



WILLAMETTE UNIVERSITY

Financial Statements

May 31, 2011 and 2010

(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, 2011 and 2010, 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 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 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

KPMG LLP

October 7, 2011

WILLAMETTE UNIVERSITY

Statements of Financial Position

May 31, 2011 and 2010

(Dollars in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 16,340	13,013
Accounts receivable, net of allowances of \$400 and \$391 in 2011 and 2010, respectively	1,863	2,059
Pledges receivable, net of allowances of \$178 and \$205 in 2011 and 2010, respectively	8,766	9,440
Inventories and prepaid expenses	1,302	1,106
Student loans receivable, net of allowances of \$29 in 2011 and 2010, respectively	8,685	8,874
Notes receivable and other assets	1,346	1,390
Investments	253,383	226,411
Assets held in remainder trusts by others	767	2,159
Plant facilities, net	142,124	143,684
Total assets	\$ 434,576	408,136
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 16,056	16,132
Deferred revenue	2,424	2,057
U.S. government loan advances refundable	6,858	6,828
Annuities and trusts payable	8,569	6,635
Note payable	106	143
Bonds payable	64,510	65,286
Total liabilities	98,523	97,081
Net assets:		
Unrestricted:		
Available for operations	(328)	(3,340)
Designated for endowment	21,463	15,247
Invested in plant facilities	27,636	28,384
Total unrestricted net assets	48,771	40,291
Temporarily restricted:		
Accumulated endowment gains	93,711	80,153
Trusts and annuities	1,665	2,893
Invested in plant facilities	54,711	55,913
Unexpended funds received for specific purposes	8,567	8,139
Total temporarily restricted net assets	158,654	147,098
Permanently restricted:		
Endowment	121,618	118,122
Endowment – assets held in perpetual trust by others	1,847	1,950
Trusts and annuities	4,017	2,474
Student loans	1,146	1,120
Total permanently restricted net assets	128,628	123,666
Total net assets	336,053	311,055
Total liabilities and net assets	\$ 434,576	408,136

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Statement of Activities

Year ended May 31, 2011

(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	\$ 92,270	—	—	92,270
Less student scholarships	(38,862)	—	—	(38,862)
Net tuition and fees	53,408	—	—	53,408
Room and board fees	12,143	—	—	12,143
Contributions	2,046	2,406	4,264	8,716
Endowment income distributed	7,527	6,521	25	14,073
Auxiliary enterprises	2,435	—	—	2,435
U.S. government grants	540	1,185	—	1,725
Other income	1,109	81	—	1,190
Net assets released from restrictions	11,357	(11,357)	—	—
Total revenues, gains, and other support	<u>90,565</u>	<u>(1,164)</u>	<u>4,289</u>	<u>93,690</u>
Expenses:				
Instruction	38,066	—	—	38,066
Research	2,052	—	—	2,052
Academic support	16,377	—	—	16,377
Student services	10,438	—	—	10,438
General institutional support	10,688	—	—	10,688
Room and board program	10,672	—	—	10,672
Auxiliary enterprises	2,575	—	—	2,575
Total expenses	<u>90,868</u>	<u>—</u>	<u>—</u>	<u>90,868</u>
Change in net assets before other changes	(303)	(1,164)	4,289	2,822
Other changes:				
Endowment income, net of distributions	6,218	13,558	238	20,014
Adjustment related to annuities and trusts	2,978	(1,265)	548	2,261
Other	(413)	427	(113)	(99)
Changes in net assets	8,480	11,556	4,962	24,998
Net assets at beginning of year	<u>40,291</u>	<u>147,098</u>	<u>123,666</u>	<u>311,055</u>
Net assets at end of year	<u>\$ 48,771</u>	<u>158,654</u>	<u>128,628</u>	<u>336,053</u>

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Statement of Activities

Year ended May 31, 2010

(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	\$ 87,732	—	—	87,732
Less student scholarships	(36,182)	—	—	(36,182)
Net tuition and fees	51,550	—	—	51,550
Room and board fees	11,814	—	—	11,814
Contributions	1,680	2,584	2,487	6,751
Endowment income distributed	7,330	7,409	28	14,767
Auxiliary enterprises	2,653	—	—	2,653
U.S. government grants	786	1,378	—	2,164
Other income	1,132	138	—	1,270
Net assets released from restrictions	11,975	(11,975)	—	—
Total revenues, gains, and other support	88,920	(466)	2,515	90,969
Expenses:				
Instruction	37,211	—	—	37,211
Research	2,059	—	—	2,059
Academic support	14,919	—	—	14,919
Student services	9,798	—	—	9,798
General institutional support	11,436	—	—	11,436
Room and board program	10,551	—	—	10,551
Auxiliary enterprises	2,660	—	—	2,660
Total expenses	88,634	—	—	88,634
Change in net assets before other changes	286	(466)	2,515	2,335
Other changes:				
Endowment income (loss), net of distributions	2,874	4,162	(29)	7,007
Adjustment related to annuities and trusts	—	353	531	884
Release of net assets	54	764	(818)	—
Loss on revenue bonds refunding	(1,862)	—	—	(1,862)
Other	10	—	149	159
Changes in net assets	1,362	4,813	2,348	8,523
Net assets at beginning of year	38,929	142,285	121,318	302,532
Net assets at end of year	\$ 40,291	147,098	123,666	311,055

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY
 Statements of Cash Flows
 Years ended May 31, 2011 and 2010
 (Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 24,998	8,523
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,158	5,211
Net realized and unrealized gains on investments	(31,818)	(19,678)
Loss on advance refunding of bonds	—	1,862
Contributions restricted for long-term investment	(5,839)	(6,104)
Proceeds subject to annuity and unitrust agreements	(1,068)	(104)
Noncash contributions	(423)	(165)
Decrease (increase) in accounts receivable	196	(53)
(Increase) decrease in interest and dividends receivable	(209)	296
Decrease in pledges receivable	674	3,388
Increase in inventories and prepaid expenses	(196)	(27)
Decrease in student loans receivable	189	77
Decrease in notes receivable and other assets	44	139
Decrease (increase) in assets held in remainder trusts by others, net	1,392	(187)
Increase in accounts payable and accrued liabilities	156	1,577
Increase (decrease) in deferred revenue	367	(200)
Increase in annuities and trusts payable	1,934	195
Net cash used in operating activities	(4,445)	(5,250)
Cash flows from investing activities:		
Purchases of investments	(51,952)	(181,568)
Proceeds from maturities/sales of investments	57,007	188,285
Purchase of plant facilities	(3,453)	(11,955)
Net cash provided by (used in) investing activities	1,602	(5,238)
Cash flows from financing activities:		
Repayments on line of credit, net	—	(4,039)
Cash contributions restricted for:		
Investment in endowment	4,913	4,970
Investment in plant facilities	926	1,134
Investment subject to annuity and unitrust agreement	1,068	104
Payments on note payable	(37)	(34)
Increase in U.S. government loan advances refundable	30	67
Principal payments on bonds	(730)	(650)
Advanced refunding of bonds payable	—	(18,828)
Proceeds from bonds issued	—	33,260
Net cash provided by financing activities	6,170	15,984
Net increase in cash and cash equivalents	3,327	5,496
Cash and cash equivalents at beginning of year	13,013	7,517
Cash and cash equivalents at end of year	\$ 16,340	13,013
Supplemental cash flow information:		
Cash paid for interest	\$ 2,652	2,377

See accompanying notes to financial statements.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(1) Organization

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.

(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 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.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

- 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.

(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 carries the assets held in charitable trusts as investments at their estimated fair values. The related liability is recorded at the estimated discounted 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 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.

(d) 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. Federal depository insurance coverage was expanded effective January 1, 2011 to provide unlimited insurance coverage to all depositors.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(e) 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 investments are reflected in the statements of activities as endowment income (loss).

(f) 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, 2011 and 2010.

(g) 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.

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.

(i) 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 notes receivable and other assets in the accompanying statements of financial position.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Amortization of the bond issuance costs is calculated using a method that approximates the effective yield over the life of the bonds.

(j) *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.

Accounting principles generally accepted in the United States of America 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, 2011, 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 2008.

(k) *Deferred Revenue*

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

(l) *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 hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date.

As noted above, ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are 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.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

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.

The University has adopted the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using NAV per share or its equivalent. NAV, in many instances, may not equal fair value that would be calculated pursuant to ASC 820. The carrying value of investments valued using this measurement is \$113,579,000 and \$105,974,000 at May 31, 2011 and 2010, respectively.

(m) *Reclassifications*

Certain reclassifications were made to prior year amounts to conform to current year presentation.

(3) **Pledges Receivable**

The University records pledges receivable at the present value of estimated future cash flows using discount rates of 1.4% – 6.0% for pledges receivable outstanding at May 31, 2011. Annual payments are scheduled to be received as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 4,921	4,143
One to five years	4,064	5,642
More than five years	100	148
	<u>9,085</u>	<u>9,933</u>
Less discount	(141)	(288)
Less reserve for uncollectible accounts	(178)	(205)
Total pledges receivable	<u>\$ 8,766</u>	<u>9,440</u>

As of May 31, 2011, conditional promises in the amount of \$2,287,000 were received, but not recognized by the University.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(4) Accounts and Student Loans Receivable

Accounts receivable consist of the following at May 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Student accounts receivable	\$ 1,026	1,104
Accounts in collections	480	501
Other receivables	757	845
	<u>2,263</u>	<u>2,450</u>
Less allowance for doubtful accounts	<u>(400)</u>	<u>(391)</u>
	<u>\$ 1,863</u>	<u>2,059</u>

Student loans receivable consist of the following at May 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Notes receivable	\$ 56	31
Perkins loans	8,658	8,872
	<u>8,714</u>	<u>8,903</u>
Less allowance for doubtful accounts	<u>(29)</u>	<u>(29)</u>
	<u>\$ 8,685</u>	<u>8,874</u>

The Perkins loan 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, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Fixed income funds	\$ 32,817	35,877
Equity strategy funds	126,043	104,752
Real assets	32,835	31,913
Hedge funds	51,067	46,036
Other investments	10,621	7,833
	<u>\$ 253,383</u>	<u>226,411</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Net realized and unrealized gains and losses are net of investment fees of \$427,000 and \$1,014,000 for May 31, 2011 and 2010, respectively.

(a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a manner that will produce the maximum total return consistent with prudent management and preservation of the real principal and will provide a consistent real (inflation-adjusted) level of support over the long term. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Endowment Committee, which oversees the University's investment program in accordance with established guidelines.

(b) Allocation of 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, provide a stable component of return, and to reduce the overall volatility of the investment portfolio. Equity strategy funds are selected to provide principal appreciation that exceeds inflation. Equity investments carry greater market price variability and risk other than asset classes. Some equity strategies 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. Real assets may include liquid investments like Treasury Inflation Protect Securities (TIPS) and commodities. Illiquid strategies, like private real estate and natural resources, may also be used as real assets. Hedged strategies involve funds used to reduce volatility of the overall portfolio and to provide an alternative source of return from that of the equity capital markets. Hedge funds may include a variety of investment strategies using marketable securities that seek to generate absolute positive returns regardless of the direction of the capital markets. Other investments include charitable remainder trusts, and perpetual trusts that are held by other institutions but pay an annual income to the University. The University has contracted with the Commonfund Strategic Solutions (Commonfund) to serve as their investment advisor. The Commonfund has a number of investment products and works in conjunction with the University's Endowment Committee in managing the endowment funds.

(c) Basis of Reporting

Investments are reported at estimated fair value. 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 alternative investment 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, 2011 and 2010, the University had no plans or intentions to sell investments at amounts different from NAV.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

The following tables summarize the University's investments and other assets by major category in the fair value hierarchy as of May 31, 2011 and 2010, as well as the related strategy, liquidity, and funding commitments:

	May 31, 2011				Redemption or liquidation	Days' notice
	Total	Level 1	Level 2	Level 3		
Assets held in remainder trusts by others	\$ 767	—	—	767	Illiquid (a)	N/A
Investments:						
Fixed income funds:						
Money market funds	11,238	131	11,107	—	See note (b)	See note (b)
High quality bond funds	17,691	1,042	16,649	—	Daily – Weekly	One – Five
Global fixed income funds	3,718	361	3,357	—	Daily – Monthly	One – Five
Short- and intermediate-term bond funds	52	52	—	—	Daily	Two
High yield bond funds	118	118	—	—	Daily	One
Total	<u>32,817</u>	<u>1,704</u>	<u>31,113</u>	<u>—</u>		
Equity strategy funds:						
Blended equity funds	49	49	—	—	Daily	Four
Small to mid-cap equity funds	264	264	—	—	Daily	One – Four
Large cap equity funds	14,745	1,273	13,472	—	Daily – Weekly	One – Five
All cap equity funds	25,171	—	25,171	—	Monthly	Five
International equity funds	16,105	562	15,543	—	Daily – Monthly	One – Five
Emerging markets equity funds	23,381	98	23,283	—	Daily – Monthly	One – Thirty
Equity index funds	2,295	—	2,295	—	Daily	One
Private equity partnerships	44,033	—	—	44,033	Illiquid (c)	N/A
Total	<u>126,043</u>	<u>2,246</u>	<u>79,764</u>	<u>44,033</u>		
Real assets:						
Treasury inflation protected securities funds	7,570	—	7,570	—	Monthly	Five
Commodities	6,131	—	6,131	—	Monthly	Thirty
Energy fund partnerships	17,744	—	—	17,744	Illiquid (d)	N/A
Real estate	1,390	655	—	735	See note (e)	See note (e)
Total	<u>32,835</u>	<u>655</u>	<u>13,701</u>	<u>18,479</u>		
Hedge funds:						
Directional funds	31,502	—	—	31,502	See note (f)	See note (f)
Relative value	19,565	—	—	19,565	Annually	95
Total	<u>51,067</u>	<u>—</u>	<u>—</u>	<u>51,067</u>		
Other investments:						
Charitable remainder trusts	8,305	—	—	8,305	Illiquid (g)	N/A
Perpetual trusts	1,847	—	—	1,847	Illiquid (a)	N/A
Bonds and notes	450	391	59	—	Daily	One – Three
Royalties	19	—	—	19	Annually	One
Total	<u>10,621</u>	<u>391</u>	<u>59</u>	<u>10,171</u>		
Total investments	<u>253,383</u>	<u>4,996</u>	<u>124,637</u>	<u>123,750</u>		
Total assets	\$ <u>254,150</u>	<u>4,996</u>	<u>124,637</u>	<u>124,517</u>		

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

- (a) Assets held in remainder trusts outside the University and perpetual trusts are not under the control of the University.
- (b) The majority of money market funds can be redeemed on a daily basis with a day's notice. There was one fund in transition as of May 31, 2011. The funds from this transition were intended for a private equity fund and the transaction was completed in early June.
- (c) Most of these funds are expected to liquidate within 1 – 10 years. One fund is in the process of dissolution per the fund agreement. Disbursements from the fund's underlying investment are made as cash becomes available. Each investment fund's liquidation date is established by the partnership and defined in the partnership agreement. One partnership added a year to its liquidation date, in accordance with allowable terms within the partnership.
- (d) These funds are expected to liquidate within 5 – 7 years. The liquidation date is established by the partnership and defined in the partnership agreement. There were no changes in liquidation dates during the fiscal year ended May 31, 2011.
- (e) Real estate funds in the Level 1 category can be redeemed on a daily basis and require one day's notice. There are three investments in Level 3 and each investment has a different redemption schedule that range from 1 to 5 years. They are as follows: (i) One investment is in dissolution, which will continue until the last investment is disposed of, and liquidation occurs; (ii) Investment was in the process of being liquidated at May 31, 2011. The fund is having difficulties meeting its debt obligations; and (iii) Investment is an annuity funded by real estate. The real estate is currently for sale. Upon sale, the proceeds will be used to purchase the investment in the University's annuity pool.
- (f) One directional hedge fund was in the process of being liquidated at May 31, 2011. The fund is expected to be fully liquidated within the next year. The remaining two funds in this category can be redeemed on a quarterly basis and require 95 days' notice.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

- (g) The University is the beneficiary of charitable remainder trusts; however, the investments are often under the control of the donor or an outside trustee.

	May 31, 2010				Redemption or liquidation	Days' notice
	Total	Level 1	Level 2	Level 3		
Assets held in remainder trusts by others	\$ 2,159	—	—	2,159	Illiquid (a)	N/A
Investments:						
Fixed income funds:						
Money market funds	21,539	10,549	10,990	—	See note (b)	See note (b)
High quality bond funds	8,706	1,000	7,706	—	Daily – Weekly	One – Five
Global fixed income funds	4,992	531	4,460	1	See note (c)	See note (c)
Short- and intermediate-term bond funds	447	447	—	—	Daily	Two
High yield bond funds	193	193	—	—	Daily	One – Two
Total	<u>35,877</u>	<u>12,720</u>	<u>23,156</u>	<u>1</u>		
Equity strategy funds:						
Equity securities	67	67	—	—	Daily	One
Blend equity funds	285	285	—	—	Daily	Four
Small to mid-cap equity funds	461	461	—	—	Daily	One – Four
Large cap equity funds	10,545	1,298	9,247	—	Daily – Weekly	One – Five
All cap equity funds	25,559	—	25,559	—	Monthly	Five
International equity funds	10,345	734	9,611	—	Daily – Monthly	One – Five
Emerging markets equity funds	15,611	199	15,412	—	Daily – Monthly	One – Thirty
Equity index funds	2,884	272	2,612	—	Daily	One – Four
Private equity partnerships	38,995	—	—	38,995	Illiquid (d)	N/A
Total	<u>104,752</u>	<u>3,316</u>	<u>62,441</u>	<u>38,995</u>		
Real assets:						
Treasury inflation protected securities funds	6,564	70	6,494	—	Daily – Monthly	Two – Five
Commodities	3,836	125	3,711	—	Daily – Monthly	Two – Thirty
Energy fund partnerships	13,726	—	—	13,726	Illiquid (e)	N/A
Real estate	7,787	571	—	7,216	See note (f)	See note (f)
Total	<u>31,913</u>	<u>766</u>	<u>10,205</u>	<u>20,942</u>		
Hedge funds:						
Directional funds	30,313	—	—	30,313	See note (g)	See note (g)
Relative value	15,723	—	—	15,723	See note (h)	See note (h)
Total	<u>46,036</u>	<u>—</u>	<u>—</u>	<u>46,036</u>		
Other investments:						
Charitable remainder trusts	5,386	—	—	5,386	Illiquid (i)	N/A
Perpetual trusts	1,950	—	—	1,950	Illiquid (a)	N/A
Bonds and notes	477	383	94	—	Daily	One – Three
Royalties	20	—	—	20	Annually	One
Total	<u>7,833</u>	<u>383</u>	<u>94</u>	<u>7,356</u>		
Total investments	<u>226,411</u>	<u>17,185</u>	<u>95,896</u>	<u>113,330</u>		
Total assets	\$ <u>228,570</u>	<u>17,185</u>	<u>95,896</u>	<u>115,489</u>		

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

- (a) Assets held in remainder trusts outside the University and perpetual trusts are not under the control of the University.
- (b) The majority of money market funds can be redeemed on a daily basis with a day's notice. There were two funds in transition as of May 31, 2010 and their status was as follows: (i) One investment was liquidated as of May 31, 2010 and the University received the fund proceeds in June 2010 and (ii) One fund was in transition to fund private equity partnerships. The private equity partnerships received the funding in early June 2010.
- (c) These funds vary in their redemption schedules. Most of the funds can be redeemed each day with one or two days' notice. Two funds have a longer redemption schedule and they are as follows: (i) One fund can be redeemed on a monthly basis with five days' notice and (ii) One fund was in the process of liquidation as of May 31, 2010 and is set to be fully liquidated in November 2010.
- (d) These funds are expected to liquidate within 1 – 10 years. The liquidation date is established by the partnership and defined in the partnership agreement. There were no changes in liquidation dates during the fiscal year ended May 31, 2010.
- (e) These funds are expected to liquidate within 5 – 7 years. The liquidation date is established by the partnership and defined in the partnership agreement. There were no changes in liquidation dates for the year ended May 31, 2010.
- (f) Real estate funds in the Level 1 category can be redeemed on a daily basis and require one days' notice. There are three investments in Level 3 and each investment has a different redemption schedule that range from 1 to 5 years. They are as follows: (i) Investment is expected to liquidate in the next year as defined by the partnership agreement; (ii) Investment was in the process of being liquidated at May 31, 2010. This process may extend beyond 1 year; and (iii) Investment is a partnership without a set liquidation date. If an investor desires to liquidate, the process is spread out over a 5-year period.
- (g) Three directional hedge funds were in the process of being liquidated at May 31, 2010. The funds are expected to be fully liquidated within the next year. The remaining two funds in this category can be redeemed on a quarterly basis and require 95 days' notice.
- (h) One of the relative value funds was in the process of liquidation at May 31, 2010. The fund was fully liquidated within three months of fiscal year-end. The other relative value fund can be redeemed on an annual basis and requires 95 days' notice.
- (i) The University is the beneficiary of charitable remainder trusts; however, the investments are often under the control of the donor or an outside trustee.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Investment liquidity as of May 31, 2011 is aggregated below based on redemption or sale period (amounts in thousands):

	Investments market values
Daily	\$ 18,382
Weekly	30,121
Monthly	81,055
Quarterly	28,922
Annually	19,584
Currently being liquidated	2,781
Illiquid	<u>72,538</u>
Total	<u>\$ 253,383</u>

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

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 2 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, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of the University's interest therein, the level in which a fund's fair value measurement is classified is based on the University's ability to redeem its interest at or near the date of the statements of financial position. Accordingly, 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.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

The following table presents the University's activities for the fiscal year ended May 31, 2011 (in thousands) for investments classified in Level 3:

	Balances May 31, 2010	Net realized and unrealized gains included in change in net assets	Purchases	Sales	Settlements	Transfers out of Level 3	Balances May 31, 2011
Assets:							
Assets held in trust by others	\$ 2,159	235	—	—	(1,559)	(68)	767
Investments:							
Fixed income funds:							
Global fixed income funds	1	—	—	(1)	—	—	—
Private equity partnerships	38,995	3,301	8,951	(7,214)	—	—	44,033
Real assets:							
Energy fund partnerships	13,726	4,996	403	(1,381)	—	—	17,744
Real estate	7,216	406	400	(7,287)	—	—	735
Hedge funds:							
Directional funds	30,313	2,337	3,800	(4,948)	—	—	31,502
Relative value	15,723	1,331	6,500	(3,989)	—	—	19,565
Other investments	7,356	847	1,968	—	—	—	10,171
Totals	\$ 115,489	13,453	22,022	(24,820)	(1,559)	(68)	124,517

The following table presents the University's activities for the fiscal year ended May 31, 2010 (in thousands) for investments classified in Level 3:

	Balances May 31, 2009	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Transfers out of Level 3	Balances May 31, 2010
Assets:						
Assets held in trust by others	\$ 1,972	187	—	—	—	2,159
Investments:						
Fixed income funds:						
Global fixed income funds	—	—	1	—	—	1
High yield bond funds	8,336	1,959	—	—	(10,295)	—
Equity strategies:						
International equity funds	11,068	2,028	—	(13,096)	—	—
Private equity partnerships	31,825	5,146	5,274	(3,250)	—	38,995
Real assets:						
Energy fund partnerships	13,618	(951)	—	(800)	(134)	11,733
Real estate	11,435	(3,266)	1,993	(953)	—	9,209
Hedge funds:						
Directional funds	18,090	622	24,001	(12,400)	—	30,313
Relative value	4,751	331	12,000	(1,359)	—	15,723
Other investments	6,835	691	70	(240)	—	7,356
Totals	\$ 107,930	6,747	43,339	(32,098)	(10,429)	115,489

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

At May 31, 2011, the University has approximately \$125 million in investments with underlying investments that are not readily marketable compared to approximately \$116 million at 2010. These investments represent approximately 49% and 51% of total investments and approximately 37% of net assets at both May 31, 2011 and 2010. 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 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.

As of May 31, 2011, the University has committed approximately \$117 million to alternative investments in the form of limited partnership/trust investments compared to approximately \$123 million at May 31, 2010. As of May 31, 2011, the University funded approximately \$85 million of these commitments compared to \$89 million at May 31, 2010. The remaining unfunded balance of approximately \$32 million is due on demand from the general partners/advisors at May 31, 2011 compared to \$34 million at May 31, 2010. These partnerships/trusts invest in emerging growth technology companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreements.

(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 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.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

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 purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- 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, 2011 (in thousands):

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ (3,165)	93,711	121,618	212,164
Board-designated endowment funds	24,628	—	—	24,628
Total endowment net assets	<u>\$ 21,463</u>	<u>93,711</u>	<u>121,618</u>	<u>236,792</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Endowment net asset composition by type of fund consists of the following as of May 31, 2010 (in thousands):

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (7,296)	80,153	118,122	190,979
Board-designated endowment funds	22,543	—	—	22,543
Total endowment net assets	<u>\$ 15,247</u>	<u>80,153</u>	<u>118,122</u>	<u>213,522</u>

Changes in endowment net assets, including quasi-endowments, for the year ended May 31, 2011 (in thousands) are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, May 31, 2010	\$ 15,247	80,153	118,122	213,522
Investment return:				
Investment income	—	2,696	—	2,696
Net appreciation realized and unrealized	13,745	17,383	263	31,391
Total investment return	13,745	20,079	263	34,087
Contributions	—	—	3,232	3,232
Appropriation of endowment assets for expenditures	(7,527)	(6,521)	(25)	(14,073)
Other changes:				
Transfers – other	(2)	—	26	24
Endowment net assets, May 31, 2011	<u>\$ 21,463</u>	<u>93,711</u>	<u>121,618</u>	<u>236,792</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Changes in endowment net assets, including quasi-endowments, for the year ended May 31, 2010 (in thousands) are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2009	\$ 12,371	68,583	115,180	196,134
Investment return:				
Investment income	—	3,109	—	3,109
Net appreciation (depreciation) realized and unrealized	<u>10,205</u>	<u>8,461</u>	<u>(1)</u>	<u>18,665</u>
Total investment return	10,205	11,570	(1)	21,774
Contributions	1	—	2,382	2,383
Appropriation of endowment assets for expenditures	(7,330)	(7,409)	(28)	(14,767)
Other changes:				
Reclassification of endowment distribution	—	7,409	28	7,437
Transfers – other	<u>—</u>	<u>—</u>	<u>561</u>	<u>561</u>
Endowment net assets, May 31, 2010	\$ <u><u>15,247</u></u>	<u><u>80,153</u></u>	<u><u>118,122</u></u>	<u><u>213,522</u></u>

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,165,000 and \$7,296,000 as of May 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. 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.

Return Objectives and Risk Parameters – The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the Higher Education Price Index (HEPI) plus 5%, while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of return of approximately 9% annually. Actual returns in any year will vary from this amount.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The University has a policy of appropriating for distribution each year 5% to 6% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, with an expectation that the endowment will maintain an average return from investments of 9%, after the annual spending allocation, the University expects the endowment to grow at 4% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Based on the University's spending policy, the effective spending rate for the fiscal years ended May 31, 2011 and 2010 was 6.12% and 5.92%, respectively.

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

	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 2,696	3,109
Net realized (losses) gains	(628)	20,862
Net change in cumulative unrealized gains and (losses)	32,446	(1,184)
Investment fees and other	(427)	(1,014)
Total	<u>\$ 34,087</u>	<u>21,773</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

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

	<u>2011</u>	<u>2010</u>
Revenues:		
Unrestricted	\$ 7,527	7,330
Temporarily restricted	6,521	7,409
Permanently restricted	25	28
	<u>14,073</u>	<u>14,767</u>
Other changes in net assets:		
Unrestricted	6,218	2,874
Temporarily restricted	13,558	4,162
Permanently restricted	238	(29)
	<u>20,014</u>	<u>7,007</u>
Total	<u>\$ 34,087</u>	<u>21,774</u>

(7) Plant Facilities, Net

Plant facilities consist of the following at May 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 21,086	21,008
Buildings	154,241	151,955
Furniture, fixtures, and equipment	5,409	5,869
Library holdings	34,646	33,634
Art collection	3,162	3,020
Construction in progress	565	669
Accumulated depreciation	<u>(76,985)</u>	<u>(72,471)</u>
Net plant facilities	<u>\$ 142,124</u>	<u>143,684</u>

The University recorded depreciation expense of \$5,202,000 and \$5,244,000, respectively, during the years ended May 31, 2011 and 2010.

The University has received gifts and purchased 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 \$3,162,000 at May 31, 2011 and \$3,020,000 at May 31, 2010 in the plant facilities balance in the statements of financial position, and depreciation will not be recorded on these assets.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(8) Bonds Payable

In June 2007, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$31,820,000. The proceeds of the bonds were used to repay the outstanding line of credit, to finance the construction of five major projects, and to advance refund \$8,400,000 of the Series 2004 bonds. The bonds have annual principal and interest obligations ranging from \$1,525,000 to \$3,266,000 and bear interest at rates ranging from 4% to 5%. At May 31, 2011 and 2010, there were outstanding balances of \$31,906,000 and \$32,026,000, respectively.

In May 2010, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$32,500,000. 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 \$1,223,000 to \$13,185,000, through 2040, and bear interest at rates ranging from 1.15% to 5.00%. At May 31, 2011, and 2010, there were outstanding balances of \$32,604,000 and \$33,260,000, respectively.

Principal payments on bonds payable are as follows:

2012	\$	985,000
2013		1,050,000
2014		1,125,000
2015		12,505,000
2016		1,245,000
Thereafter		<u>46,355,000</u>
		63,265,000
Add unamortized bond premium		<u>1,245,000</u>
	\$	<u><u>64,510,000</u></u>

The University has a revolving line of credit in the amount of \$15,000,000 at a variable interest rate that is calculated at the LIBOR plus 1.5%. As of May 31, 2011, the University had not borrowed against this line of credit.

Interest expense on the bonds payable and the line of credit, for the years ended May 31, 2011 and 2010, was approximately \$2,764,000 and \$2,565,000, respectively, and is included in various functional expenses in the statements of activities.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(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, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Purpose of restricted contributions:		
Instruction	\$ 1,367	2,042
Sponsored research	1,153	1,184
Academic support	835	551
Student services and other	115	202
Institutional support	146	—
Plant	51	—
Scholarships	<u>5,978</u>	<u>6,257</u>
	9,645	10,236
Time restricted contributions:		
Amortization of restricted gifts to acquire long-lived assets	<u>1,712</u>	<u>1,739</u>
Total net assets released from restrictions	<u>\$ 11,357</u>	<u>11,975</u>

(10) Institutional Support Fund-Raising Expense

Fund-raising expenses of \$2,360,000 and \$2,744,000 are included in general institutional support expenses in the statements of activities for the years ended May 31, 2011 and 2010, 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 a plan that employees can select with VALIC. The University's contributions are based on a percentage of participating employees' salaries, and, along with employee contributions, are paid to the plan monthly. Under the arrangements, TIAA/CREF is the plan administrator. Retirement plan expense for the years ended May 31, 2011 and 2010 was approximately \$3,856,000 and \$3,754,000, 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 supplemental insurance up to \$125 per quarter. Employees 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 coverage.

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

The schedule below details the estimated liabilities included in accounts payable and accrued liabilities in the statements of financial position as of May 31, 2011 and 2010, associated with the above-described benefits. The liability estimates are discounted from estimated future costs using a rate of 5.85%, and the voluntary severance payment estimate calculation assumes a 3.50% annual growth, in the compensation upon which the benefit is based. Benefits paid by the University relating to the postretirement benefit plan were approximately \$323,000 and \$465,000 for the fiscal years ended May 31, 2011 and 2010, respectively.

Postretirement benefit obligation at May 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Medicare supplement – up to \$125 per quarter	\$ 527	527
Full Medicare supplement	11	11
Health and life insurance until Medicare eligibility	1,905	1,889
Voluntary severance payments	<u>2,381</u>	<u>2,355</u>
Postretirement benefit obligation	<u>\$ 4,824</u>	<u>4,782</u>
Postretirement benefit liability:		
Current liability	\$ 367	465
Noncurrent liability	<u>4,457</u>	<u>4,317</u>
Net amount recognized in statements of financial position	<u>\$ 4,824</u>	<u>4,782</u>

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

2012	\$ 367
2013	443
2014	437
2015	456
2016	475
Thereafter	<u>2,646</u>
	<u>\$ 4,824</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(13) Annuities and Life Income Funds

Annuities and life income funds consist of the following at May 31, 2011 (in thousands):

	<u>Charitable gift annuities</u>	<u>Annuity trust and unit trusts</u>	<u>Total</u>
Assets:			
Investments:			
Fixed income funds	\$ 1,497	—	1,497
Equity strategy funds	2,176	—	2,176
Real assets	1,056	—	1,056
Bonds and notes	450	—	450
Charitable remainder trusts	—	8,305	8,305
Assets held in remainder trusts by others	—	767	767
Total assets	<u>\$ 5,179</u>	<u>9,072</u>	<u>14,251</u>
Liabilities and net assets:			
Annuities payable	\$ 3,335	5,234	8,569
Net assets	1,844	3,838	5,682
Total liabilities and net assets	<u>\$ 5,179</u>	<u>9,072</u>	<u>14,251</u>

Annuities and life income funds consist of the following at May 31, 2010 (in thousands):

	<u>Charitable gift annuities</u>	<u>Annuity trust and unit trusts</u>	<u>Total</u>
Assets:			
Investments:			
Fixed income funds	\$ 1,498	—	1,498
Equity strategy funds	1,943	—	1,943
Real assets	571	—	571
Bonds and notes	445	—	445
Charitable remainder trusts	—	5,386	5,386
Assets held in remainder trusts by others	—	2,159	2,159
Total assets	<u>\$ 4,457</u>	<u>7,545</u>	<u>12,002</u>
Liabilities and net assets:			
Annuities payable	\$ 3,350	3,285	6,635
Net assets	1,107	4,260	5,367
Total liabilities and net assets	<u>\$ 4,457</u>	<u>7,545</u>	<u>12,002</u>

WILLAMETTE UNIVERSITY

Notes to Financial Statements

May 31, 2011 and 2010

(Dollars in thousands)

(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, 2011 and 2010, 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. 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, 2011 and 2010, the fair value of the University's bonds approximates \$62,895,000 and \$63,478,000, respectively, as compared to its carrying value of \$64,510,000 and \$64,566,000, respectively. Fair value of the bonds as of May 31, 2011 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 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.

(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 \$930,000. 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 Events

The University evaluated subsequent events after the balance sheet date of May 31, 2011 through October 7, 2011, which was the date the financial statements were issued.