



WILLAMETTE  
UNIVERSITY

2018–19 Financial Report

*Non Nobis  
Solum  
Nati Sumus*

Not Unto  
Ourselves  
Alone  
Are We Born

# WILLAMETTE UNIVERSITY

## 2019 FINANCIAL REPORT

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May 31, 2019

### CONTENTS

	Page
Independent Auditors' Report	5
Statement of Financial Position	7
Statement of Activities	8
Statement of Cash Flows	9
Notes to Financial Statements	10

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KPMG LLP  
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1300 South West Fifth Avenue  
Portland, OR 97201

## Independent Auditors' Report

The Board of Trustees  
Willamette University:

### Report on the Financial Statements

We have audited the accompanying financial statements of Willamette University (the University) (an Oregon nonprofit corporation), which comprise the statements of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, in 2019, the University adopted new accounting guidance in accordance with Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). Our opinion is not modified with respect to this matter.

### *Other Matters*

We have previously audited Willamette University's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 1 that were applied to adopt ASU No. 2016-14 retrospectively in the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

Portland, Oregon  
October 25, 2019

**WILLAMETTE UNIVERSITY**  
**STATEMENT OF FINANCIAL POSITION**

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,247	\$ 24,836
Accounts receivable, net	3,145	3,666
Prepaid expenses and other assets	775	678
Pledges receivable, net	3,860	4,339
Student loans receivable, net	5,675	6,983
Investments	281,082	286,091
Beneficial interest in trusts held by others	3,173	3,391
Plant facilities, net	138,742	140,936
<b>Total assets</b>	<u><u>\$ 461,699</u></u>	<u><u>\$ 470,920</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 18,098	\$ 19,185
Deferred revenues	1,506	1,944
Annuities and trusts payable	13,585	14,380
Bonds payable	66,045	67,493
Government advances for student loans	6,868	6,816
<b>Total liabilities</b>	<u>106,102</u>	<u>109,818</u>
<b>Net Assets:</b>		
Without donor restrictions:		
Available for operations	4,801	4,962
Charitable gift annuity funds	550	234
Funds without donor restrictions functioning as endowment	29,155	28,398
Invested in plant facilities	72,461	75,683
<b>Total net assets without donor restrictions</b>	<u>106,967</u>	<u>109,277</u>
With donor restrictions:		
Unexpended funds received for specific purposes	10,780	12,761
Trust and annuity funds	8,862	8,832
Accumulated undistributed endowment gains	77,274	82,223
Funds with purpose restrictions functioning as endowment	891	858
Endowment funds restricted in perpetuity	148,931	145,197
Endowment funds held in perpetual trust by others	1,892	1,954
<b>Total net assets with donor restrictions</b>	<u>248,630</u>	<u>251,825</u>
<b>Total net assets</b>	<u>355,597</u>	<u>361,102</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 461,699</u></u>	<u><u>\$ 470,920</u></u>

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

For the year ended May 31, 2019 (with summarized comparative financial information for the year ended May 31, 2018)  
(in thousands)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenues:</b>				
Tuition and fees	\$ 103,459	\$ -	\$ 103,459	\$ 106,083
Less student scholarships	(48,990)	-	(48,990)	(49,789)
Net assets released for student scholarships	5,030	(5,030)	-	-
Net tuition and fees	59,499	(5,030)	54,469	56,294
Room and board fees	13,561	-	13,561	14,351
Contributions	1,398	6,021	7,419	9,731
Endowment income distributed	3,806	8,000	11,806	11,568
Auxiliary enterprises	647	-	647	762
Grant revenues	548	877	1,425	1,402
Other revenues	1,964	141	2,105	2,365
Net assets released from restrictions	8,113	(8,113)	-	-
<b>Total revenues</b>	<b>89,536</b>	<b>1,896</b>	<b>91,432</b>	<b>96,473</b>
<b>Expenses:</b>				
Salaries and wages	44,931	-	44,931	45,105
Employee fringe benefits	14,897	-	14,897	16,066
Supplies and services	20,534	-	20,534	21,100
Plant operations and maintenance	3,235	-	3,235	2,875
Depreciation	5,812	-	5,812	5,799
Interest	2,000	-	2,000	2,097
<b>Total expenses</b>	<b>91,409</b>	<b>-</b>	<b>91,409</b>	<b>93,042</b>
<b>Change in net assets before other changes</b>	<b>(1,873)</b>	<b>1,896</b>	<b>23</b>	<b>3,431</b>
<b>Other changes in net assets:</b>				
Endowment returns, net of distributions	210	(5,033)	(4,823)	11,031
Adjustment related to annuities and trusts	(9)	260	251	773
Post retirement benefits liability adjustment	(394)	-	(394)	(11)
Gain on extinguishment of debt	-	-	-	36
Staff one-time separation incentive program	-	-	-	(775)
Faculty one-time separation incentive program	(555)	-	(555)	-
Adjustments to restricted pledges	-	(7)	(7)	-
Other	311	(311)	-	-
<b>Change in net assets</b>	<b>(2,310)</b>	<b>(3,195)</b>	<b>(5,505)</b>	<b>14,485</b>
Net assets at beginning of year	109,277	251,825	361,102	346,617
Net assets at end of year	<u>\$ 106,967</u>	<u>\$ 248,630</u>	<u>\$ 355,597</u>	<u>\$ 361,102</u>



**WILLAMETTE UNIVERSITY**  
**STATEMENT OF CASH FLOWS**

For the year ended May 31, 2019 (with comparative financial information for the year ended May 31, 2018)  
(in thousands)

	2019	2018
<b>Cash flows from operating activities:</b>		
Cash received from tuition, fees, room and board	\$ 69,457	\$ 70,215
Cash received from contributions and grants	5,370	6,065
Cash investment returns	428	367
Miscellaneous receipts	2,829	4,351
Payments for employees and benefits	(60,905)	(61,220)
Payments to vendors	(26,056)	(25,699)
Cash paid for interest on bonds, net of amounts capitalized	(2,133)	(2,283)
<b>Net change in cash from operating activities</b>	<u>(11,010)</u>	<u>(8,204)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(13,961)	(19,256)
Proceeds from maturities/sales of investments	26,325	24,571
Purchases of plant facilities	(3,386)	(3,128)
<b>Net change in cash from investing activities</b>	<u>8,978</u>	<u>2,187</u>
<b>Cash flows from financing activities:</b>		
Cash contributions restricted for:		
Investment in endowment	3,653	3,519
Investment in plant facilities	100	-
Investment subject to annuity and trust agreements, not endowed	58	1,671
Proceeds from issuance of bonds	-	7,680
Bonds paid or defeased with proceeds from new bonds	-	(7,580)
Principal payments on bonds payable	(1,420)	(1,445)
Bond premium net of issuance costs	-	(120)
Change in government advances for student loans	52	(494)
<b>Net change in cash from financing activities</b>	<u>2,443</u>	<u>3,231</u>
<b>Net change in cash and cash equivalents</b>	411	(2,786)
Cash and cash equivalents at beginning of year	24,836	27,622
Cash and cash equivalents at end of year	<u>\$ 25,247</u>	<u>\$ 24,836</u>

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

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

#### ***Basis of Accounting***

These financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, and have been prepared to focus on the University as a whole.

#### ***Financial Statement Presentation***

The University reports financial information according to the existence or absence of donor imposed restrictions, classifying net assets and transactions into two classes:

*Net assets without donor restrictions* – Net assets not subject to donor imposed restrictions.

*Net assets with donor restrictions* – Net assets subject to donor imposed restrictions that will be met by action of the University and/or the passage of time, or will exist in perpetuity in the form of endowment funds. Generally, the donors of endowment funds 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 net assets without donor restrictions unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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

- Increases in net assets with restrictions if the terms of the gift or the University's interpretation of relevant state law require they be added to the principal of an endowment fund.
- Increases in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income.
- Increases in net assets without donor restrictions in all other cases.

Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are received. Unconditional promises are recognized at the estimated present value of future cash flows, discounted at a risk adjusted rate. Conditional promises to give are recognized when the conditions are met. 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 giving history, type of contribution, collection risk, 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 when placed into service.

Changes in net assets before other changes serves as a measure of operations. The University defines nonoperating activities to include endowment returns net of distributions for operations, actuarial adjustments to trusts and annuities and post-retirement benefits, and adjustments to restricted pledges. Certain other gains and losses that do not occur in the normal course of operations are also included in other changes in net assets.

The statement of activities includes comparative summarized information for the year ended May 31, 2018. Such information does not include sufficient detail by net asset class to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2018, from which the summarized information was derived.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

#### *Use of Estimates*

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

#### *Cash and Cash Equivalents*

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

#### *Investments*

The University follows the provisions of Accounting Standards Codification (ASC) 820, Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

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

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In addition, the University's ability to redeem its interest at or near the date of the statements of financial position is also considered. Investments measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the fair value measurement guidance are not included in the fair value hierarchy. 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.

Investments are reported at estimated fair value using the provisions of ASC 820, as discussed in the section, Fair Value Measurements. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last day of the fiscal year. Alternative investments are reported at net asset value (NAV) as provided by the investees and in accordance with applicable professional literature, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. These financial instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of full portfolio composition. Management believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Estimated fair values may differ materially from the values that would have been used had a ready market for those securities existed. Realized and unrealized gains and losses on endowment investments are reflected in the statements of activities as endowment returns.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

#### ***Charitable Gift Annuities and Remainder Trusts***

The University has entered into deferred gift agreements with donors classified as charitable gift annuities and charitable remainder trusts. Under these agreements, the University receives a gift from the donor in which it has a remainder interest and agrees to make distributions to beneficiaries over a specified period of time, often the lifetime of the beneficiaries. When the agreement reaches the end of its terms, remaining assets are transferred to University funds, or in some cases, are distributed to third-party beneficiaries. The University manages a segregated pool of assets for charitable gift annuities, and serves as the trustee for various charitable remainder trusts. Assets held in the gift annuity pool and charitable trusts are carried as investments at their estimated fair values. The related liability is recorded at the estimated present value of the amounts due to income beneficiaries or third party remainder beneficiaries.

The University uses an actuarial method to account for charitable gift annuities and remainder trusts. Under this method, the present value of 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 net assets without donor restrictions or net assets with donor restrictions, determined by purpose restrictions imposed by donors and implied time restrictions for charitable remainder trusts. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. The discount rate used by the University to calculate the present value of these agreements is 6%.

#### ***Beneficial Interest in Trusts Held by Others***

Assets held in trust by others represent resources held and administered by outside trustees, from which the University derives income or has a residual interest. These assets are recognized at the present value of estimated future cash flows when the trust is established and/or the University is notified of its existence. Changes in the fair value of remainder trust assets held by others are reflected in adjustment related to annuities and trusts in the statements of activities. Changes in the fair value of perpetual trust assets held by others are reflected in endowment returns, net of distributions.

#### ***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 and building improvements	25 - 50 years
Furniture, fixtures and equipment	5 - 15 years
Library holdings	25 years

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

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

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

Bond issuance costs are classified as a component of bonds payable in the statements of financial position. Amortization of the bond issuance costs is calculated using a method that approximates the effective yield over the life of the bonds.

#### ***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. The University accounts for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes - Overall*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. The University does not have any uncertain tax positions.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

#### ***Recently Adopted Accounting Pronouncements***

The University has evaluated recent accounting pronouncements, and has implemented the following changes:

#### **Presentation of Financial Statements**

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to reduce diversity in reporting practices, reduce complexity, and enhance understandability of not-for-profit financial statements. Key provisions include: (1) reducing the number of net asset classifications presented from three to two; (2) requiring the presentation of expenses by their functional and natural classification in one location in the financial statements; (3) requiring disclosure of quantitative and qualitative information about liquidity of financial resources; (4) requiring that gifts for capital projects be released to net assets without donor restrictions when the associated long-lived asset is placed into service; and (5) enhancing disclosures related to underwater endowments and requiring that underwater amounts be recognized as a reduction to net assets with donor restrictions. Adoption is required for the fiscal year beginning June 1, 2018.

The University implemented ASU 2016-14 for the fiscal year ended May 31, 2019, resulting in reclassifications of net assets for the year ended May 31, 2018 as follows:

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total net assets
Net assets as previously presented:			
Unrestricted	\$ 56,075	\$ -	\$ 56,075
Temporarily restricted	-	150,910	150,910
Permanently restricted	-	154,117	154,117
Net assets as previously presented	56,075	305,027	361,102
Reclassifications to implement ASU 2016-14:			
Release of net assets for gifts restricted for capital projects	48,513	(48,513)	-
Reclassification of underwater endowments	4,689	(4,689)	-
Net assets as reclassified	\$ 109,277	\$ 251,825	\$ 361,102

#### **Revenue Recognition**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 (also known by its codification reference ASC 606), provides a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The University implemented ASU 2014-09 prospectively for the fiscal year beginning June 1, 2018. There were no material adjustments or impacts on the financial statements taken as a whole.

#### ***Recent Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires lease arrangements longer than 12 months to be recognized as an asset and a liability. The University is adopting the standard effective for the fiscal year beginning June 1, 2019. The impact is not expected to be material to the financial statements as a whole.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to Topic 606 and (2) determining whether a contribution is conditional. The amendments in the update are to be applied on a modified prospective basis and are effective for the University's fiscal year beginning June 1, 2019. Early adoption is permitted. The University is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2018-08.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

***Reclassifications***

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

**NOTE 2 – PLEDGES RECEIVABLE**

The University records pledges receivable at the present value of estimated future cash flows using discount rates ranging from 0.9% to 4.9% for pledges receivable outstanding at May 31, 2019 and 2018. Annual payments are scheduled to be received as follows (amounts in thousands):

	2019	2018
Less than one year	\$ 1,443	\$ 1,652
One to five years	2,566	2,861
More than five years	29	51
	4,038	4,564
Less:		
Discount	(78)	(125)
Reserve for uncollectible accounts	(100)	(100)
Pledges receivable, net	\$ 3,860	\$ 4,339

As of May 31, 2019, the amount for which grants were awarded but conditions required for recognition not yet met was \$1,308.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Student accounts receivable consists of amounts due from students for tuition, room, board, and other enrollment related charges. In addition, the University has other miscellaneous receivables that are paid to the University shortly after the end of the fiscal year. At May 31, 2019 and 2018, these receivable balances were as follows (amounts in thousands):

	2019	2018
Student accounts	\$ 968	\$ 1,165
Student accounts due from a third party sponsor	63	652
Student accounts in collections	607	624
Federal student loans pending drawdown	1,645	1,699
Other receivables	381	42
	3,664	4,182
Less: Allowance for doubtful accounts	(519)	(516)
Accounts receivable, net	\$ 3,145	\$ 3,666

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

**NOTE 4 - STUDENT LOANS RECEIVABLE**

The University's student loans receivable consists primarily of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government. These loans are recorded based on the outstanding principal balance, less an allowance for estimated losses. Perkins loans receivable, net, were \$5,643 and \$6,968 as of May 31, 2019 and 2018.

Funds held in the Federal Perkins Loan programs of \$6,868 and \$6,816 are ultimately refundable to the government and are classified as a liability in the statement of financial position as of May 31, 2019 and 2018.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

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

Since student loans under the Federal Perkins Loan program can be assigned to the U.S. government when they are no longer collectible, a Perkins loan write off will reduce the amount refundable to the government. Due to this program provision, the University does not maintain an allowance for doubtful accounts with regard to Perkins loans. Nonperforming Perkins loans were \$878 and \$1,140 as of May 31, 2019 and 2018.

The Perkins loan program was not reauthorized, and final disbursements were made in the year ended May 31, 2018. The University will return excess funds as required by the federal government, and will continue to service loans until assignment is required or it is no longer cost-effective.

**NOTE 5 - INVESTMENTS**

Investments at May 31, 2019 and 2018 are as follows:

	2019	2018
Multi-strategy limited partnership investment fund	\$ 249,178	\$ 250,823
Balanced stock/fixed income limited partnership investment fund	3,538	3,920
Money market funds	611	3,373
Fixed income	8,761	8,772
Equity and real asset funds	5,511	5,666
Other investments	13,483	13,537
Total investments	\$ 281,082	\$ 286,091

**(a) Overall Endowment Investment Objective**

The overall investment objective of the University is to produce the maximum total return (net income plus appreciation) consistent with prudent management and preservation of purchasing power (preservation of principal adjusted for inflation). The University's Endowment Committee oversees the University's investment program in accordance with established guidelines approved by the Board of Trustees.

**(b) Endowment Investment Strategy**

During the fiscal year ended May 31, 2015, the University transitioned from using multiple fund managers to using a single multi-strategy limited partnership investment fund (the "Fund") whose investment strategy focuses on varied traditional and nontraditional investment opportunities to provide a diversified single portfolio for investors. The Fund invests primarily in investment vehicles such as hedge funds and private equity funds, or pooled accounts managed by unaffiliated third parties. The Fund may also invest directly in securities, exchange traded funds, derivative contracts, and other instruments.

The Fund's portfolio is globally diversified and allocated across multiple asset classes including equities, real assets, commodities/resources and fixed income instruments. The Fund is invested for total return; generating current income is not an objective. The long-term total return objective dictates a significant allocation to asset classes expected to generate equity-like returns. The risks inherent in higher returning asset classes can normally be reduced through diversification, which is a key principal of the Fund's asset allocation approach.

The Fund's investments are subject to various risk factors including market, credit and industry risk. Market risk represents the potential loss in value of financial instruments caused by movements in market variables, such as interest rates. Other risks affecting these investments include, but are not limited to, increasing competition, rapid changes in technology and changes in economic conditions.

The University's interest in the Fund is redeemable annually at net asset value, requiring a written redemption request at least 120 days prior to the annual redemption date. Due to the illiquid nature of its underlying investments, all redemptions from the Fund are subject to the general partner's approval and may be limited or suspended entirely. Additionally, sale of all or part of the Fund to a third party is not permitted.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 5 - INVESTMENTS *Continued***

The following tables summarize the University's investments and other assets by major category in the fair value hierarchy as of May 31, 2019 and 2018:

	Total	Level 1	Level 2	Level 3
<b>2019</b>				
Beneficial interest in trusts held by others (a)	3,173	-	-	3,173
Investments in the fair value hierarchy:				
Money market funds (c)	611	611	-	-
Fixed income	8,761	3,478	5,283	-
Stocks, equity and real asset funds	5,511	5,511	-	-
Other: charitable remainder trusts (b)	13,483	13,483	-	-
<b>Total</b>	<b>28,366</b>	<b>23,083</b>	<b>5,283</b>	<b>-</b>
Investments measured at net asset value:				
Multi-strategy limited partnership (LP) investment fund	249,178			
Balanced stock/fixed income LP investment fund (d)	3,538			
<b>Total investments</b>	<b>281,082</b>	<b>23,083</b>	<b>5,283</b>	<b>-</b>
<b>Total assets</b>	<b>\$ 284,255</b>	<b>23,083</b>	<b>5,283</b>	<b>3,173</b>
<b>2018</b>				
Beneficial interest in trusts held by others (a)	3,391	-	-	3,391
Investments in the fair value hierarchy:				
Money market funds (c)	3,373	3,373	-	-
Fixed income	8,772	3,624	5,148	-
Stocks, equity and real asset funds	5,666	5,666	-	-
Other: charitable remainder trusts (b)	13,421	13,421	-	-
Other: mineral rights	116	-	-	116
<b>Total</b>	<b>31,348</b>	<b>26,084</b>	<b>5,148</b>	<b>116</b>
Investments measured at net asset value:				
Multi-strategy LP investment fund	250,823			
Balanced stock/fixed income LP investment fund (d)	3,920			
<b>Total investments</b>	<b>286,091</b>	<b>26,084</b>	<b>5,148</b>	<b>116</b>
<b>Total assets</b>	<b>\$ 289,482</b>	<b>26,084</b>	<b>5,148</b>	<b>3,507</b>

- (a) Beneficial interest in trusts held by others represents charitable remainder trusts and perpetual trusts for which the University is a beneficiary but does not serve as trustee. The trustee is responsible for making investment decisions and providing distributions to the University based on its share in the fair value of the trust. As value represents expected future cash flows from the underlying assets held by the trustee, these assets are classified as Level 3 investments.
- (b) The University serves as trustee for certain charitable remainder trusts, controlling the investment of assets which are primarily held in Level 1 stocks, equity, and real asset funds.
- (c) Money market accounts held by the bond trustee and restricted for use in capital projects are included in investments. The balance of the bond project fund was approximately \$305 and \$3,089 as of May 31, 2019 and 2018.
- (d) The University's interest in the balanced stock/fixed income LP investment fund is redeemable monthly at net asset value, requiring a written redemption request at least 6 days prior to the monthly redemption date.



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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 5 - INVESTMENTS *Continued***

The following table summarizes the percentage asset allocation in the University's multi-strategy limited partnership investment fund as of May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Public equity managers and listed investments	30%	31%
Alternative investment vehicles and other real assets	54%	56%
Fixed income, cash and cash equivalents, and other	16%	13%
	<u>100%</u>	<u>100%</u>

The liquidity profile for the multi-strategy limited partnership investment fund is actively managed to maintain sufficient liquidity for limited partners. At May 31, 2019, 61% and 67% of the fund was convertible to cash within one year and three years, respectively.

Investment liquidity as of May 31, 2019 is aggregated below based on expected redemption or sale period:

	<u>Investments'</u> <u>fair values</u>
Daily	\$ 14,244
Monthly	3,538
Annually	249,178
Illiquid	14,122
	<u>\$ 281,082</u>

The following table presents the University's activities for the fiscal year ended May 31, 2019 for investments classified in Level 3:

	<u>Balances,</u> <u>May 31, 2018</u>	<u>Net realized</u> <u>and unrealized</u> <u>gains (losses)</u>	<u>Purchases/</u> <u>and Additions</u>	<u>Sales</u>	<u>Settlements</u>	<u>Transfers</u> <u>between levels</u>	<u>Balances,</u> <u>May 31, 2019</u>
Beneficial interest in trusts held by others	\$ 3,391	(22)	-	(196)	-	-	\$ 3,173
Other investments	116	-	-	(116)	-	-	-
	<u>\$ 3,507</u>	<u>(22)</u>	<u>-</u>	<u>(312)</u>	<u>-</u>	<u>-</u>	<u>\$ 3,173</u>

The following table presents the University's activities for the fiscal year ended May 31, 2018 for investments classified in Level 3:

	<u>Balances,</u> <u>May 31, 2017</u>	<u>Net realized</u> <u>and unrealized</u> <u>gains (losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>Settlements</u>	<u>Transfers</u> <u>between levels</u>	<u>Balances,</u> <u>May 31, 2018</u>
Beneficial interest in trusts held by others	\$ 3,080	115	196	-	-	-	\$ 3,391
Other investments	18	98	-	-	-	-	116
	<u>\$ 3,098</u>	<u>213</u>	<u>196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 3,507</u>

**NOTE 6 - ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT**

As of May 31, 2019, the University's endowment consists of approximately 617 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 6 - ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT *Continued***

***Interpretation of Relevant Law***

The University 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 endowment funds restricted in perpetuity the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as endowment funds restricted in perpetuity is classified as accumulated undistributed endowment gains 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 accumulated undistributed endowment gains:

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

Endowment net asset composition by type of fund consists of the following as of May 31, 2019 and 2018:

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Funds functioning as endowment	\$ 29,155	891	30,046	\$ 28,398	858	29,256
Accumulated endowment gains	-	77,274	77,274	-	82,223	82,223
Funds restricted in perpetuity	-	148,931	148,931	-	145,197	145,197
Funds held in perpetual trust by others	-	1,892	1,892	-	1,954	1,954
Total endowment net assets	<u>29,155</u>	<u>228,988</u>	<u>258,143</u>	<u>28,398</u>	<u>230,232</u>	<u>258,630</u>
Less perpetual trusts held by others	-	(1,892)	(1,892)	-	(1,954)	(1,954)
Less endowment pledges receivable	-	(2,747)	(2,747)	-	(2,321)	(2,321)
Add custodial funds invested	367	-	367	419	-	419
Pooled endowment investment funds	<u>\$ 29,522</u>	<u>\$ 224,349</u>	<u>\$ 253,871</u>	<u>\$ 28,817</u>	<u>\$ 225,957</u>	<u>\$ 254,774</u>

Changes in endowment net assets for the years ended May 31, 2019 and 2018 are as follows:

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Beginning endowment net assets	\$ 28,398	230,232	258,630	\$ 25,287	215,415	240,702
Net investment returns	1,607	5,376	6,983	2,313	20,286	22,599
Contributions	47	4,034	4,081	178	3,802	3,980
Appropriation of endowment assets for expenditures	(1,397)	(10,409)	(11,806)	(1,314)	(10,254)	(11,568)
Other changes:						
Annuity and trust maturities	-	38	38	-	12	12
Board directed quasi transfer	-	-	-	300	-	300
Other quasi transfers	69	83	152	1,566	-	1,566
Recapture of prior distributions to underwater funds	-	14	14	-	653	653
Adjustments to restricted pledges	-	(7)	(7)	-	-	-
Release purpose-restricted quasi	431	(431)	-	-	-	-
Transfers - other	-	58	58	68	318	386
Ending endowment net assets	<u>\$ 29,155</u>	<u>228,988</u>	<u>258,143</u>	<u>\$ 28,398</u>	<u>230,232</u>	<u>258,630</u>

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 6 - ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT *Continued***

***Return Objectives and Risk Parameters***

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

***Spending Policy***

The University has a policy of appropriating each year for distribution 4.5% of the endowment investment pool's average market value over the prior twenty quarters, through the quarter ending on September 30th of the year preceding distribution. Actual distributions have exceeded 4.5% due to higher established spending rates for funds that existed prior to adoption of the current policy, and the University is in the process of implementing a plan to lower the distribution for those funds to 4.5% by the 2021-2022 fiscal year. The average rate applied to funds in the spending formula was 5.29% and 5.52%, respectively, for the years ended May 31, 2019 and 2018. The effective spending rate (calculated as current spending distributions net of reinvestments and recapture divided by the market value of endowment investments at the beginning of the year) was 4.63% and 4.89%, respectively, for the years ended May 31, 2019 and 2018.

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to maintain as a fund of perpetual duration. UPMIFA allows an institution to continue to spend on an endowment that is below this level. Deficiencies of this nature were \$4,824 and \$4,689 as of May 31, 2019 and 2018, respectively, and are included in the table below. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs. Future expenditures from funds with deficiencies are subject to the same criteria used in appropriation determinations - see discussion under Interpretation of Relevant Law. The University has taken steps to accelerate the recovery of underwater funds. During the years ended May 31, 2019 and 2018, the University recaptured \$354 and \$1,448 in unspent endowment distributions to reduce deficiencies, and distributions have been fully or partially suspended for selected funds.

Cumulative gains and losses for funds with donor restrictions held by the University are as follows as of May 31, 2019 and 2018:

	2019			2018		
	Original gift	Cumulative gains/(losses)	Market Value	Original gift	Cumulative gains/(losses)	Market Value
Underwater funds restricted in perpetuity	\$ 51,563	(4,824)	46,739	\$ 45,502	(4,689)	40,813
Other funds restricted in perpetuity	94,621	82,098	176,719	97,374	86,203	183,577
Funds with purpose restrictions functioning as endowment	891	-	891	858	709	1,567
Total donor-restricted endowment pool	<u>\$ 147,075</u>	<u>77,274</u>	<u>224,349</u>	<u>\$ 143,734</u>	<u>82,223</u>	<u>225,957</u>

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

	2019	2018
Dividends and interest	\$ 2	\$ 15
Net change in investment value	8,177	23,807
Investment fees and other	(1,196)	(1,223)
Total endowment investments return	<u>\$ 6,983</u>	<u>\$ 22,599</u>
Endowment investments return included in revenues	11,806	11,568
Endowment investments return included in other changes in net assets	(4,823)	11,031
Total endowment investments return	<u>\$ 6,983</u>	<u>\$ 22,599</u>

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 7 - CHARITABLE GIFT ANNUITIES AND REMAINDER TRUSTS**

Charitable gift annuities and remainder trusts consist of the following at May 31, 2019 and 2018:

	2019			2018		
	Charitable gift annuities	Remainder trusts	Total	Charitable gift annuities	Remainder trusts	Total
Assets:						
Investments:						
Money market and fixed income	\$ 3,567	-	3,567	\$ 3,659	-	3,659
Equity and real asset strategies	4,666	-	4,666	4,929	-	4,929
Charitable remainder trusts	-	13,483	13,483	-	13,421	13,421
Beneficial interest in remainder trusts held by others	-	1,281	1,281	-	1,437	1,437
Total assets	<u>\$ 8,233</u>	<u>14,764</u>	<u>22,997</u>	<u>\$ 8,588</u>	<u>14,858</u>	<u>23,446</u>
Liabilities and net assets:						
Annuities and trusts payable	4,812	8,773	13,585	5,459	8,921	14,380
Net assets without donor restrictions	550	-	550	234	-	234
Net assets with donor restrictions	2,871	5,991	8,862	2,895	5,937	8,832
Total liabilities and net assets	<u>\$ 8,233</u>	<u>14,764</u>	<u>22,997</u>	<u>\$ 8,588</u>	<u>14,858</u>	<u>23,446</u>
Gift portion of new annuities and trusts included in contributions	<u>\$ -</u>	<u>58</u>	<u>58</u>	<u>\$ 1,279</u>	<u>195</u>	<u>1,474</u>

The University maintains a segregated pool of gift annuity assets to fund beneficiary payments. Charitable gift annuities written for residents of California, Florida and Washington are subject to state-mandated reserve requirements. Amounts set aside in segregated reserve accounts totaled \$3,057 and \$3,135 as of May 31, 2019 and 2018, respectively.

**NOTE 8 - PLANT FACILITIES, NET**

Plant facilities consist of the following at May 31, 2019 and 2018:

	2019	2018
Land	\$ 8,660	\$ 8,655
Campus improvements	15,778	14,218
Buildings	180,804	179,038
Furniture, fixtures and equipment	7,830	7,558
Library holdings	39,611	39,367
Art collection	5,969	5,827
Construction in progress	94	465
Accumulated depreciation	(120,004)	(114,192)
Plant facilities, net	<u>\$ 138,742</u>	<u>\$ 140,936</u>

The University recorded depreciation expense of \$5,812 and \$5,799, respectively, during the years ended May 31, 2019 and 2018.

The University has acquired art and other collectibles (Art collection), which are housed or displayed in the Hallie Ford Museum of Art. Depreciation is not recorded on these assets.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 9 - BONDS PAYABLE**

In May 2010, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$32,500. The proceeds of the bonds were used to repay the outstanding line of credit, to advance refund the remaining balances of the Series 2004 and Series 2005 bonds, to provide funding for several capital projects, and to assist with other facility upgrades and improvements. The bonds have annual principal and interest obligations ranging from \$1,248 to \$1,278 through 2025, at which time a payment of \$11,011 is due, and bear interest at rates ranging from 3.5% to 5%. At May 31, 2019 and 2018, there were outstanding balances of \$14,555 and \$15,195, respectively.

In July 2016, the University issued \$51,345 of Oregon Facilities Authority Revenue Bonds in three series:

- 2016 Series A bonds in the amount of \$22,410 were placed directly with a bank, and proceeds were used for a partial refunding of Oregon Facilities Authority Revenue Bonds (Series 2007). 2016 Series A bonds have annual principal and interest obligations ranging from \$622 to \$2,344 and accrue interest at a fixed rate of 2.595% through October 2031. In October 2031, the bank has the option to require repayment in full of the remaining principal of \$13,000, or may extend the amortization through October 2036 at an updated rate. At May 31, 2019 and 2018 there were outstanding balances of \$22,360 and \$22,410, respectively.
- 2016 Series B bonds in the amount of \$21,255 were issued, and proceeds were used to refund Oregon Facilities Authority Series 2014 bonds and to finance a program to upgrade campus residential facilities. 2016 Series B bonds have annual principal and interest obligations ranging from \$808 to \$2,748 through October 2045, and bear interest at rates ranging from 3% to 5%. At May 31, 2019 and 2018 there were outstanding balances of \$21,255 and \$21,255, respectively.
- 2016 Series C bonds in the amount of \$7,680 were placed directly with a bank in October 2017. Proceeds were used to refund remaining Oregon Facilities Authority Revenue Bonds (Series 2007). 2016 Series C bonds have annual principal and interest obligations ranging from \$404 to \$2,038 and accrue interest at a fixed rate of 1.986%, through October 2026. At May 31, 2019 there was an outstanding balance of \$6,950 and \$7,680, respectively.

Principal payments on bonds payable are as follows:

<u>Fiscal Years Ending May 31,</u>	<u>Payments</u>
2019-2020	\$ 1,455
2020-2021	1,495
2021-2022	1,530
2022-2023	1,565
2023-2024	1,605
Thereafter	57,470
	<u>65,120</u>
Add unamortized bond premium, net of debt issuance costs	925
Bonds payable, net	<u><u>\$ 66,045</u></u>

Interest costs on bonds payable for the years ended May 31, 2019 and 2018 was approximately \$2,097 and \$2,204, respectively, of which approximately \$97 and \$107 was capitalized. The remaining interest expense is included in various functional expense categories in the statements of activities.

Management has determined that the University is in compliance with all of its bond covenants as of May 31, 2019.

**NOTE 10 - OTHER POSTRETIREMENT BENEFITS AND RELATED LIABILITY ESTIMATES**

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

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 10 - OTHER POSTRETIREMENT BENEFITS AND RELATED LIABILITY ESTIMATES *Continued***

The schedule below details the estimated liabilities for these benefits included in accounts payable and accrued liabilities in the statements of financial position as of May 31, 2019 and 2018. Liability estimates are discounted from estimated future costs at 3.65% and 3.65% as of May 31, 2019 and 2018, respectively. The voluntary severance payment estimate assumes a 3.0% annual growth in the compensation upon which the benefit is based. At May 31, 2019, the assumed health care cost trend rate for the following year used to measure the expected cost of benefits covered by the plan was 6.5%. The rate was assumed to gradually decrease to 4.5% through 2024 and remain at that level thereafter.

Benefit payments by the University relating to the postretirement benefit plans were approximately \$741 and \$459 for the fiscal years ended May 31, 2019 and 2018, respectively. Service cost recognized as benefits expense in various functional categories was approximately \$333 and \$321 for the fiscal years ended May 31, 2019 and 2018, respectively.

Postretirement benefit obligations at May 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Medicare supplement - up to \$125 per quarter	\$ 409	\$ 430
Voluntary severance arrangement - severance payments	2,580	2,627
Voluntary severance arrangement - health and life insurance until Medicare eligible	2,520	2,465
Total postretirement benefit obligations	<u>\$ 5,509</u>	<u>\$ 5,522</u>

Expected future payments of postretirement benefits are as follows:

<u>Fiscal Years Ending May 31,</u>	<u>Payments</u>
2019-2020	\$ 290
2020-2021	330
2021-2022	363
2022-2023	436
2023-2024	442
Thereafter	3,648
Total postretirement benefit obligations	<u>\$ 5,509</u>

**NOTE 11 - NET ASSETS RELEASED FROM RESTRICTION**

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, occurrence of events specified by the donors, changes in restrictions specified by the donors, or the passage of time. Net assets released from restriction during the years ended May 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowed faculty and staff positions	\$ 2,378	\$ 2,072
Endowed facilities improvements	546	90
Other endowed funds	2,186	1,285
Sponsored research	1,512	1,778
Other restricted funds	1,491	1,151
	<u>8,113</u>	<u>6,376</u>
Funded financial aid	5,030	5,413
Total net assets released from restrictions	<u>\$ 13,143</u>	<u>\$ 11,789</u>

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 12 - FUNCTIONAL EXPENSES**

Expenses are allocated to programs and organized by functional categories that correlate to the educational mission of the University. The table below presents natural categories of expenses and their allocation by functional category. Natural expenses are charged directly to the appropriate program where possible, and expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

	Year ended May 31, 2019						Total
	Wages and Salaries	Employee Fringe Benefits	Services and Supplies	Facilities Expenses	Depreciation	Interest	
Instruction	\$ 21,066	7,637	3,370	1,033	1,861	740	35,707
Research	769	159	737	-	168	-	1,833
Academic support	7,930	2,768	5,305	412	1,487	75	17,977
Student services	6,095	2,043	3,545	426	938	157	13,204
Institutional support	6,828	1,550	3,540	147	227	68	12,360
Auxiliary enterprises	2,243	740	4,037	1,217	1,131	960	10,328
Total expenses	<u>\$ 44,931</u>	<u>14,897</u>	<u>20,534</u>	<u>3,235</u>	<u>5,812</u>	<u>2,000</u>	<u>\$ 91,409</u>

  

	Year ended May 31, 2018						Total
	Wages and Salaries	Employee Fringe Benefits	Services and Supplies	Facilities Expenses	Depreciation	Interest	
Instruction	\$ 21,369	7,869	3,243	911	1,847	786	36,025
Research	766	199	1,154	-	217	-	2,336
Academic support	7,837	2,834	4,846	364	1,539	81	17,501
Student services	5,714	1,968	3,491	373	726	80	12,352
Institutional support	6,905	2,334	4,297	126	352	69	14,083
Auxiliary enterprises	2,514	862	4,069	1,101	1,118	1,081	10,745
Total expenses	<u>\$ 45,105</u>	<u>16,066</u>	<u>21,100</u>	<u>2,875</u>	<u>5,799</u>	<u>2,097</u>	<u>\$ 93,042</u>

Fund-raising expenses of \$5,077 and \$4,502 are included in general institutional support expenses in the statements of activities for the years ended May 31, 2019 and 2018, respectively.

**NOTE 13 - RETIREMENT PLAN EXPENSE**

The University has established a defined contribution retirement plan which provides retirement benefits to eligible personnel through Transamerica Retirement Solutions (formerly Diversified). The University's contributions are based on a percentage of participating employees' salaries and, along with employee contributions, are paid into the plan monthly. Retirement plan expense for the years ended May 31, 2019 and 2018 was approximately \$4,008 and \$4,029, respectively, and is recognized as benefits expense in various functional categories.

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

May 31, 2019 (with comparative financial information as of May 31, 2018)  
(in thousands)

**NOTE 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The University manages financial assets to be available for general expenditures, liabilities and other obligations as they come due. As of May 31, 2019, financial assets available within one year are as follows:

	<u>2019</u>	<u>2018</u>
Total assets at year end	\$ 461,699	\$ 470,920
Less:		
Prepaid expenses and other assets	(775)	(678)
Pledges receivable that are restricted or due in more than one year	(3,793)	(4,297)
Student Perkins loans receivable	(5,675)	(6,983)
Donor restricted endowment funds	(149,822)	(146,055)
Board designated endowment funds	(29,155)	(28,398)
Accumulated endowment earnings	(77,274)	(82,223)
Add back current appropriation of endowment earnings	11,999	12,137
Charitable remainder trust assets	(13,483)	(13,421)
State-mandated gift annuity reserves	(3,057)	(3,135)
Beneficial interest in trusts held by others	(3,173)	(3,391)
Plant facilities, net	(138,742)	(140,936)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 48,749</u>	<u>\$ 53,540</u>

Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other limitations on liquidity include state-mandated annuity reserves, trust assets, perpetual endowment principal and accumulated earnings net of appropriations within one year, and governing board designations for long-term investment, including funds functioning as endowment. Board designations may be drawn upon if approved by the Board.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

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

**NOTE 16 - CLAREMONT SCHOOL OF THEOLOGY**

The University signed an affiliation agreement in May 2019 with the Claremont School of Theology (CST), currently located in Claremont, CA. During the affiliation period, the schools will continue as separate institutions, and some of CST's operations will move to Willamette University's campus in Salem, Oregon. After successful outcome of due diligence, and resolution of matters addressed during the affiliation period, the schools will work to formally establish CST as the third graduate school of Willamette University. The affiliation agreement has an initial term of three years, and may be canceled by either party with 180 days written notice.

**NOTE 17 - SUBSEQUENT EVENTS**

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

Subsequent events have been evaluated through October 25, 2019, which corresponds to the date when the financial statements were issued, and no events were determined to be reportable.



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