



WILLAMETTE  
UNIVERSITY

2020 Financial Report

*Non Nobis  
Solum  
Nati Sumus*

Not Unto  
Ourselves  
Alone  
Are We Born

**WILLAMETTE UNIVERSITY**  
**2020 FINANCIAL REPORT WITH SUPPLEMENTARY INFORMATION**

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May 31, 2020

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## **Report of Independent Auditors**

The Board of Trustees  
Willamette University

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

We have audited the accompanying financial statements of Willamette University (the University), which comprise the statement of financial position as of May 31, 2020, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Willamette University as of May 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***2019 Financial Statements and Report on Summarized Comparative Information*

The financial statements of Willamette University as of May 31, 2019 and for the period then ended were audited by other auditors, whose report dated October 25, 2019 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2020 on our consideration of 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 solely 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 effectiveness of the University's 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.

*Moss Adams LLP*

Portland, Oregon  
October 21, 2020

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

May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,598	\$ 25,247
Accounts receivable, net	3,835	3,145
Prepaid expenses and other assets	842	775
Pledges receivable, net	2,254	3,860
Student loans receivable, net	4,525	5,675
Investments	268,927	281,082
Beneficial interest in trusts held by others	3,166	3,173
Plant facilities, net	135,585	138,742
<b>Total assets</b>	<b>\$ 443,732</b>	<b>\$ 461,699</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 18,944	\$ 18,098
Deferred revenues	2,000	1,506
Annuities and trusts payable	13,330	13,585
Bonds payable, net	64,560	66,045
Government advances for student loans	4,976	6,868
<b>Total liabilities</b>	<b>103,810</b>	<b>106,102</b>
<b>Net Assets:</b>		
Without donor restrictions:		
Available for operations	893	4,801
Charitable gift annuity funds	591	550
Funds without donor restrictions functioning as endowment	27,845	29,155
Invested in plant facilities	69,317	72,461
<b>Total net assets without donor restrictions</b>	<b>98,646</b>	<b>106,967</b>
With donor restrictions:		
Unexpended funds received for specific purposes	11,014	10,780
Trust and annuity funds	8,382	8,862
Accumulated undistributed endowment gains	61,676	77,274
Funds with purpose restrictions functioning as endowment	1,030	891
Endowment funds restricted in perpetuity	157,331	148,931
Endowment funds held in perpetual trust by others	1,843	1,892
<b>Total net assets with donor restrictions</b>	<b>241,276</b>	<b>248,630</b>
<b>Total net assets</b>	<b>339,922</b>	<b>355,597</b>
<b>Total liabilities and net assets</b>	<b>\$ 443,732</b>	<b>\$ 461,699</b>

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

For the year ended May 31, 2020 (with summarized comparative financial information for the year ended May 31, 2019)  
(in thousands)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenues:</b>				
Tuition and fees	\$ 99,793	\$ -	\$ 99,793	\$ 103,459
Less student scholarships	(43,246)	(5,764)	(49,010)	(48,990)
Net tuition and fees	56,547	(5,764)	50,783	54,469
Room and board fees	12,392	-	12,392	13,561
Contributions	1,288	11,358	12,646	7,419
Endowment income distributed	4,832	9,304	14,136	11,806
Auxiliary enterprises	678	-	678	647
Grant revenues	509	1,934	2,443	1,425
Other revenues	1,910	152	2,062	2,105
Net assets released from restrictions	8,032	(8,032)	-	-
<b>Total revenues</b>	<b>86,188</b>	<b>8,952</b>	<b>95,140</b>	<b>91,432</b>
<b>Expenses:</b>				
Salaries and wages	45,110	-	45,110	44,931
Employee fringe benefits	14,654	-	14,654	14,897
Supplies and services	19,958	-	19,958	20,534
Plant operations and maintenance	2,887	-	2,887	3,235
Depreciation	5,706	-	5,706	5,812
Interest	2,049	-	2,049	2,000
<b>Total expenses</b>	<b>90,364</b>	<b>-</b>	<b>90,364</b>	<b>91,409</b>
<b>Change in net assets before other changes</b>	<b>(4,176)</b>	<b>8,952</b>	<b>4,776</b>	<b>23</b>
<b>Other changes in net assets:</b>				
Endowment returns, net of distributions	(2,329)	(15,648)	(17,977)	(4,823)
Adjustment related to annuities and trusts	(66)	(521)	(587)	251
Post retirement benefits liability adjustment	(1,851)	-	(1,851)	(394)
Faculty one-time separation incentive program	-	-	-	(555)
Adjustments to restricted pledges	-	(36)	(36)	(7)
Other	101	(101)	-	-
<b>Change in net assets</b>	<b>(8,321)</b>	<b>(7,354)</b>	<b>(15,675)</b>	<b>(5,505)</b>
Net assets at beginning of year	106,967	248,630	355,597	361,102
Net assets at end of year	\$ 98,646	\$ 241,276	\$ 339,922	\$ 355,597



# WILLAMETTE UNIVERSITY

## STATEMENT OF CASH FLOWS

For the year ended May 31, 2020 (with comparative financial information for the year ended May 31, 2019)  
(in thousands)

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from tuition, fees, room and board	\$ 64,092	\$ 69,457
Cash received from contributions and grants	7,356	5,377
Cash investment returns	507	428
Miscellaneous receipts	1,515	2,829
Payments for employees and benefits	(60,436)	(60,905)
Payments to vendors	(24,566)	(26,056)
Cash paid for interest on bonds, net of amounts capitalized	(2,087)	(2,133)
<b>Net change in cash from operating activities</b>	<b>(13,619)</b>	<b>(11,003)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(6,272)	(13,961)
Proceeds from maturities/sales of investments	15,922	26,325
Purchases of plant facilities	(2,469)	(3,386)
<b>Net change in cash from investing activities</b>	<b>7,181</b>	<b>8,978</b>
<b>Cash flows from financing activities:</b>		
Cash contributions restricted for:		
Investment in endowment	8,346	3,646
Investment in plant facilities	647	100
Investment subject to annuity and trust agreements	143	58
Principal payments on bonds payable	(1,455)	(1,420)
Change in government advances for student loans	(1,892)	52
<b>Net change in cash from financing activities</b>	<b>5,789</b>	<b>2,436</b>
<b>Net change in cash and cash equivalents</b>	<b>(649)</b>	<b>411</b>
Cash and cash equivalents at beginning of year	25,247	24,836
Cash and cash equivalents at end of year	<b>\$ 24,598</b>	<b>\$ 25,247</b>

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
(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.

#### ***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.

#### ***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 ASC 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.

#### ***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. Investment income and 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 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 statement of activities.

Changes in net assets before other changes serves as a measure of operations. The University defines non-operating 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, 2019. 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, 2019, from which the summarized information was derived.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

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

#### ***Tuition and fees***

Student tuition and fee revenue is recognized pro-rata over each term as performance obligations associated with the delivery of educational services are met. Registration and other fees that do not relate to instruction are recognized when no longer refundable. The University's student account receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are recorded once the term has begun and revenue recognition has commenced.

The University maintains an institutional tuition refund policy, which provides for a full or partial refund of tuition if a student withdraws during stated refund periods. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro-rata over the applicable period of instruction.

The University's education programs have start and end dates that differ from its fiscal year-end. Students are generally billed for courses and programs prior to the start of the course or program. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as deferred revenue in the statements of financial position.

#### ***Room and board fees***

Room and board fees are recognized pro-rata as performance obligations associated with the delivery of room and board services are provided. The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are recorded once students have moved into student housing.

As with tuition and fees revenue, the University provides for a full or partial refund of room and board fees if a student withdraws and checks out of housing during stated refund periods. If a student checks out of housing at a time when only a portion, or none of the room and board is refundable, then, in accordance with its revenue recognition policy, the University continues to recognize room and board that was not refunded pro-rata over the applicable housing period.

#### ***Contributions and pledges receivable***

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.

#### ***Government and private grants***

Individual governmental and private grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution – until the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

#### ***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.

#### ***Accounts receivable, net***

Accounts receivable consist primarily of student accounts receivable and are carried at their outstanding amount. The allowance estimates are based on past collection experience and an aging analysis of the outstanding balances. Account balances are charged off against the allowance after all means of collection have been exhausted and potential recovery is considered remote.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

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

#### ***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 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.

#### ***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.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

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

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 recorded 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.

	Capitalization Threshold	Useful Lives
Campus improvements	\$ 25	25 years
Buildings and building improvements	25	25 - 50 years
Furniture, fixtures and equipment	5	5 - 15 years
Library holdings	N/A	25 years

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 the art collection.

#### ***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.

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

The University adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to improve the evaluation and determination of whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. In addition, the standard requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The ASU was adopted on a modified prospective basis and had no impact on the University's overall change in net assets or net cash used in operating activities.

#### ***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, 2020. The impact is not expected to be material to the financial statements as a whole.

#### ***Reclassifications***

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



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

May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

**NOTE 2 - ACCOUNTS RECEIVABLE**

At May 31, 2020 and 2019 accounts receivable are as follows:

	<u>2020</u>	<u>2019</u>
Student accounts	\$ 1,092	\$ 968
Student accounts due from a third party sponsor	579	63
Student accounts in collections	786	607
Federal student loans pending drawdown	1,976	1,645
Other receivables	13	381
	<u>4,446</u>	<u>3,664</u>
Less: Allowance for doubtful accounts	(611)	(519)
Accounts receivable, net	<u>\$ 3,835</u>	<u>\$ 3,145</u>

**NOTE 3 – PLEDGES RECEIVABLE**

The University records pledges receivable at the present value of estimated future cash flows using discount rates ranging from 0.22% to 4.9% for pledges receivable outstanding at May 31, 2020 and 2019. Annual payments are scheduled to be received as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 1,453	\$ 1,443
One to five years	903	2,566
More than five years	20	29
	<u>2,376</u>	<u>4,038</u>
Less:		
Discount	(22)	(78)
Reserve for uncollectible accounts	(100)	(100)
Pledges receivable, net	<u>\$ 2,254</u>	<u>\$ 3,860</u>

As of May 31, 2020, the amount for which grants were awarded but conditions required for recognition not yet met, typically when qualified expenditures are incurred, was \$3,373.

**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 \$4,498 and \$5,643 as of May 31, 2020 and 2019.

Funds held in the Federal Perkins Loan programs of \$4,976 and \$6,868 are ultimately refundable to the government and are classified as a liability in the statement of financial position as of May 31, 2020 and 2019.

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 \$759 and \$878 as of May 31, 2020 and 2019.

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.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

### NOTE 5 - INVESTMENTS

Investments at May 31, 2020 and 2019 are as follows:

	2020	2019
Multi-strategy limited partnership investment fund	\$ 245,845	\$ 249,178
Balanced stock/fixed income limited partnership investment fund	647	3,538
Money market funds	454	611
Fixed income	3,038	8,761
Equity and real asset funds	5,836	5,511
Other investments	13,107	13,483
Total investments	\$ 268,927	\$ 281,082

**(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**

The University has engaged an outsource chief investment office (OCIO), and most of its endowment assets are invested in 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.

The following table summarizes the percentage asset allocation in the University's multi-strategy limited partnership investment fund as of May 31, 2020 and 2019:

	2020	2019
Public equity managers and listed investments	34%	30%
Alternative investment vehicles and other real assets	53%	54%
Fixed income, cash and cash equivalents, and other	13%	16%
	100%	100%

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

May 31, 2020 (with comparative financial information as of May 31, 2019)  
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**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, 2020 and 2019:

	Total	Level 1	Level 2	Level 3
2020				
Beneficial interest in trusts held by others (a)	\$ 3,166	-	-	3,166
Investments in the fair value hierarchy:				
Money market funds (c)	454	454	-	-
Fixed income	3,038	3,038	-	-
Stocks, equity and real asset funds	5,836	5,131	-	705
Other: charitable remainder trusts (b)	13,107	13,107	-	-
Total	<u>22,435</u>	<u>21,730</u>	<u>-</u>	<u>705</u>
Investments measured at net asset value:				
Multi-strategy limited partnership (LP) investment fund (d)	245,845			
Balanced stock/fixed income LP investment fund (e)	647			
Total investments	<u>268,927</u>	<u>21,730</u>	<u>-</u>	<u>705</u>
Total assets	<u>\$ 272,093</u>	<u>21,730</u>	<u>-</u>	<u>3,871</u>
2019				
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	4,872	-	639
Other: charitable remainder trusts (b)	13,483	13,483	-	-
Total	<u>28,366</u>	<u>22,444</u>	<u>5,283</u>	<u>639</u>
Investments measured at net asset value:				
Multi-strategy limited partnership (LP) investment fund (d)	249,178			
Balanced stock/fixed income LP investment fund (e)	3,538			
Total investments	<u>281,082</u>	<u>22,444</u>	<u>5,283</u>	<u>639</u>
Total assets	<u>\$ 284,255</u>	<u>22,444</u>	<u>5,283</u>	<u>3,812</u>

- (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 \$306 and \$305 as of May 31, 2020 and 2019.
- (d) See Endowment Investment Strategy.
- (e) 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. This fund is also managed by the University's OCIO.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2020 (with comparative financial information as of May 31, 2019)  
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### NOTE 5 - INVESTMENTS *Continued*

The liquidity profile for the multi-strategy limited partnership investment fund is actively managed to maintain sufficient liquidity for limited partners. At May 31, 2020, 60% and 70% of the fund was convertible to cash within one year and three years, respectively.

Investment liquidity as of May 31, 2020 is aggregated below based on expected redemption or sale period:

	Investments' fair values
Daily	\$ 8,623
Monthly	647
Biannually	245,845
Illiquid	13,812
	\$ 268,927

The following table presents the University's activities for the fiscal year ended May 31, 2020 for investments classified in Level 3:

	Balances, May 31, 2019	Net realized and unrealized gains (losses)	Purchases/ and Additions	Sales	Settlements	Transfers between levels	Balances, May 31, 2020
Beneficial interest in trusts held by others	\$ 3,173	(7)	-	-	-	-	\$ 3,166
Stock and equity funds	639	-	75	(9)	-	-	705
	\$ 3,812	(7)	75	(9)	-	-	\$ 3,871

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

	Balances, May 31, 2018	Net realized and unrealized gains (losses)	Purchases	Sales	Settlements	Transfers between levels	Balances, May 31, 2019
Beneficial interest in trusts held by others	\$ 3,391	(22)	-	(196)	-	-	\$ 3,173
Stock and equity funds	514	78	133	(86)	-	-	639
Other investments	116	-	-	(116)	-	-	-
	\$ 4,021	56	133	(398)	-	-	\$ 3,812

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

As of May 31, 2020, the University's endowment consists of approximately 638 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.

#### ***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 the board to define 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 perpetual 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.

**WILLAMETTE UNIVERSITY**  
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May 31, 2020 (with comparative financial information as of May 31, 2019)  
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**NOTE 6 - ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT** *Continued*

In making a determination to appropriate accumulated undistributed endowment gains consistent with the standard of prudence prescribed by UPMIFA, the University considers factors including the purposes of the University and the donor-restricted endowment fund, the duration and preservation of the fund, the investment policies of the University, expected total return from income and appreciation of investments, general economic conditions, the possible effect of inflation and deflation, and other resources of the University. Determinations also consider the rebuttable presumption of imprudence for appropriations of more than 7% of the fair market value of an endowment fund, calculated on the basis of quarterly market values averaged over a period of not less than three years immediately preceding the year in which the appropriation was made, in accordance with the Oregon UPMIFA statute.

**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.

Endowment net asset composition by type of fund consists of the following as of May 31, 2020 and 2019:

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Funds functioning as endowment	\$ 27,845	1,030	28,875	\$ 29,155	891	30,046
Accumulated endowment gains	-	61,676	61,676	-	77,274	77,274
Funds restricted in perpetuity	-	157,331	157,331	-	148,931	148,931
Funds held in perpetual trust by others	-	1,843	1,843	-	1,892	1,892
Total endowment net assets	<u>27,845</u>	<u>221,880</u>	<u>249,725</u>	<u>29,155</u>	<u>228,988</u>	<u>258,143</u>
Less perpetual trusts held by others	-	(1,843)	(1,843)	-	(1,892)	(1,892)
Less endowment pledges receivable	-	(1,331)	(1,331)	-	(2,747)	(2,747)
Add custodial funds invested	444	-	444	367	-	367
Pooled endowment investment funds	<u>\$ 28,289</u>	<u>\$ 218,706</u>	<u>\$ 246,995</u>	<u>\$ 29,522</u>	<u>\$ 224,349</u>	<u>\$ 253,871</u>

Changes in endowment net assets for the years ended May 31, 2020 and 2019 are as follows:

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Beginning endowment net assets	\$ 29,155	228,988	258,143	\$ 28,398	230,232	258,630
Net investment returns	(460)	(3,381)	(3,841)	1,607	5,376	6,983
Contributions	43	8,670	8,713	47	4,034	4,081
Appropriation of endowment assets for expenditures	(1,869)	(12,267)	(14,136)	(1,397)	(10,409)	(11,806)
Other changes:						
Annuity and trust maturities	-	-	-	-	38	38
Board directed quasi transfer	-	-	-	-	-	-
Other quasi transfers	781	45	826	69	83	152
Recapture of prior distributions to underwater funds	-	-	-	-	14	14
Adjustments to restricted pledges	-	(35)	(35)	-	(7)	(7)
Release purpose-restricted quasi	193	(193)	-	431	(431)	-
Transfers - other	2	53	55	-	58	58
Ending endowment net assets	<u>\$ 27,845</u>	<u>221,880</u>	<u>249,725</u>	<u>\$ 29,155</u>	<u>228,988</u>	<u>258,143</u>



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

***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. The University is implementing a multi-year plan to lower the higher established spending rates for funds that existed prior to adoption of the current policy to 4.5% by the 2021-2022 fiscal year. In addition, a special appropriation was applied to funds generating unrestricted and budget-relieving revenue for the year ended May 31, 2020. The average rate applied to funds in the spending formula was 5.86% and 5.29%, respectively, for the years ended May 31, 2020 and 2019. 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 5.58% and 4.63%, respectively, for the years ended May 31, 2020 and 2019.

***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 \$8,416 and \$4,824 as of May 31, 2020 and 2019, 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, 2020 and 2019, the University recaptured \$32 and \$354 in unspent endowment distributions to reduce deficiencies, distributions have been fully or partially suspended for selected funds, and underwater funds that otherwise qualified for the special appropriation were excluded.

Cumulative gains and losses for funds with donor restrictions held by the University are as follows as of May 31, 2020 and 2019:

	2020			2019		
	Original gift	Cumulative gains/(losses)	Market Value	Original gift	Cumulative gains/(losses)	Market Value
Underwater funds restricted in perpetuity	\$ 79,722	(8,416)	71,306	\$ 51,563	(4,824)	46,739
Other funds restricted in perpetuity	76,278	70,092	146,370	94,621	82,098	176,719
Funds with purpose restrictions functioning as endowment	1,030	-	1,030	891	-	891
Total donor-restricted endowment pool	<u>\$ 157,030</u>	<u>61,676</u>	<u>218,706</u>	<u>\$ 147,075</u>	<u>77,274</u>	<u>224,349</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:

	2020	2019
Net change in investment value	\$ (2,553)	\$ 8,179
Investment fees and other	(1,288)	(1,196)
Total endowment investments return	<u>\$ (3,841)</u>	<u>\$ 6,983</u>
Endowment investments return included in revenues	14,136	11,806
Endowment investments return included in other changes in net assets	(17,977)	(4,823)
Total endowment investments return	<u>\$ (3,841)</u>	<u>\$ 6,983</u>

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

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

Charitable gift annuities and remainder trusts consist of the following at May 31, 2020 and 2019:

	2020			2019		
	Charitable gift annuities	Remainder trusts	Total	Charitable gift annuities	Remainder trusts	Total
Assets:						
Investments:						
Money market and fixed income	\$ 3,016	-	3,016	\$ 3,567	-	3,567
Equity and real asset strategies	4,856	-	4,856	4,666	-	4,666
Charitable remainder trusts	-	13,107	13,107	-	13,483	13,483
Beneficial interest in remainder trusts held by others	-	1,324	1,324	-	1,281	1,281
Total assets	<u>\$ 7,872</u>	<u>14,431</u>	<u>22,303</u>	<u>\$ 8,233</u>	<u>14,764</u>	<u>22,997</u>
Liabilities and net assets:						
Annuities and trusts payable	5,060	8,270	13,330	4,812	8,773	13,585
Net assets without donor restrictions	591	-	591	550	-	550
Net assets with donor restrictions	2,221	6,161	8,382	2,871	5,991	8,862
Total liabilities and net assets	<u>\$ 7,872</u>	<u>14,431</u>	<u>22,303</u>	<u>\$ 8,233</u>	<u>14,764</u>	<u>22,997</u>
Gift portion of new annuities and trusts included in contributions	<u>\$ -</u>	<u>143</u>	<u>143</u>	<u>\$ -</u>	<u>58</u>	<u>58</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 \$2,983 and \$3,057 as of May 31, 2020 and 2019, respectively.

**NOTE 8 - PLANT FACILITIES, NET**

Plant facilities consist of the following at May 31, 2020 and 2019:

	2020	2019
Land	\$ 8,660	\$ 8,660
Campus improvements	15,923	15,778
Buildings and building improvements	181,276	180,804
Furniture, fixtures and equipment	8,490	7,830
Library holdings	39,853	39,611
Art collection	6,144	5,969
Construction in progress	877	94
Plant facilities	<u>261,223</u>	<u>258,746</u>
Accumulated depreciation	(125,638)	(120,004)
Plant facilities, net	<u>\$ 135,585</u>	<u>\$ 138,742</u>

The University recorded depreciation expense of \$5,706 and \$5,812, respectively, during the years ended May 31, 2020 and 2019.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
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### 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 \$1,253 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 4%. At May 31, 2020 and 2019, there were outstanding balances of \$13,875 and \$14,555, 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, 2020 and 2019 there were outstanding balances of \$22,310 and \$22,360, 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, 2020 and 2019 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, 2020 there was an outstanding balance of \$6,225 and \$6,950, respectively.

Principal payments on bonds payable are as follows:

Fiscal Years Ending May 31,	Payments
2020-2021	\$ 1,495
2021-2022	1,530
2022-2023	1,565
2023-2024	1,605
2024-2025	11,745
Thereafter	45,725
	63,665
Add unamortized bond premium, net of debt issuance costs	895
Bonds payable, net	\$ 64,560

Interest costs on bonds payable for the years ended May 31, 2020 and 2019 was approximately \$2,049 and \$2,097, respectively, of which approximately \$0 and \$97 was capitalized. The remaining interest expense is included in various functional expense categories in the statements of activities.

The University has determined that it is in compliance with all of its bond covenants as of May 31, 2020.

### 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.

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**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, 2020 and 2019. Liability estimates are discounted from estimated future costs at 2.85% and 3.65% as of May 31, 2020 and 2019, respectively. The voluntary severance payment estimate assumes an annual growth rate in compensation of 2.0% and 3.0% as of May 31, 2020 and 2019, respectively. At May 31, 2020, the assumed health care cost trend rate for the following year used to measure the expected cost of benefits covered by the plan was 23.0%. The rate was assumed to decrease to 2.0% the following year, followed by rates of 4.5 - 5.0% thereafter.

Benefit payments by the University relating to the postretirement benefit plans were approximately \$711 and \$741 for the fiscal years ended May 31, 2020 and 2019, respectively. Service cost recognized as benefits expense in various functional categories was approximately \$345 and \$333 for the fiscal years ended May 31, 2020 and 2019, respectively.

Postretirement benefit obligations at May 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Medicare supplement - up to \$125 per quarter	\$ 267	\$ 409
Voluntary severance arrangement - severance payments	3,012	2,580
Voluntary severance arrangement - health and life insurance until Medicare eligible	3,715	2,520
Total postretirement benefit obligations	<u>\$ 6,994</u>	<u>\$ 5,509</u>

Expected future payments of postretirement benefits are as follows:

<u>Fiscal Years Ending May 31,</u>	<u>Payments</u>
2020-2021	\$ 720
2021-2022	611
2022-2023	537
2023-2024	503
2024-2025	506
Thereafter	4,117
Total postretirement benefit obligations	<u>\$ 6,994</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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Endowed faculty and staff positions	\$ 2,920	\$ 2,378
Endowed facilities improvements	211	546
Other endowed funds	1,181	2,186
Sponsored research	2,282	1,512
Other restricted funds	1,438	1,491
	<u>8,032</u>	<u>8,113</u>
Funded financial aid	5,764	5,030
Total net assets released from restrictions	<u>\$ 13,796</u>	<u>\$ 13,143</u>

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**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, 2020						
	Wages and Salaries	Employee Fringe Benefits	Services and Supplies	Facilities Expenses	Depreciation	Interest	Total
Instruction	\$ 20,504	6,933	2,486	909	1,869	736	33,437
Research	624	125	564	-	142	-	1,455
Academic support	7,983	2,631	5,154	405	1,542	76	17,791
Student services	6,120	1,963	3,350	372	792	177	12,774
Institutional support	7,642	2,329	4,440	137	233	68	14,849
Auxiliary enterprises	2,237	673	3,964	1,064	1,128	992	10,058
Total expenses	<u>\$ 45,110</u>	<u>14,654</u>	<u>19,958</u>	<u>2,887</u>	<u>5,706</u>	<u>2,049</u>	<u>\$ 90,364</u>

  

	Year ended May 31, 2019						
	Wages and Salaries	Employee Fringe Benefits	Services and Supplies	Facilities Expenses	Depreciation	Interest	Total
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>

Advancement expenses of \$4,504 and \$4,147, exclusive of expenditures for alumni relations, included in general institutional support expenses, are fundraising expenses for the years ended May 31, 2020 and 2019, respectively.

**NOTE 13 - 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, 2020 and 2019, financial assets available within one year are as follows:

	2020	2019
Total assets at year end	\$ 443,732	\$ 461,699
Less:		
Prepaid expenses and other assets	(842)	(775)
Pledges receivable that are restricted or due in more than one year	(2,181)	(3,793)
Student Perkins loans receivable	(4,525)	(5,675)
Donor restricted endowment funds	(158,361)	(149,822)
Accumulated endowment earnings	(61,676)	(77,274)
Add back current appropriation of endowment earnings	14,181	12,891
Charitable remainder trust assets	(13,107)	(13,483)
State-mandated gift annuity reserves	(2,983)	(3,057)
Beneficial interest in trusts held by others	(3,166)	(3,173)
Plant facilities, net	(135,585)	(138,742)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 75,487</u>	<u>\$ 78,796</u>



# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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### **NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS** *Continued*

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. Governing board designations for long-term investment, including funds functioning as endowment, are considered available because they may be drawn upon with Board approval.

### **NOTE 14 - 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, 2020 and 2019 was approximately \$3,970 and \$4,008, respectively, and is recognized as benefits expense in various functional categories.

### **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 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 a 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 - PACIFIC NORTHWEST COLLEGE OF ART**

The University signed an agreement in September 2020 with Pacific Northwest College of Art (PNCA) in Portland, OR to make PCNA the University's fourth college, alongside the College of Arts and Sciences, the College of Law, and the Atkinson Graduate School of Management. PNCA will become an integrated part of the University while retaining its name, identity, faculty, and campus in Portland. The University and PNCA are currently seeking regulatory approvals, and expect to receive final approval and for PNCA to become a part of the University in 2021.

### **NOTE 18 - RISKS AND UNCERTAINTIES: GLOBAL PANDEMIC**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, their customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the University's operations.

The University transitioned its students to online learning and most of its employees to remote work in mid-March of 2020. The most significant financial impact was due to refunds of room and board fees totaling \$426 for March through May 2020. In addition, the University suffered other losses of revenue and incurred costs associated with distance learning, working from home, and preparing the campus for the return of students and employees once approved by the State of Oregon and Marion County public health officials.

# WILLAMETTE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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May 31, 2020 (with comparative financial information as of May 31, 2019)  
(in thousands)

### **NOTE 18 - RISKS AND UNCERTAINTIES: GLOBAL PANDEMIC** *Continued*

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Securities (“CARES”) Act was signed into law. The CARES Act allocated \$14 billion to higher education through the creation of the Higher Education Emergency Relief Fund (HEERF). HEERF funds consist primarily of a formulaic allocation to institutions, divided equally into a student portion and an institutional portion. The student portion must be used for emergency grants to students to cover their expenses resulting from the disruption of campus operations due to COVID-19. The Institutional portion may be used for additional student grants, costs associated with significant changes to the delivery of instruction due to COVID-19, to offset lost income, and other approved expenditures.

The University was granted \$1,509 in HEERF funds with \$755 earmarked to be granted directly to students, and the remainder available to the University for use in accordance with the grant provisions. As of May 31, 2020, \$643 of the student funding had been provided to students, with the balance to be provided to returning students in FY21. As of May 31, 2020, \$511 of the institutional funding has been expended, with the remainder to be expended during FY21. The University qualified for \$75 in additional HEERF funds through the Strengthening Institutions Program, to be expended during FY21.

Administration has been closely monitoring the impact of COVID-19 on the University’s operations, including the impact on the students and employees. The duration and intensity of the pandemic is uncertain but may influence student enrollment and housing decisions, donor decisions, investment performance, and may also negatively impact collections of University receivables.

### **NOTE 19 - 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 21, 2020, which corresponds to the date when the financial statements were issued. See Note 17. No other events were determined to be reportable.

## **Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
Willamette University

We have audited, in accordance with the 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, the financial statements of Willamette University (the "University"), which comprise the statement of financial position as of May 31, 2020, and the related statement of activities, and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated October 21, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Willamette University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Willamette University's internal control. Accordingly, we do not express an opinion on the effectiveness of Willamette University's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Willamette University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss Adams LLP*

Portland, Oregon  
October 21, 2020

## **Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees  
Willamette University

### **Report on Compliance for Each Major Federal Program**

We have audited Willamette University's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Willamette University's major federal programs for the year ended May 31, 2020. Willamette University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Willamette University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Willamette University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Willamette University's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, Willamette University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2020.



## **Report on Internal Control Over Compliance**

Management of Willamette University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Willamette University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Willamette University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Willamette University as of and for the year ended May 31, 2020 and have issued our report thereon dated October 21, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Moss Adams LLP*

Portland, Oregon  
June 18, 2021

**Willamette University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2020**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles (GAAP):

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs and type of auditor’s report issued on compliance for major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
Various	Student Financial Assistance Cluster	Unmodified
84.425E & F	COVID-19 Education Stabilization Fund – Higher Education Emergency Relief Fund	Unmodified

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes  No

**Section II – Financial Statement Findings**

None reported.

**Willamette University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2020**

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**Section III – Federal Award Findings and Questioned Costs**

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None reported.

**Willamette University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended May 31, 2020**

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There are no prior audit findings noted.

## **Supplementary Information**

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**Willamette University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2020**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity or Other Identifying Number	Pass-Through Entity Identifying Name	Pass-Through To Subrecipients	Federal Expenditures
U.S. Department of Education					
Direct Programs:					
COVID-19 Education Stabilization Fund - Higher Education Emergency Relief Fund (HEERF)					
Student aid	84.425E			\$ -	\$ 642,851
Institutional portion	84.425F			-	510,973
				<u>-</u>	<u>1,153,824</u>
Total COVID-19 Education Stabilization Fund - Higher Education Emergency Relief Fund (HEERF)					
				-	1,153,824
Student Financial Assistance Cluster:					
Federal Supplemental Educational Opportunity Grant:	84.007			-	447,053
Federal Work Study Program	84.033			-	380,139
Federal Perkins Loan Program (Note 4)	84.038			-	5,643,389
Federal Pell Grant Program	84.063			-	1,664,323
Federal Direct Student Loans	84.268			-	25,787,855
				<u>-</u>	<u>33,922,759</u>
Total Student Financial Assistance Cluster					
				-	33,922,759
<b>Total U.S. Department of Education</b>					
				-	<u>35,076,583</u>
Research & Development Cluster:					
National Science Foundation Direct Programs:					
NSF (Griffith)	47.041	1606190		-	27,714
NSF (Watkins)	47.049	1907365		-	3,500
NSF (Coddington)	47.074	1351129		-	588
NSF (Smith)	47.074	1253849		-	4,745
NSF (Leon Zayas)	47.074	1931149		-	895
NSF (Coddington)	47.074	1655483		-	18,068
NSF (Kirk)	47.076	1936070		-	28,459
NSF (Fisher)	47.076	1742159		-	122,130
NSF (Stevens/Witkow)	47.076	1505060		-	13,094
NSF (Stevens/Witkow)	47.076	1908378		-	48,008
				<u>-</u>	<u>267,201</u>
Total National Science Foundation					
				-	267,201
National Aeronautics and Space Administration Pass-Through Program from:					
NASA (Leon Zayas)	43.001	80NSSC17K00300	University of Delaware	-	10,966
National Institutes of Health Direct Programs:					
NIH (Kirk)	93.859	1R15GM132845-01A1		-	5,965
National Institutes of Health Pass-Through Program from:					
NIH (Stevens)	93.173	1R21DC017227-01	Michigan State University	-	15,923
				<u>-</u>	<u>21,888</u>
Total National Institutes of Health					
				-	21,888
National Historical Publications and Records Commission Direct Programs:					
NHPRC (McRobinson)	89.003	RH-100300-18		-	56,396
US Department of Education Institute of Education Services Pass-Through Program from:					
USDE IES (Witkow)	84.305A	R305A170559	University of California-Davis	-	44,381
				<u>-</u>	<u>400,832</u>
<b>Total Research and Development Cluster</b>					
				-	400,832
Department of Health and Human Services, Administration for Children and Families Pass-Through Program From:					
Oregon Department of Education Social Services Block Grant	93.667	YDDG-1149-56968	Oregon Department of Education	-	35,735
Institute of Museum and Library Services Pass-Through Program From:					
State Library of Oregon Grants to States	45.310	LS-00-19-0038-19	State Library of Oregon	-	67,177
Victims of Crime Act of 1984 Pass-Through Program From:					
Crime Victim Assistance	16.575	VOCA-FI-2018-WU-00056	Oregon Department of Justice	-	48,225
				<u>\$ -</u>	<u>\$ 35,628,552</u>
<b>Total Expenditures of Federal Awards</b>					

**Willamette University**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2020**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Willamette University (the University) under programs of the federal government for the year ended May 31, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if applicable, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**Note 3 – Indirect Cost Rate**

The University has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 4 – Federal Student Loan Programs**

The federal student loan program listed below is administered directly by the University and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at May 31, 2020 consists of:

	CFDA Number	Outstanding Balance at May 31, 2020
United States Department of Education Federal Perkins Loan Program	84.038	\$ 4,497,994

On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind after June 30, 2018. The University has been notified that the government will begin collecting the Federal share of the University's Perkins Loan Revolving Funds sometime thereafter.

**Note 5 – Financial Responsibility**

Section 498(c)(1) of the Higher Education Act authorizes the secretary of the Department of Education (“ED”) to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility. Section 668.172 established a methodology based on three ratios – primary reserve, equity, and net income – that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution’s ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- Add the weighted scores to arrive at the composite score.

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certifications for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to the ED of 10 percent or more of its previous year’s Title IV funding, as determined as the ED.

**Willamette University**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2020**

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**Note 5 – Financial Responsibility (continued)**

The following calculation is the University’s composite score as of May 31, 2020:

<u>Primary Reserve Ratio Calculation</u>	<u>Reference</u>	<u>As of and for the Year Ended May 31, 2020</u>
Net assets with donor restrictions	SOFP +	\$ 241,276
Net assets without donor restrictions	SOFP +	<u>98,646</u>
Total net assets	SOFP	339,922
Less:		
Net assets held in perpetuity - restricted endowment funds	SOFP -	(157,331)
Net assets held in perpetuity - endowment funds held in perpetual trust by others	SOFP -	(1,843)
Net assets with purpose restrictions functioning as endowment	SOFP	(1,030)
Annuities, term endowments & life income funds with donor restrictions	SOFP -	(8,382)
Intangible assets	N/A -	-
Property, plant, and equipment (PPE), net	Note 8 -	(134,708)
Property, plant, and equipment - pre-implementation	N/A -	-
Property, plant, and equipment - post-implementation with outstanding debt for original purchase	N/A -	-
Property, plant, and equipment - post-implementation without outstanding debt for original purchase	N/A -	-
Construction in process	Note 8 -	(877)
Lease right-of-use asset, net	N/A -	-
Unsecured other related party assets	N/A -	-
Secured and unsecured related party receivables	N/A -	-
Unsecured related-party receivables	N/A -	-
Add:		
Lease right-of-use asset pre-implementation	N/A +	-
Lease right-of-use asset post-implementation	N/A +	-
Intangible assets	N/A +	-
All long term debt and operating lease liabilities (not to exceed total PPE)	SOFP +	64,560
Long-term debt - for long term purposes pre-implementation	N/A +	-
Long-term debt - for long term purposes post-implementation	N/A +	-
Line of Credit for Construction in Process	N/A +	-
Lease right-of-use asset liability	N/A +	-
Pre-implementation right-of-use lease liabilities	N/A +	-
Post-implementation right-of-use lease liabilities	N/A +	-
Post-employment and defined pension liabilities	Note 10 +	<u>6,994</u>
Total expendable net assets		\$ 107,305
Total operating expenses	SOA	90,364
Add:		
Unrealized and realized losses on split-interest agreements	SOA +	66
Endowment returns, net of distributions	SOA +	2,329
Post retirement benefits liability adjustment	SOA +	1,851
Non-operating and net investment (loss)	N/A +	-
Other components of net periodic pension costs	N/A +	-
Net investment losses	N/A +	-
Pension-related changes other than net periodic costs	N/A +	-
Losses on sale of property, plant and equipment	N/A +	<u>-</u>
Total expenses without donor restrictions and losses without donor restrictions		<u>94,610</u>
Primary reserve ratio		<b>1.134</b>

**Willamette University**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2020**

**Note 5 – Financial Responsibility (continued)**

Equity Ratio Calculation		May 31, 2020
Net assets with donor restrictions	SOFP +	\$ 241,276
Net assets without donor restrictions	SOFP +	<u>98,646</u>
Total net assets	SOFP	339,922
Less:		
Lease right-of-use asset pre-implementation	N/A -	-
Pre-implementation right-of-use leases liabilities	N/A -	-
Intangible assets	N/A -	-
Unsecured related-party receivables	N/A -	-
Unsecured related party other asses	N/A -	<u>-</u>
Modified net assets		<u>\$ 339,922</u>
Total assets	SOFP +	\$ 443,732
Less:		
Lease right-of-use asset pre-implementation	N/A -	-
Intangible assets	N/A -	-
Unsecured related-party receivables	N/A -	-
Unsecured related party other asses	N/A -	<u>-</u>
Modified assets		<u>\$ 443,732</u>
Equity ratio		<b>0.766</b>
<b>Net Income Ratio Calculation</b>		<b>For the Year Ended May 31, 2020</b>
Change in net assets without donor restrictions	SOA	<u>\$ (8,321)</u>
Total operating revenues, gains, and other support without donor restrictions	SOA	\$ 86,188
Add:		
Gains (losses) on other investments	N/A +	-
Building gifts released from restrictions	N/A +	-
Post retirement benefits liability adjustment	N/A +	-
Non-operating gifts	N/A +	-
Gain on disposal of property, plant, and equipment	N/A +	-
Less:		
Endowment returns, net of appropriations for operations	SOA -	<u>-</u>
Total non-operating revenues, gains, and other support without donor restrictions		<u>\$ 86,188</u>
Net income ratio		<b>(0.097)</b>

**Willamette University**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2020**

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**Note 5 – Financial Responsibility (continued)**

**Step 1:** Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)

Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)

Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

**Step 2:** Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 40% x the primary reserve strength factor score

Equity weighted score = 40% x the equity strength factor score

Net Income weighted score = 20% x the net income strength factor score

Composite Score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

<b>As of and for the Year Ended May 31, 2020</b>				
<b>RATIO</b>	<b>Ratio</b>	<b>Strength Factor</b>	<b>Weight</b>	<b>Composite Scores</b>
<b>Primary Reserve Ratio</b>	1.13	3.00	40%	1.20
<b>Equity Ratio</b>	0.77	3.00	40%	1.20
<b>Net Income Ratio</b>	(0.10)	(1.00)	20%	(0.20)
<b>Composite Score</b>				<u>2.20</u>



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