



WILLAMETTE UNIVERSITY

Financial Statements

May 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
Willamette University:

We have audited the accompanying statements of financial position of Willamette University (an Oregon nonprofit corporation) as of May 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. 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 audit 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 Willamette University as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(1) to the financial statements, the University changed its method of accounting for conditional asset retirement obligations in 2006.

KPMG LLP

October 3, 2007

WILLAMETTE UNIVERSITY

Statements of Financial Position

May 31, 2007 and 2006

(Dollars in thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 19,920	19,419
Accounts receivable, net of allowances of \$292 and \$295 in 2007 and 2006, respectively	1,905	1,680
Pledges receivable, net of allowances of \$258 and \$164 in 2007 and 2006, respectively	13,039	4,982
Inventories and prepaid expenses	1,552	1,119
Student loans receivable, net of allowances of \$47 and \$75 in 2007 and 2006, respectively	7,977	7,782
Notes receivable and other assets	1,575	1,652
Investments	281,374	254,968
Present value of assets held in remainder trusts by others	2,057	1,579
Plant facilities, net	112,020	103,523
Total assets	\$ 441,419	396,704
Liabilities and Net Assets		
Liabilities:		
Note payable to bank – line of credit	\$ 7,633	4,534
Accounts payable and accrued liabilities	11,775	14,045
Deferred revenue	1,538	1,295
U.S. Government loan advances refundable	6,636	6,557
Annuities and trusts payable	8,563	7,697
Note payable	240	268
Bonds payable	27,276	28,075
Total liabilities	63,661	62,471
Net assets:		
Unrestricted:		
Available for operations	928	2,425
Designated for endowment	163,385	137,647
Invested in plant facilities	33,110	33,629
Designated for plant facilities and other purposes	—	453
Total unrestricted net assets	197,423	174,154
Temporarily restricted:		
Trusts and annuities	2,159	1,947
Invested in plant facilities	56,623	47,926
Unexpended funds received for specific purposes	9,067	8,334
Total temporarily restricted net assets	67,849	58,207
Permanently restricted:		
Endowment	102,582	93,954
Endowment – assets held in perpetual trust by others	2,429	2,366
Trusts and annuities	5,550	4,512
Student loans	1,925	1,040
Total permanently restricted net assets	112,486	101,872
Total net assets	377,758	334,233
Total liabilities and net assets	\$ 441,419	396,704

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Statement of Activities

Year ended May 31, 2007

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Student charges:				
Tuition and fees	\$ 72,864	—	—	72,864
Less student scholarships	(32,454)	—	—	(32,454)
Net tuition and fees	40,410	—	—	40,410
Room and board fees	9,725	—	—	9,725
Contributions	3,253	10,680	8,747	22,680
Endowment income distributed	7,634	5,258	25	12,917
Auxiliary enterprises	2,692	—	—	2,692
U.S. Government grants	733	676	—	1,409
Other income	2,287	113	—	2,400
Net assets released from restrictions	7,701	(7,701)	—	—
Total revenues, gains, and other support	74,435	9,026	8,772	92,233
Expenses:				
Instruction	31,932	—	—	31,932
Research	1,169	—	—	1,169
Academic support	13,575	—	—	13,575
Student services	8,025	—	—	8,025
General institutional support	10,404	—	—	10,404
Room and board program	8,436	—	—	8,436
Auxiliary enterprises	2,609	—	—	2,609
Total expenses	76,150	—	—	76,150
Change in net assets before other changes	(1,715)	9,026	8,772	16,083
Other changes:				
Endowment income, net of distributions	25,631	197	454	26,282
Adjustment related to annuities and trusts	—	144	1,005	1,149
Student loan interest and cancellations	11	—	—	11
Other	(658)	275	383	—
Changes in net assets	23,269	9,642	10,614	43,525
Net assets, beginning of year	174,154	58,207	101,872	334,233
Net assets, end of year	\$ 197,423	67,849	112,486	377,758

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Statement of Activities

Year ended May 31, 2006

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Student charges:				
Tuition and fees	\$ 66,402	—	—	66,402
Less student scholarships	(28,279)	—	—	(28,279)
Net tuition and fees	<u>38,123</u>	<u>—</u>	<u>—</u>	<u>38,123</u>
Room and board fees	8,274	—	—	8,274
Contributions	2,146	2,056	6,534	10,736
Endowment income distributed	7,541	5,534	24	13,099
Auxiliary enterprises	2,705	—	—	2,705
U.S. Government grants	610	772	—	1,382
Other income	2,287	—	—	2,287
Net assets released from restrictions	7,313	(7,313)	—	—
Total revenues, gains, and other support	<u>68,999</u>	<u>1,049</u>	<u>6,558</u>	<u>76,606</u>
Expenses:				
Instruction	30,683	—	—	30,683
Research	931	—	—	931
Academic support	13,089	—	—	13,089
Student services	7,806	—	—	7,806
General institutional support	9,319	—	—	9,319
Room and board program	6,336	—	—	6,336
Auxiliary enterprises	2,593	—	—	2,593
Total expenses	<u>70,757</u>	<u>—</u>	<u>—</u>	<u>70,757</u>
Change in net assets before other changes	(1,758)	1,049	6,558	5,849
Other changes:				
Endowment income, net of distributions	13,792	—	212	14,004
Adjustment related to annuities and trusts	—	754	(101)	653
Student loan interest and cancellations	12	—	—	12
Other	—	(341)	(460)	(801)
Reclassification of net assets	69,657	(70,594)	937	—
Changes in net assets	<u>81,703</u>	<u>(69,132)</u>	<u>7,146</u>	<u>19,717</u>
Cumulative effect of change in accounting principle	<u>(168)</u>	<u>—</u>	<u>—</u>	<u>(168)</u>
Total changes in net assets	<u>81,535</u>	<u>(69,132)</u>	<u>7,146</u>	<u>19,549</u>
Net assets, beginning of year	<u>92,619</u>	<u>127,339</u>	<u>94,726</u>	<u>314,684</u>
Net assets, end of year	\$ <u><u>174,154</u></u>	<u><u>58,207</u></u>	<u><u>101,872</u></u>	<u><u>334,233</u></u>

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY
 Statements of Cash Flows
 Years ended May 31, 2007 and 2006
 (Dollars in thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 43,525	19,549
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,378	3,994
Net realized and unrealized gains on investments	(35,554)	(24,151)
Contributions restricted for long-term investment	(9,522)	(6,722)
Proceeds subject to annuity and unitrust agreements	(722)	(702)
Increase in accounts receivable	(225)	(206)
Increase in interest and dividends receivable	(23)	(48)
(Increase) decrease in pledges receivable	(8,057)	2,135
(Increase) decrease in inventories and prepaid expenses	(433)	363
(Increase) decrease in student loans receivable	(195)	13
Decrease (increase) in notes receivable and other assets	78	(381)
Increase in assets held in remainder trusts by others, net	(479)	(230)
Increase in accounts payable and accrued liabilities	707	79
Increase in deferred revenue	244	335
Increase in annuities and trusts payable	865	270
Net cash used in operating activities	(5,413)	(5,702)
Cash flows from investing activities:		
Purchases of investments	(143,271)	(139,299)
Proceeds from maturities/sales of investments	152,441	137,297
Purchase of plant facilities	(15,874)	(14,544)
Net cash used in investing activities	(6,704)	(16,546)
Cash flows from financing activities:		
Proceeds (repayments) from borrowing under line of credit, net	3,099	1,334
Cash contributions restricted for:		
Investment in endowment	5,211	6,035
Investment in plant facilities	4,311	687
Investment subject to annuity and unitrust agreements	722	702
Payments on note payable	(28)	(27)
Increase in U.S. Government loan advances refundable	78	81
Principal payments on bonds payable	(775)	(690)
Proceeds from bonds payable	—	13,535
Net cash provided by financing activities	12,618	21,657
Net increase (decrease) in cash and cash equivalents	501	(591)
Cash and cash equivalents, beginning of year	19,419	20,010
Cash and cash equivalents, end of year	\$ 19,920	19,419
Supplemental cash flow information:		
Cash paid for interest	\$ 1,537	1,103

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

(1) Organization

Willamette University (the University) is a private institution of higher education accredited by the Northwest Association of Schools and Colleges. 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.

(2) Summary of Significant Accounting Policies

(a) 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 either by 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 reclassifications between the applicable classes of net assets.

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 Willamette 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.

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Notes to Financial Statements

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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 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 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.

(b) *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 reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c) *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 classifies assets held in charitable trusts as investments which are recorded at their fair market value. The related liability is recorded at the estimated discounted value of the amounts due to the income beneficiaries.

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 future cash flows when the trust is established or the University is notified of its existence.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist primarily of demand deposits and investments in money market mutual funds with original maturity dates of 90 days or less.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

(e) Investments

Investments in marketable equity securities and all debt securities are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values. Willamette University reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. Investments in land are stated at cost on the date of acquisition or fair market value at date of receipt in the case of gifts. Realized and unrealized gains and losses on investments are reflected in the statements of activities as endowment income.

(f) Split Interest Agreements

The University uses the actuarial method of recording certain split interest arrangements. Under this method, the present value of the payments to beneficiaries is determined based upon life expectancy tables when the gift is received. The 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 ranges from 4% – 8% at May 31, 2007.

(g) Plant Facilities

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.

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

(h) Inventory

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

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

(i) ***Bond Issuance Costs***

Bond issuance costs include amounts paid by the University in connection with the issuance of 2004 and 2005 Oregon Facilities Authority Revenue Bonds. Bond issuance costs are reported as a component of notes receivable and other assets in the accompanying statements of financial position. Amortization is calculated using a method that approximates effective yield over the life of the bonds.

(j) ***Income Taxes***

The Internal Revenue Service 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 tax, if any, is immaterial and therefore, no tax provision has been made.

(k) ***Deferred Revenue***

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

(l) ***Change in Accounting Principle***

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). Under FIN 47, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued.

In 2006, the University identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated using a per square foot estimate. The University recorded site improvements of \$64,000, related accumulated depreciation of \$13,000, an asset retirement obligation (included in accounts payable and accrued liabilities) of \$225,000, and a cumulative effect of change in accounting principle of \$168,000 at May 31, 2006.

(m) ***Reclassifications***

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

(3) Pledges Receivable

The University records pledges receivable at the present value of estimated future cash flows using discount rates of 4.9% - 6.0% for pledges receivable outstanding at May 31, 2007. Annual payments are scheduled to be received as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 5,726	2,440
One to five years	7,473	3,025
More than five years	906	—
	<u>14,105</u>	<u>5,465</u>
Less discount	(808)	(319)
Less reserve for uncollectible accounts	<u>(258)</u>	<u>(164)</u>
Total pledges receivable	\$ <u><u>13,039</u></u>	<u><u>4,982</u></u>

As of May 31, 2007, conditional promises in the amount of \$5,300,000 were received, but not recognized as a receivable.

(4) Accounts and Student Loans Receivable

Accounts receivable consist of the following at May 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Student accounts receivable	\$ 919	895
Related parties	350	350
Collections	374	250
Other receivables	554	480
	<u>2,197</u>	<u>1,975</u>
Less allowance for doubtful accounts	<u>(292)</u>	<u>(295)</u>
	\$ <u><u>1,905</u></u>	<u><u>1,680</u></u>

Student loans receivable consist of the following at May 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Notes receivable	\$ 58	93
Perkins loans	7,966	7,764
	<u>8,024</u>	<u>7,857</u>
Less allowance for doubtful accounts	<u>(47)</u>	<u>(75)</u>
	\$ <u><u>7,977</u></u>	<u><u>7,782</u></u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

The Perkins program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. Government. Perkins loan funds are generally payable, including interest at 3% – 5%, over approximately 10 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.

(5) Investments

Investments at May 31, 2007 and 2006 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Short-term investments, notes, commercial paper, money markets	\$ 3,240	8,003
Interest and dividends receivable	78	101
Bonds and notes	54,306	48,218
Partnership with underlying securities in marketable bonds	10,077	—
Corporate stocks	67,112	66,769
Partnerships with underlying securities in marketable corporate stocks	76,121	58,657
Private equity, venture capital, and real estate investment trust	49,657	32,525
Hedge funds	18,354	35,108
Land held for resale	—	3,222
Perpetual trusts	2,429	2,365
	<u>\$ 281,374</u>	<u>254,968</u>

At May 31, 2007, the University has approximately \$68 million in investments which are not readily marketable. These investments represent 24% of total investments and 18% of net assets at May 31, 2007. These investment 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 (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is 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. Total investment income and realized and unrealized gains on investments which are not readily marketable was \$997,000 and \$311,000 for the years ended May 31, 2007 and 2006, respectively.

As of May 31, 2007 and 2006, respectively, the University committed \$68 million and \$64 million to private equity funds in the form of limited partnership/trust investments. As of May 31, 2007 and 2006, respectively, the University funded approximately \$29 million and \$17 million of these commitments. These commitments are due on demand from the general partners/advisors. These partnerships/trusts invest in emerging growth technologies companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts are based upon specific provisions in the agreements.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

(6) Endowment and Quasi-Endowment Funds

Substantially all investments of the University held for endowment 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 University determines the amount of endowment gains and income to spend in a particular fiscal year based on a formula recommended by the Board of Trustees Committee on Financial Affairs and adopted by the Executive Committee. The University's long-range financial plan is to fix the unrestricted endowment spending at the current spending amount of \$6,830,000 until the spending amount is 5% of the endowment value. The rate applied to restricted use funds has continued to remain at 6%.

The components of total endowment investments return are reflected below (in thousands):

	<u>2007</u>	<u>2006</u>
Dividends and interest	\$ 4,192	3,280
Net realized gains	15,407	20,408
Net change in cumulative unrealized gains and losses	20,147	3,743
Investment fees	<u>(547)</u>	<u>(328)</u>
Total	<u>\$ 39,199</u>	<u>27,103</u>

Investment return, as reflected in the statement of activities, is as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Revenues:		
Unrestricted	\$ 7,634	7,541
Temporarily restricted	5,258	5,534
Permanently restricted	25	24
	<u>12,917</u>	<u>13,099</u>
Other changes in net assets:		
Unrestricted	25,631	13,792
Temporarily restricted	197	—
Permanently restricted	454	212
	<u>26,282</u>	<u>14,004</u>
Total	<u>\$ 39,199</u>	<u>27,103</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2007 and 2006

The fair value of all endowed and life income fund investments at May 31, 2007 and 2006 is as follows (in thousands):

	Fair value	
	2007	2006
General and quasi-endowment funds	\$ 268,448	233,965
Annuity and trust funds	16,271	14,156
Total fair value	<u>\$ 284,719</u>	<u>248,121</u>

(7) Plant Facilities

Plant facilities consist of the following at May 31, 2007 and 2006 (in thousands):

	2007	2006
Land and land improvements	\$ 14,240	13,592
Buildings	117,605	98,604
Furniture, fixtures, and equipment	5,345	5,284
Library holdings	30,263	28,975
Art collection	2,305	1,969
Construction in progress	618	9,143
Accumulated depreciation	<u>(58,356)</u>	<u>(54,044)</u>
Net plant facilities	<u>\$ 112,020</u>	<u>103,523</u>

The University has received gifts of 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 \$2,305,000 at May 31, 2007 and \$1,969,000 at May 31, 2006 in the plant facilities balance in the statements of financial position, and depreciation will not be recorded on these assets.

(8) Bonds Payable

In June 2004 the University issued Oregon Facilities Authority Revenue Bonds in the aggregate principal amount of \$15,075,000. The bonds have annual payment obligations ranging from \$458,000 to \$1,332,000 through 2034, and bear interest at rates ranging from 3% to 5%. The bond proceeds were used for the purpose of refunding the \$7,735,000 outstanding principal of the City of Salem Educational Facilities Revenue and Refunding Bonds, Series 1994, as well as to repay drawings under a bank line of credit which was used to finance property acquisitions and improvements, and to finance additional facilities for the University.

In August 2005, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$13,000,000. The bonds will have annual payment obligations ranging from \$671,000 to \$835,000 through 2036 and bear interest at rates ranging from 3% to 5%. The bond proceeds were used primarily to fund constructions of a new residential commons and to assist with other facility upgrades and improvements.

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Notes to Financial Statements

May 31, 2007 and 2006

Principal payments on bonds payable are as follows:

2008	\$	1,100,000
2009		1,125,000
2010		1,165,000
2011		1,200,000
2012		1,265,000
Thereafter		<u>20,755,000</u>
		26,610,000
Add unamortized bond premium		<u>666,000</u>
	\$	<u><u>27,276,000</u></u>

The University has a revolving line of credit at a variable interest rate that is calculated at the LIBOR rate plus 45 basis points (5.77% at May 31, 2007). As of May 31, 2007, there were draws of \$7,633,000 outstanding against this line.

Interest expense for the years ended May 31, 2007 and 2006 was approximately \$1,530,000 and \$1,201,000, respectively.

(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, the change in restrictions specified by the donors, or the passage of time. Net assets released from restriction during the years ended May 31, 2007 and 2006 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Purpose of restricted contributions:		
Instruction	\$ 603	679
Sponsored research	336	230
Academic support	275	453
Student services	49	16
Institutional Support	47	5
Scholarships	4,933	4,542
Plant	<u>5</u>	<u>22</u>
	6,248	5,947
Time restricted contributions:		
Amortization of restricted gifts to acquire long-lived assets	<u>1,453</u>	<u>1,366</u>
Total net assets released from restrictions	\$ <u><u>7,701</u></u>	<u><u>7,313</u></u>

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Notes to Financial Statements

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(10) Institutional Support Fund Raising Expense

Fund raising expenses of \$2,681,000 and \$2,705,000 are included in general institutional support expenses in the statement of activities for the years ended May 31, 2007 and 2006, respectively.

(11) Pension Plan

The University has a defined contribution retirement plan covering eligible employees under arrangements with Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF), and three alternative asset management vehicles. The University's contributions are based on a percentage of participating employees' salaries, and, along with employee contributions, are paid to TIAA/CREF monthly. Under the arrangements, TIAA/CREF is responsible for payment of all benefits. Retirement plan expense for the years ended May 31, 2007 and 2006 was approximately \$3,122,000 and \$2,912,000, respectively.

(12) Other Postretirement Benefits and Related Liability Estimates

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 supplement insurance up to \$125 per quarter. Persons who retired from the University prior to January 1, 1977 are eligible for full Medicare supplement insurance with premiums paid by the University. In addition, full-time continuing faculty members, administrators, and classified employees with twenty years or more of service, upon reaching age fifty-nine are eligible for a voluntary severance arrangement that provides cash payments and University paid health insurance until the individual is eligible for Medicare.

The schedule below details the estimated liabilities included in the accounts payable and accrued liabilities balance in the statement of financial position as of May 31, 2007 and 2006, associated with the above-described benefits. The liability estimates are discounted from estimated future costs using a 5% interest rate and the voluntary severance payment estimate calculation assumes a 3% annual growth in the compensation upon which the benefit is based. No assets have been specifically set aside to fund these estimated benefit obligations. Benefits paid by the University relating to postretirement benefit plan were approximately \$361,000 and \$290,000 for the years ended May 31, 2007 and 2006, respectively.

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Accumulated post-retirement obligation at May 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Medicare Supplement – Up to \$125 per quarter:		
For 78 and 76 current retirees at May 31, 2007 and 2006, respectively	\$ 386	389
For 44 and 49 current employees at May 31, 2007 and 2006, respectively	187	206
Full Medicare Supplement:		
For 2 pre-1977 retirees at May 31, 2007 and 2006, respectively	31	31
Health Insurance Until Medicare Eligibility:		
For 10 and 14 early retirees at May 31, 2007 and 2006, respectively	152	156
For an estimated 432 and 474 future early retirees at May 31, 2007 and 2006, respectively	1,844	1,452
Voluntary Severance Payments:		
For 10 and 14 early retirees at May 31, 2007 and 2006, respectively	268	415
For an estimated 432 and 474 future early retirees at May 31, 2007 and 2006, respectively	<u>1,722</u>	<u>1,827</u>
Accrued post-retirement benefit cost	<u>\$ 4,590</u>	<u>4,476</u>

The following lists postretirement benefit payments, which reflect expected future service. Payments expected to be paid are as follows (in thousands):

2008	\$ 350
2009	361
2010	373
2011	385
2012	397
Thereafter	<u>2,724</u>
	<u>\$ 4,590</u>

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(13) Annuities and Life Income Funds

Annuities and life income funds consist of the following at May 31, 2007 (in thousands):

	<u>Charitable gift annuities</u>	<u>Annuity trust and unit trusts</u>	<u>Total</u>
Assets:			
Investments	\$ 6,013	8,286	14,299
Total assets	<u>\$ 6,013</u>	<u>8,286</u>	<u>14,299</u>
Liabilities and net assets:			
Annuities payable	\$ 3,751	4,812	8,563
Net assets	<u>2,262</u>	<u>3,474</u>	<u>5,736</u>
Total liabilities and net assets	<u>\$ 6,013</u>	<u>8,286</u>	<u>14,299</u>

Annuities and life income funds consist of the following at May 31, 2006 (in thousands):

	<u>Charitable gift annuities</u>	<u>Annuity trust and unit trusts</u>	<u>Total</u>
Assets:			
Investments	\$ 5,657	7,002	12,659
Total assets	<u>\$ 5,657</u>	<u>7,002</u>	<u>12,659</u>
Liabilities and net assets:			
Annuities payable	\$ 3,497	4,200	7,697
Net assets	<u>2,160</u>	<u>2,802</u>	<u>4,962</u>
Total liabilities and net assets	<u>\$ 5,657</u>	<u>7,002</u>	<u>12,659</u>

(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, 2007 and 2006, the carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of May 31, 2007, the fair value of the University's bonds approximates \$27,129,000 as compared to its carrying value of \$27,276,000. Fair value of the bonds as of May 31, 2007 reflects the difference between current market rate and the University's actual average interest rate being paid on all debt obligations.

(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 a great 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.

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(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 Trustees 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 Trustee. In the event losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the University is approximately \$516,000. 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.

(17) Subsequent Event

On June 22, 2007 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the State of Oregon. UPMIFA will be implemented effective January 1, 2008. This new law revises the Uniform Management of Institutional Funds Act (UMIFA) which has governed Oregon charitable institutions with respect to the management, investment and expenditure of endowment funds since 1972. UPMIFA builds upon UMIFA's rule on appreciation, but it will eliminate the concept of "historic dollar value." UPMIFA, instead, provides guidance on prudence and makes the need for a floor on spending unnecessary.