collectibles (the Collection), which are housed or displayed in the Hallie Ford Museum of Art. The University has a recorded value for the Collection of \$4,396 and \$3,625 at May 31, 2014 and 2013 in the plant facilities balance in the statements of financial position. Depreciation is not recorded on these assets.

**NOTE 8 - BONDS PAYABLE AND CREDIT AGREEMENT**

In June 2007, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$31,820. The proceeds of the bonds were used to repay the outstanding line of credit, to finance five major construction projects, and to advance refund \$8,400 of the Series 2004 bonds. The bonds have annual principal and interest obligations ranging from \$1,718 to \$3,193 and bear interest at rates ranging from 4.125% to 5%. At May 31, 2014 and 2013, there were outstanding balances of \$30,905 and \$31,577, respectively.

In May 2010, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$32,500. The proceeds of the bonds were used to repay the outstanding line of credit, to advance refund the remaining balances of the Series 2004 and Series 2005 bonds, to provide funding for several capital projects, and to assist with other facility upgrades and improvements. The bonds have annual principal and interest obligations ranging from \$1,223 to \$13,185, through 2040, and bear interest at rates ranging from 3% to 5%. At May 31, 2014 and 2013, there were outstanding balances of \$29,200 and \$30,809, respectively.

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**NOTE 8 - BONDS PAYABLE AND CREDIT AGREEMENT** *Continued*

Principal payments on bonds payable are as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Payments</u>
2015	\$ 12,505
2016	1,245
2017	1,345
2018	1,445
2019	1,560
Thereafter	42,005
	<u>60,105</u>
Add unamortized bond premium	1,079
Bonds payable, net	<u><u>\$ 61,184</u></u>

Interest expense on bonds payable for the years ended May 31, 2014 and 2013 was approximately \$2,672 and \$2,713, respectively, and is included in various functional expenses in the statements of activities.

Management believes that the University is in compliance with all bond covenants as of May 31, 2014.

At May 31, 2014 the University had a credit agreement with Wells Fargo Bank (Bank) to allow borrowings of up to \$5,000 under a revolving line of credit. The line of credit bore interest at a rate of LIBOR plus 1.5% with outstanding borrowings due and payable August 1, 2014. The agreement also included an option for the University to request up to an additional \$15,000 in term loans through August 1, 2014, pending satisfaction of certain conditions and University and Bank approval at the time of request. Any term loans were to be repaid in quarterly installments, with any balances due and payable on the third anniversary of the term loan. Subsequent to year end the credit agreement was extended with the same terms through July 29, 2015.

The University entered into the credit agreement for available liquidity but does not currently have any plans to draw upon the line of credit or request any term loans.

**NOTE 9 - NET ASSETS RELEASED FROM RESTRICTION**

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, occurrence of events specified by the donors, changes in restrictions specified by the donors, or the passage of time. Net assets released from restriction during the years ended May 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Purpose-restricted contributions:		
Instruction	\$ 1,989	\$ 2,099
Sponsored research	1,278	1,263
Academic support	1,504	1,163
Student services and other	63	103
Institutional support	18	19
Plant facilities	80	69
Room and board	10	20
Scholarships	5,133	5,797
	<u>10,075</u>	<u>10,533</u>
Time-restricted contributions:		
Amortization of restricted gifts to acquire long-lived assets	1,756	1,656
Total net assets released from restrictions	<u><u>\$ 11,831</u></u>	<u><u>\$ 12,189</u></u>

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**NOTE 10 - INSTITUTIONAL SUPPORT FUND-RAISING EXPENSE**

Fund-raising expenses of \$2,398 and \$2,053 are included in general institutional support expenses in the statements of activities for the years ended May 31, 2014 and 2013, respectively.

**NOTE 11 - PENSION PLAN**

The University has established a defined contribution retirement plan which provides retirement benefits to eligible personnel through Transamerica Retirement Solutions (formerly Diversified). The University's contributions are based on a percentage of participating employees' salaries and, along with employee contributions, are paid into the plan monthly. Retirement plan expenses for the years ended May 31, 2014 and 2013 was approximately \$4,078 and \$4,116, respectively.

**NOTE 12 - OTHER POSTRETIREMENT BENEFITS AND RELATED LIABILITY ESTIMATES**

Full time continuing faculty members, administrators, and classified employees with 20 years or more of service, upon reaching age 59 are eligible for a voluntary severance arrangement that provides cash payments and University paid health and life insurance until the individual is eligible for Medicare coverage. In addition, all employees retiring from the University who were hired before January 1, 1983 are eligible for reimbursement of the actual cost of premiums for Medicare supplemental insurance up to \$125 per quarter.

The schedule below details the estimated liabilities included in accounts payable and accrued liabilities in the statements of financial position as of May 31, 2014 and 2013. Liability estimates are discounted from estimated future costs at 3.95% and 4.5% as of May 31, 2014 and 2013, respectively. The voluntary severance payment estimate calculation assumes a 3.5% annual growth in the compensation upon which the benefit is based. At May 31, 2014, the assumed health care cost trend rate for the following year used to measure the expected cost of benefits covered by the plan was 9%. The rate was assumed to gradually decrease to 4.5% through 2024 and remain at that level thereafter.

Benefits paid by the University relating to the postretirement benefit plan were approximately \$336 and \$385 for the fiscal years ended May 31, 2014 and 2013, respectively.

Postretirement benefit obligations at May 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Medicare supplement - up to \$125 per quarter	\$ 489	\$ 515
Voluntary Severance Arrangement-severance payments	2,570	3,118
Voluntary Severance Arrangement-full health and life insurance until Medicare eligible	2,306	2,693
Total postretirement benefit obligations	<u>\$ 5,365</u>	<u>\$ 6,326</u>

Expected future payments of postretirement benefits are as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Payments</u>
2014	\$ 518
2015	487
2016	489
2017	307
2018	278
Thereafter	3,286
Total postretirement benefit obligations	<u>\$ 5,365</u>



**WILLAMETTE UNIVERSITY**  
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**NOTE 13 - ANNUITIES AND TRUSTS**

Charitable gift annuities and trusts consist of the following at May 31, 2014 and 2013:

	2014			2013		
	Charitable gift annuities	Annuity and unitrusts	Total	Charitable gift annuities	Annuity and unit trusts	Total
Assets:						
Investments:						
Fixed income funds	\$ 2,326	-	2,326	\$ 2,314	-	2,314
Equity strategy funds	2,681	-	2,681	2,899	-	2,899
Real assets	825	-	825	813	-	813
Bonds and notes	245	-	245	362	-	362
Charitable reminder trusts	-	11,780	11,780	-	10,070	10,070
Notes receivable	-	205	205	-	-	-
Beneficial interest in trusts held by others	-	992	992	-	1,134	1,134
Total assets	<u>\$ 6,077</u>	<u>12,977</u>	<u>19,054</u>	<u>\$ 6,388</u>	<u>11,204</u>	<u>17,592</u>
Liabilities and net assets:						
Annuities and trusts payable	3,372	7,682	11,054	3,440	6,394	9,834
Net assets	2,705	5,295	8,000	2,948	4,810	7,758
Total liabilities and net assets	<u>\$ 6,077</u>	<u>12,977</u>	<u>19,054</u>	<u>\$ 6,388</u>	<u>11,204</u>	<u>17,592</u>

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The University has estimated fair values of financial instruments using available market information and appropriate valuation methodologies. At May 31, 2014 and 2013, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments. A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value. The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University.

Taking into account current borrowing rates as of May 31, 2014 and 2013, the fair value of the University's bonds approximates \$63,078 and \$64,940, respectively, as compared to their carrying value of \$61,184 and \$62,386, respectively. Fair value of the bonds as of May 31, 2014 reflects the difference between the current borrowing rate and the University's actual average interest rate being paid on all debt obligations.

**NOTE 15 - COMMITMENTS AND 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 results of operations.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2014 and 2013  
(in thousands)

### **NOTE 16 - SELF-INSURANCE**

The University has placed certain of its medical and dental insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical and dental insurance to higher education institutions. Under the agreement, member institutions are required to make contributions to the fund at such times and in an amount as determined by the PEHT Board for the various benefit programs sufficient to provide the benefits, pay the administrative expenses of the plan which are not otherwise paid by the University directly, and to establish and maintain a minimum reserve as determined by the PEHT Board. In the event losses of PEHT exceed its capital and secondary coverages, the estimated maximum contingent liability exposure to the University is approximately \$1,337 as of May 31, 2014. This exposure will fluctuate based on factors including changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

### **NOTE 17 - SUBSEQUENT EVENTS:**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The University recognizes in the 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 financial statements are available to be issued.

In August 2014, the University issued \$12,500 of Oregon Facilities Authority Revenue Bonds Series 2014 (Series 2014), with the proceeds to be used to pay \$12,255 due on Oregon Facilities Authority Revenue Bonds (Series 2010) in October 2014. Interest on the Series 2014 bonds accrues at a variable rate, which was 0.6592% at inception, and is payable semiannually. The Series 2014 bonds are payable on October 1, 2017.

Subsequent events have been evaluated through October 2, 2014, which corresponds to the date when the financial statements are available for issuance, and no other events were determined to be reportable.

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