



**WILLAMETTE UNIVERSITY**

Independent Auditors' Report in  
Accordance with OMB Circular A-133

May 31, 2008

(With Independent Auditors' Report Thereon)

# WILLAMETTE UNIVERSITY

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**KPMG LLP**  
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Portland, OR 97201

## **Independent Auditors' Report**

The Board of Trustees  
Willamette University:

We have audited the accompanying statements of financial position of Willamette University (an Oregon nonprofit corporation) as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette University as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

October 10, 2008

**KPMG LLP**



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

**Report 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 the financial statements of Willamette University as of and for the year ended May 31, 2008, and have issued our report thereon dated October 10, 2008. 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.

**Internal Control over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Willamette University's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management, board of trustees and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 10, 2008

**WILLAMETTE UNIVERSITY**

Statements of Financial Position

May 31, 2008 and 2007

(Dollars in thousands)

Assets	2008	2007
Cash and cash equivalents	\$ 2,028	100
Accounts receivable, net of allowances of \$368 and \$292 in 2008 and 2007, respectively	1,780	1,905
Pledges receivable, net of allowances of \$299 and \$258 in 2008 and 2007, respectively	14,999	13,039
Inventories and prepaid expenses	1,037	1,552
Student loans receivable, net of allowances of \$47 in both 2008 and 2007	8,469	7,977
Notes receivable and other assets	1,611	1,575
Investments	300,405	301,194
Assets held in remainder trusts by others	2,228	2,057
Plant facilities, net	123,220	112,020
Total assets	\$ 455,777	441,419
<b>Liabilities and Net Assets</b>		
Liabilities:		
Line of credit	\$ —	7,633
Accounts payable and accrued liabilities	14,107	11,775
Deferred revenue	1,775	1,538
U.S. Government loan advances refundable	6,725	6,636
Annuities and trusts payable	8,374	8,563
Note payable	209	240
Bonds payable	50,321	27,276
Total liabilities	81,511	63,661
Net assets:		
Unrestricted:		
Available for operations	(690)	928
Designated for endowment	13,015	163,385
Invested in plant facilities	32,230	33,110
Total unrestricted	44,555	197,423
Temporarily restricted:		
Accumulated endowment gains	139,639	—
Trusts and annuities	1,937	2,159
Invested in plant facilities	56,166	56,623
Unexpended funds received for specific purposes	10,740	9,067
Total temporarily restricted net assets	208,482	67,849
Permanently restricted:		
Endowment	112,144	102,582
Endowment – assets held in perpetual trust by others	2,412	2,429
Trusts and annuities	5,581	5,550
Student loans	1,092	1,925
Total permanently restricted net assets	121,229	112,486
Total net assets	374,266	377,758
Total liabilities and net assets	\$ 455,777	441,419

See accompanying notes to financial statements.

**WILLAMETTE UNIVERSITY**

Statement of Activities

Year ended May 31, 2008

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Student charges:				
Tuition and fees	\$ 74,997	—	—	74,997
Less student scholarships	(30,693)	—	—	(30,693)
Net tuition and fees	44,304	—	—	44,304
Room and board fees	9,981	—	—	9,981
Contributions	2,655	2,914	8,969	14,538
Endowment income distributed	8,257	5,937	27	14,221
Auxiliary enterprises	2,639	—	—	2,639
U.S. Government grants	654	1,078	—	1,732
Other income	2,169	87	—	2,256
Net assets released from restrictions	8,604	(8,604)	—	—
Total revenues, gains, and other support	<u>79,263</u>	<u>1,412</u>	<u>8,996</u>	<u>89,671</u>
Expenses:				
Instruction	34,604	—	—	34,604
Research	1,308	—	—	1,308
Academic support	14,082	—	—	14,082
Student services	9,085	—	—	9,085
General institutional support	10,557	—	—	10,557
Room and board program	9,406	—	—	9,406
Auxiliary enterprises	2,633	—	—	2,633
Total expenses	<u>81,675</u>	<u>—</u>	<u>—</u>	<u>81,675</u>
Change in net assets before other changes	(2,412)	1,412	8,996	7,996
Other changes:				
Endowment (loss) income, net of distributions	(454)	(10,318)	259	(10,513)
Adjustment related to annuities and trusts	—	(26)	(619)	(645)
Student loan interest and cancellations	(2)	—	—	(2)
UPMIFA reclassification	(149,933)	149,933	—	—
Other	(67)	(368)	107	(328)
Changes in net assets	<u>(152,868)</u>	<u>140,633</u>	<u>8,743</u>	<u>(3,492)</u>
Net assets at beginning of year	<u>197,423</u>	<u>67,849</u>	<u>112,486</u>	<u>377,758</u>
Net assets at end of year	\$ <u>44,555</u>	<u>208,482</u>	<u>121,229</u>	<u>374,266</u>

See accompanying notes to financial statements.

**WILLAMETTE UNIVERSITY**

Statement of Activities

Year ended May 31, 2007

(Dollars in thousands)

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

See accompanying notes to financial statements.

**WILLAMETTE UNIVERSITY**

Statements of Cash Flows

Years ended May 31, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,492)	43,525
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,782	4,378
Net realized and unrealized gains on investments	(748)	(35,554)
Contributions restricted for long-term investment	(7,605)	(9,522)
Proceeds subject to annuity and unitrust agreements	(489)	(722)
Noncash contributions	(390)	—
Decrease (increase) in accounts receivable	125	(225)
Decrease (increase) in interest and dividends receivable	14	(23)
Increase in pledges receivable	(1,960)	(8,057)
Decrease (increase) in inventories and prepaid expenses	515	(433)
Increase in student loans receivable	(492)	(195)
(Increase) decrease in notes receivable and other assets	(36)	78
Increase in assets held in remainder trusts by others, net	(171)	(479)
Increase in accounts payable and accrued liabilities	1,791	707
Increase in deferred revenue	236	244
(Decrease) increase in annuities and trusts payable	(189)	865
Net cash used in operating activities	<u>(8,109)</u>	<u>(5,413)</u>
Cash flows from investing activities:		
Purchases of investments	(170,214)	(174,159)
Proceeds from maturities/sales of investments	172,127	182,347
Purchase of plant facilities	<u>(15,326)</u>	<u>(15,874)</u>
Net cash used in investing activities	<u>(13,413)</u>	<u>(7,686)</u>
Cash flows from financing activities:		
(Repayments) proceeds from borrowing under line of credit, net	(7,633)	3,099
Cash contributions restricted for:		
Investment in endowment	3,986	5,211
Investment in plant facilities	3,619	4,311
Investment subject to annuity and unitrust agreement	489	722
Payments on note payable	(30)	(28)
Increase in U.S. Government loan advances refundable	89	78
Principal payments on bonds	(815)	(775)
Advanced refunding of bonds payable	(8,509)	—
Proceeds from bonds issued	<u>32,254</u>	<u>—</u>
Net cash provided by financing activities	<u>23,450</u>	<u>12,618</u>
Net increase (decrease) in cash and cash equivalents	1,928	(481)
Cash and cash equivalents at beginning of year	<u>100</u>	<u>581</u>
Cash and cash equivalents at end of year	\$ <u><u>2,028</u></u>	\$ <u><u>100</u></u>
Supplemental cash flow information:		
Cash paid for interest	\$ 2,302	1,537

See accompanying notes to financial statements.

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

### (1) Organization

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

### (2) Summary of Significant Accounting Policies

#### (a) General

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes as follows:

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

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

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed restrictions that they be permanently maintained by the University. Generally the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets with the exception of activity related to life income agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restrictions or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a reclassification from temporarily restricted net assets to unrestricted net assets.

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

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

Contributions, including unconditional promises to give, are recognized as revenues in the period in which the unconditional promise is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions of assets other than cash are recorded at their estimated fair value. Contributions for capitalized long-lived assets are released from restriction over the estimated useful lives of the assets using the University's depreciation policies.

**(b) *Use of Estimates***

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

**(c) *Assets Held in Charitable Trusts***

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

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

**(d) *Cash and Cash Equivalents***

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

**(e) *Investments***

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

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

**(f) Split Interest Agreements**

The University uses an actuarial method of recording certain split interest arrangements. Under this method, the present value of the payments to beneficiaries is determined based upon life expectancy tables when the gift is received. The present value of those payments is recorded as a liability and the remainder as temporarily or permanently restricted net assets depending on donor-imposed restrictions. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. The discount rates used by the University in calculating the present value of all split interest agreements ranges from 4% – 8% at May 31, 2008.

**(g) Plant Facilities**

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

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

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

**(h) Inventory**

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

**(i) Bond Issuance Costs**

Bond issuance costs include amounts paid by the University in connection with the issuance of the 2004, 2005 and 2007 Oregon Facilities Authority Revenue Bonds. Bond issuance costs are classified as a component of notes receivable and other assets in the accompanying statements of financial position. Amortization of the bond issuance costs is calculated using a method that approximates effective yield over the life of the bonds.

**(j) Income Taxes**

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

**(k) Deferred Revenue**

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

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

**(l) *Uniform Prudent Management of Institutional Funds Act***

Through December 31, 2007, the University's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which an organization could not spend from the endowment fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective January 1, 2008, the State of Oregon enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The University has considered and implemented the effects of UPMIFA during the year ended May 31, 2008. This resulted in a reclassification among net asset balances as described more fully below.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued. A key component of that FSP is an interpretation by the FASB that there is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until these funds have been appropriated for expenditure. The University has reviewed its net asset accounts to identify the cumulative amount of unspent endowment earnings that had not yet been appropriated for expenditure as of May 31, 2008. As such, Management has adjusted the financial statements to reflect a reclassification of net assets from unrestricted to temporarily restricted of approximately \$149,933,000 as of June 1, 2007. Realized and unrealized losses of approximately \$10,294,000 have been recorded during the year ended May 31, 2008 associated with the reclassified amounts. The provisions of the FSP will be implemented during the fiscal year ending May 31, 2009.

**(m) *Reclassifications***

Certain reclassifications were made to prior year amounts to conform to current year presentation. The University reclassified approximately \$15,396,000 and \$19,319,000, and \$19,820,000 as of May 31, 2008, 2007, and 2006, respectively, from cash and cash equivalents to investments. This related to a short term fund that guarantees a three-month Treasury bill rate.

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

**(3) Pledges Receivable**

The University records pledges receivable at the present value of estimated future cash flows using discount rates of 2.9% – 6% for pledges receivable outstanding at May 31, 2008. Annual payments are scheduled to be received as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 6,799	5,726
One to five years	9,127	7,473
More than five years	153	906
	<u>16,079</u>	<u>14,105</u>
Less discount	(781)	(808)
Less reserve for uncollectible accounts	(299)	(258)
Total pledges receivable	<u>\$ 14,999</u>	<u>13,039</u>

As of May 31, 2008, conditional promises in the amount of \$7,529,000 were received, but not recognized as a receivable.

**(4) Accounts and Student Loans Receivable**

Accounts receivable consist of the following at May 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Student accounts receivable	\$ 1,177	919
Related parties	—	350
Collections	422	374
Other receivables	549	554
	<u>2,148</u>	<u>2,197</u>
Less allowance for doubtful accounts	(368)	(292)
	<u>\$ 1,780</u>	<u>1,905</u>

Student loans receivable consist of the following at May 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Notes receivable	\$ 54	58
Perkins loans	8,462	7,966
	<u>8,516</u>	<u>8,024</u>
Less allowance for doubtful accounts	(47)	(47)
	<u>\$ 8,469</u>	<u>7,977</u>

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

The Perkins loan program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. Government. Perkins loan funds are generally payable, including interest at 3% – 5%, over approximately 10 years following university attendance. Principal payments, interest, and losses due to cancellation are shared by the University and the U.S. Government in proportion to their share of funds provided.

### (5) Investments

Investments at May 31, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Short-term investments, notes, commercial paper, money markets	\$ 26,991	23,060
Interest and dividends receivable	93	78
Bonds and notes	42,563	54,306
Partnership with underlying securities in marketable bonds	9,827	10,077
Corporate stocks	68,794	67,112
Partnerships with underlying securities in marketable corporate stocks	58,145	76,121
Private equity, venture capital, and real estate investment trusts	65,119	49,657
Hedge funds	26,461	18,354
Perpetual trusts	2,412	2,429
	<u>\$ 300,405</u>	<u>301,194</u>

At May 31, 2008, the University has approximately \$92 million in investments with underlying investments that are not readily marketable. These investments represent 32% of total investments and 24% of net assets at May 31, 2008. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of full portfolio composition. Because these investments are not readily marketable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Total investment income and realized and unrealized gains on investments which are not readily marketable was \$3,026,000 and \$997,000 for the years ended May 31, 2008 and 2007, respectively.

As of May 31, 2008, the University committed approximately \$113 million to alternative investments in the form of limited partnership/trust investments. As of May 31, 2008, the University funded approximately \$73 million of these commitments. These commitments are due on demand from the general partners/advisors. These partnerships/trusts invest in emerging growth technologies companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts are based upon specific provisions in the agreements.

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

**(6) Endowment and Quasi-Endowment Funds**

Substantially all investments of the University held for endowment are pooled for investment purposes. Income earned on endowment fund investments is allocated on the basis of each fund's proportionate interest in the pooled investment portfolio.

The University determines the amount of endowment gains and income to spend in a particular fiscal year based on a formula recommended by the Board of Trustees Committee on Financial Affairs and adopted by the Executive Committee. The University's long-range financial plan is to fix the unrestricted endowment spending at the current spending amount of \$7,330,000 until the spending amount is 5% of the endowment value. The rate applied to restricted use funds has continued to remain at 6% during the years ended May 31, 2008 and 2007.

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

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 4,143	4,192
Net realized gains	9,684	15,407
Net change in cumulative unrealized gains and losses	(8,936)	20,147
Investment fees and other	<u>(1,183)</u>	<u>(547)</u>
Total	\$ <u>3,708</u>	<u>39,199</u>

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

	<u>2008</u>	<u>2007</u>
Revenues:		
Unrestricted	\$ 8,257	7,634
Temporarily restricted	5,937	5,258
Permanently restricted	27	25
	<u>14,221</u>	<u>12,917</u>
Other changes in net assets:		
Unrestricted	(454)	25,631
Temporarily restricted	(10,318)	197
Permanently restricted	259	454
	<u>(10,513)</u>	<u>26,282</u>
Total	\$ <u>3,708</u>	<u>39,199</u>

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

The fair value of all endowed and life income fund investments and other assets at May 31, 2008 and 2007 is as follows (in thousands):

	<b>Fair value</b>	
	<b>2008</b>	<b>2007</b>
General and quasi-endowment funds	\$ 267,261	268,448
Annuity and trust funds	15,892	16,271
Total fair value	\$ 283,153	284,719

**(7) Plant Facilities**

Plant facilities consist of the following at May 31, 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Land and land improvements	\$ 19,509	14,240
Buildings	124,694	117,605
Furniture, fixtures, and equipment	5,671	5,345
Library holdings	31,416	30,263
Art collection	2,718	2,305
Construction in progress	2,198	618
Accumulated depreciation	(62,986)	(58,356)
Net plant facilities	\$ 123,220	112,020

The University has received gifts and purchased art and other collectibles (the Collection), which are housed or displayed in the Hallie Ford Museum of Art. The University has a recorded value for the collection of \$2,718,000 at May 31, 2008 and \$2,305,000 at May 31, 2007 in the plant facilities balance in the statements of financial position, and depreciation will not be recorded on these assets.

**(8) Bonds Payable**

In June 2004 the University issued Oregon Facilities Authority Revenue Bonds in the aggregate principal amount of \$15,075,000. The bonds have annual payment obligations ranging from \$458,000 to \$1,332,000 through 2034, and bear interest at rates ranging from 3% to 5%. The bond proceeds were used for the purpose of refunding the \$7,735,000 outstanding principal of the City of Salem Educational Facilities Revenue and Refunding Bonds, Series 1994, as well as to repay drawings under a bank line of credit which was used to finance property acquisitions and improvements, and to finance additional facilities for the University. At May 31, 2008 and 2007, there were outstanding balances of \$4,974,000 and \$13,820,000, respectively.

In August 2005, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$13,000,000. The bonds have annual payment obligations ranging from \$671,000 to \$835,000 through 2036 and bear interest at rates ranging from 3% to 5%. The bond proceeds were used primarily to fund construction of a new residential commons and to assist with other facility upgrades and improvements. At May 31, 2008 and 2007, there were outstanding balances of \$13,207,000 and \$13,456,000, respectively.

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

In June 2007, the University issued Oregon Facilities Authority Revenue Bonds in the amount of \$31,820,000. The proceeds of the bonds were used to repay the outstanding line of credit, to finance the construction of five major projects, and to advance refund \$8,400,000 of the Series 2004 bonds. The bonds have annual payment obligations ranging from \$1,525,000 to \$3,266,000 and bear interest at rates ranging from 4% to 5%. At May 31, 2008 and 2007, there were outstanding balances of \$32,140,000 and \$0, respectively.

Principal payments on bonds payable are as follows:

2009	\$	600,000
2010		650,000
2011		715,000
2012		775,000
2013		835,000
Thereafter		<u>45,620,000</u>
		49,195,000
Add unamortized bond premium		<u>1,126,000</u>
	\$	<u><u>50,321,000</u></u>

The University has a revolving line of credit in the amount of \$10,000,000 at a variable interest rate that is calculated at the LIBOR rate plus 45 basis points. As of May 31, 2008, there were no borrowings against this line of credit. During fiscal year 2008, the maximum amount of borrowings outstanding on the revolving line of credit was approximately \$7,633,000.

Interest expense for the years ended May 31, 2008 and 2007 was approximately \$2,302,000 and \$1,530,000, respectively.

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

### (9) Net Assets Released from Restriction

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, occurrence of events specified by the donors, the change in restrictions specified by the donors, or the passage of time. Net assets released from restriction during the years ended May 31, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Purpose of restricted contributions:		
Instruction	\$ 890	603
Sponsored research	487	336
Academic support	219	275
Student services	208	49
Institutional Support	1	47
Scholarships	5,141	4,933
Plant	122	5
	<u>7,068</u>	<u>6,248</u>
Time restricted contributions:		
Amortization of restricted gifts to acquire long-lived assets	<u>1,536</u>	<u>1,453</u>
Total net assets released from restrictions	<u>\$ 8,604</u>	<u>7,701</u>

### (10) Institutional Support Fund Raising Expense

Fund raising expenses of \$2,856,000 and \$2,681,000 are included in general institutional support expenses in the statements of activities for the years ended May 31, 2008 and 2007, respectively.

### (11) Pension Plan

The University has a defined contribution retirement plan covering eligible employees under arrangements with Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF), and three alternative asset management vehicles. The University's contributions are based on a percentage of participating employees' salaries, and, along with employee contributions, are paid to monthly. Under the arrangements, TIAA/CREF is the plan administrator. Retirement plan expense for the years ended May 31, 2008 and 2007 was approximately \$3,301,000 and \$3,122,000, respectively.

### (12) Other Postretirement Benefits and Related Liability Estimates

In September 2006, the FASB adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158), which requires the employer to recognize the overfunded or underfunded status of a plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. SFAS 158 also requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The University measured the funded status of its plans as of May 31, as a result, the measurement provision of SFAS 158 had no impact on the University's financial statements.

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

All employees retiring from the University who were hired before January 1, 1983 are eligible for reimbursement of the actual cost of premiums for Medicare supplemental insurance up to \$125 per quarter. Employees who retired from the University prior to January 1, 1977 are eligible for full Medicare supplement insurance with premiums paid by the University. In addition, full-time continuing faculty members, administrators, and classified employees with twenty years or more of service, upon reaching age fifty-nine are eligible for a voluntary severance arrangement that provides cash payments and University paid health insurance until the individual is eligible for Medicare coverage.

The schedule below details the estimated liabilities included in the accounts payable and accrued liabilities balance in the statement of financial position as of May 31, 2008 and 2007, associated with the above-described benefits. The liability estimates are discounted from estimated future costs using a 6.55% and 5% interest rate, respectively, and the voluntary severance payment estimate calculation assumes a 3.5% and 3% annual growth, respectively, in the compensation upon which the benefit is based. Benefits paid by the University relating to the postretirement benefit plan were approximately \$313,000 and \$361,000 for the years ended May 31, 2008 and 2007, respectively.

Post-retirement obligation at May 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Medicare supplement – Up to \$125 per quarter	\$ 473	573
Full Medicare supplement	23	31
Health and life insurance until Medicare eligibility	1,468	1,996
Voluntary severance payments	<u>2,062</u>	<u>1,990</u>
Postretirement benefit obligation	<u>\$ 4,026</u>	<u>4,590</u>
 Post-retirement benefit liability:		
Current liability	\$ 423	350
Noncurrent liability	<u>3,603</u>	<u>4,240</u>
Net amount recognized in statement of financial position	<u>\$ 4,026</u>	<u>4,590</u>

**WILLAMETTE UNIVERSITY**

Notes to Financial Statements

May 31, 2008 and 2007

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

2009	\$	423
2010		356
2011		329
2012		337
2013		373
Thereafter		<u>2,208</u>
	\$	<u><u>4,026</u></u>

**(13) Annuities and Life Income Funds**

Annuities and life income funds consist of the following at May 31, 2008 (in thousands):

	<u>Charitable gift annuities</u>	<u>Annuity trust and unit trusts</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 5,964	7,700	13,664
Total assets	<u>\$ 5,964</u>	<u>7,700</u>	<u>13,664</u>
Liabilities and net assets:			
Annuities payable	\$ 3,978	4,396	8,374
Net assets	1,986	3,304	5,290
Total liabilities and net assets	<u>\$ 5,964</u>	<u>7,700</u>	<u>13,664</u>

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

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

# WILLAMETTE UNIVERSITY

## Notes to Financial Statements

May 31, 2008 and 2007

### **(14) Fair Value of Financial Instruments**

The University has estimated fair values of financial instruments using available market information and appropriate valuation methodologies. At May 31, 2008 and 2007, the carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of May 31, 2008 and May 31, 2007, the fair value of the University's bonds approximates \$50,265,000 and \$27,129,000 respectively as compared to its carrying value of \$50,321,000 and \$27,276,000 respectively. Fair value of the bonds as of May 31, 2008 reflects the difference between current market rate and the University's actual average interest rate being paid on all debt obligations.

### **(15) Commitments and Contingencies**

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

### **(16) Self Insurance**

The University has placed certain of its medical and dental insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical and dental insurance to higher education institutions. Under the agreement, member institutions are required to make contributions to the fund at such times and in an amount as determined by the Trustees for the various benefit programs sufficient to provide the benefits, pay the administrative expenses of the Plan which are not otherwise paid by the University directly, and to establish and maintain a minimum reserve as determined by the Trustee. In the event losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the University is approximately \$372,000. This exposure will fluctuate based on factors including changes in actuarial assumptions, medical trend rates and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

### **(17) Subsequent Events**

The University pools its operating cash and invests in a short term fund that guarantees a three-month Treasury bill rate. On September 29, 2008, this fund's trustee made a decision to discontinue as trustee of the Fund, which resulted in a liquidity restriction. At May 31, 2008, the University had approximately \$15,000,000 invested in this fund. Management does not anticipate that this delay in their ability to retrieve these funds from this investment will create any adverse effects on the day-to-day operations of the University.

Subsequent to May 31, 2008, there has been instability in the financial markets. One indicator, the S&P 500 index, has declined approximately 35% between June 1, 2008 and October 9, 2008. Although the University has not received specific investment return data available as of the date of this report, they do anticipate that they may experience declines in market values that may be significant.



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

**Independent Auditors' Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees  
Willamette University:

**Compliance**

We have audited the compliance of Willamette University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended May 31, 2008, except the requirements discussed in the second paragraph of this report. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Willamette University's management. Our responsibility is to express an opinion on Willamette University's compliance based on our audit.

We did not audit Willamette University's compliance with the requirements governing maintaining contact with borrowers and billing and collection procedures in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Educational Computer Systems Inc. (ECSI). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ECSI's compliance with the requirements governing the functions that it performs for Willamette University for the year ended May 31, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ECSI's compliance with such requirements.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of Willamette University's compliance with those requirements.

In our opinion, Willamette University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended May 31, 2008. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-01.

### **Internal Control over Compliance**

The management of Willamette University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Willamette University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Requirements governing maintaining contact with and billing borrowers in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ECSI. Internal control over compliance related to such functions for the year ended May 31, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ECSI's internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be a material weakness.

Willamette University's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Willamette University's response, and accordingly, we express no opinion on it.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of Willamette University as of and for the year ended May 31, 2008, and have issued our report thereon dated October 10, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of trustees, University management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 10, 2008

**WILLAMETTE UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
	<hr/>	<hr/>
Student Financial Aid Cluster:		
Department of Education:		
Federal Pell Grant Program	84.063	\$ 1,003,830
Federal Pell Administrative Allowance	84.063	1,765
Federal Work Study	84.033	396,964
Federal Work Study Administrative Allowance	84.033	99,000
Supplemental Education Opportunity Grant	84.007	485,661
Federal Perkins Loans	84.038	1,446,510
Academic Competitiveness Grant	84.375	111,402
National SMART Grant	84.376	60,000
		<hr/>
Total student financial aid cluster		3,605,132
		<hr/>
Department of Education:		
National Writing Project	84.928	41,034
		<hr/>
Total department of education		41,034
		<hr/>
Research and Development Cluster:		
National Science Foundation:		
NSF Grant – Johnson/Starr	47.049	152,867
NSF Grant – Stavrianeas	47.049	11,100
NSF Grant – Hawke	47.049	1,852
		<hr/>
Total National Science Foundation	47.049	165,819
		<hr/>
Department of Agriculture:		
USDA – Leete	10.250	3,712
		<hr/>
Total Department of Agriculture		3,712
		<hr/>
Department of Defense:		
EARP	12.000	1,754
State Department	19.xxx	212,704
		<hr/>
Total research and development cluster		383,989
		<hr/>
Total expenditures of federal awards		\$ 4,030,155
		<hr/> <hr/>

See accompanying notes to schedule of expenditures of federal awards.

**WILLAMETTE UNIVERSITY**

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

**(18) Summary of Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes all federal grants received by the University which had activity during the year ended May 31, 2008. This schedule has been prepared on the accrual basis of accounting and in accordance with OMB Circular A-133.

**(19) Subrecipients**

Of the Federal expenditures presented in the Schedule of Expenditures of Federal Awards, Willamette University provided Federal awards to subrecipients as follows:

<u>Program title</u>	<u>CFDA number</u>	<u>Expenditures</u>
NSF (Johnson/Starr)	47.076	\$ 113,850

**(20) Loan Program Administration**

The University administers the following loan programs:

	<u>CFDA number</u>	<u>Outstanding balance at May 30, 2008</u>
Perkins loans	84.038	\$ 8,461,784

**(21) Federal Family Education Loan Program (FFELP)**

During the fiscal years ended May 31, 2008, the University processed the following amount of new loans under the FFELP (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

	<u>CFDA number</u>	<u>Amount outstanding</u>
Stafford loans	84.032	\$ 16,206,536
Parents' loans for undergraduate students	84.032	9,986,274
Total		\$ <u>26,192,810</u>

**(22) Administrative Costs**

The amount of Federal Work Study disbursements shown on the schedule of expenditures of federal awards includes the current year administrative cost allowance of \$99,000.

**WILLAMETTE UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**  
Material weaknesses: **No**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes**  
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (g) Major programs: **Student Financial Aid Cluster**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,117,147**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None**

**(3) Findings and Questioned Costs Relating to Federal Awards:**

**Finding: 08-01**

**Federal Program:** Student Financial Aid Cluster

**Federal Agency:** Department of Education (ED)

**Award Year:** 2007-2008

**Criteria:** Per CFR Section 668.165, if an institution credits a student's account at the institution with Direct Loan, FPL, or FFEL funds, no earlier than 30 days before and no later than 30 days after crediting the student's account at the institution, the institution must notify the student, or parent of (1) the date and amount of the disbursement, and (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan. The requirement for FFEL funds applies only if the funds are disbursed by electronic funds transfer payment or master check.

## WILLAMETTE UNIVERSITY

### Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**Statement of  
Condition:**

During our testing, we noted that there were eight law students who had a distribution date through an electronic funds transfer of August 15, 2007 and a Right of Cancellation Date of September 15, 2007. The time period between when the University distributed student funds and the day in which the Right of Cancellation notices were sent to the students was 33 days, which is greater than the allowed time period of 30 days per 34 CFR section 668.165. Upon further investigation this issue impacted all of the University's active law school students.

**Questioned Costs:** \$4,171,493

**Cause of Effect:**

This condition was an isolated incident caused by the University's conversion from Datatel's Colleague Release 17 (R17) to Release 18 (R18) operating system. The University's process to send out Notice of Disbursement and Right to Cancel communications (via email) was one of the customized programs affected. Management of the University was aware of the matter, however, the Administrative Computing staff was unable to correct the system driven process within the 30 day regulatory window, therefore the notices were sent out three days after the September 15, 2007 deadline. The University's corrective measures were completed prior to the Right of cancellation deadlines coming due for subsequent student groups. As such this matter was isolated to the group of students discussed above. The total amount of the loan distributions related to these late communications was \$4,171,493 as indicated as a questioned cost.

**Recommendation:**

KPMG recommends the University monitor Datatel's Colleague Release 18, and any other future releases that could impact the operating effectiveness of the University's control environment to ensure Notice of Disbursement and Right to Cancel communications are sent to students within required timeframes.

**Willamette's  
Response:**

Prior to the R18 conversion, a list of processes to test was compiled by the Financial Aid Staff; however, the Notice of Disbursement and Right to Cancel email process was inadvertently not included on that list. As a result, the fact the process did not survive the conversion was not discovered until after the Law School disbursements had occurred, which was unfortunately also at a time when the Information Technology (IT) department was overwhelmed with high priority requests from throughout the University.

The Notice of Disbursement and Right to Cancel emails are sent immediately after loans are disbursed to student accounts; therefore, if a problem arises with the process in the future, we will become immediately aware of it, and IT will have adequate time to fix the problem within the 30 day window. IT has also agreed to reorganize its work order process in order to give Financial Aid issues immediate priority when they arise. Finally, the Financial Aid staff will, prior to any future computer system updates, ensure its list of processes to test includes the Notice of Disbursement and Right to Cancel email process.