



PACIFIC UNIVERSITY

Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
Pacific University:

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific University, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific University as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 29, 2013

PACIFIC UNIVERSITY
Statement of Financial Position
June 30, 2013
(with comparative financial information as of June 30, 2012)

Assets	Operations	Long-term investment	Capital	Totals	
				2013	2012
Cash and cash equivalents	\$ 17,362,343	2,220,826	2,947,317	22,530,486	23,060,483
Accounts, contributions, and notes receivable, net (note 10)	10,332,748	329,766	242,517	10,905,031	10,135,989
Inventories	451,227	—	—	451,227	396,960
Prepaid expenses and other assets	752,704	—	3,954,970	4,707,674	3,658,702
Deposits	57,536	—	6,481,131	6,538,667	6,853,993
Investments (note 8)	—	40,930,701	—	40,930,701	34,027,596
Funds held in trust by others (note 17)	—	19,035,970	—	19,035,970	18,129,649
Property, plant, and equipment, net (note 12)	—	—	119,573,990	119,573,990	121,371,391
Total assets	<u>\$ 28,956,558</u>	<u>62,517,263</u>	<u>133,199,925</u>	<u>224,673,746</u>	<u>217,634,763</u>
Liabilities and Net Assets					
Accounts payable and accrued liabilities	\$ 5,316,184	10,000	1,107,087	6,433,271	6,057,953
Notes payable to bank (note 14)	—	—	4,273,371	4,273,371	5,059,567
Salaries payable and compensated absences	2,696,783	—	—	2,696,783	2,465,111
Deferred revenues	5,649,976	—	199,806	5,849,782	4,894,494
Refundable deposits	781,249	—	—	781,249	662,234
Capital lease obligations (note 20)	—	—	137,195	137,195	82,888
Asset retirement obligation (note 13)	—	—	1,259,790	1,259,790	1,273,406
Annuities payable	—	894,035	—	894,035	903,122
Accrued postretirement benefits obligation	676,308	—	—	676,308	690,808
Long-term debt (note 14)	—	—	74,500,437	74,500,437	75,874,890
U.S. government grants refundable	7,124,992	—	—	7,124,992	7,116,106
Net asset borrowings (note 18)	29,105	(29,105)	—	—	—
Total liabilities	<u>22,274,597</u>	<u>874,930</u>	<u>81,477,686</u>	<u>104,627,213</u>	<u>105,080,579</u>
Net assets:					
Unrestricted	3,185,624	14,430,995	51,229,836	68,846,455	65,116,261
Temporarily restricted (note 3)	3,496,337	11,247,015	492,403	15,235,755	12,883,129
Permanently restricted (note 4)	—	35,964,323	—	35,964,323	34,554,794
Total net assets	<u>6,681,961</u>	<u>61,642,333</u>	<u>51,722,239</u>	<u>120,046,533</u>	<u>112,554,184</u>
Total liabilities and net assets	<u>\$ 28,956,558</u>	<u>62,517,263</u>	<u>133,199,925</u>	<u>224,673,746</u>	<u>217,634,763</u>

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Activities

Year ended June 30, 2013

(with comparative financial information for the year ended June 30, 2012)

	Operations	Long-term investment	Capital	Totals	
				2013	2012
Changes in unrestricted net assets:					
Revenues and gains:					
Tuition and fees	\$ 104,998,540	—	—	104,998,540	96,057,055
Scholarships and fellowships	(28,916,866)	—	—	(28,916,866)	(23,981,608)
Net tuition and fees	76,081,674	—	—	76,081,674	72,075,447
Contributions	473,834	—	—	473,834	549,990
Contracts and other exchange transactions	1,761,214	—	—	1,761,214	1,866,926
Investment income on quasi-endowment and trusts	348,538	—	—	348,538	368,149
Other investment income	6,613	70	133,710	140,393	172,242
Net realized gains	—	215,063	(450)	214,613	303,367
Net unrealized gains (losses) on quasi-endowment and trusts	—	725,913	—	725,913	(472,547)
Sales of services at clinics	2,774,657	—	—	2,774,657	2,562,744
Sales of services of auxiliary enterprises	10,682,043	—	231,750	10,913,793	9,615,860
Other sources	415,523	(40,558)	2,472	377,437	260,627
Total unrestricted revenues and gains	92,544,096	900,488	367,482	93,812,066	87,302,805
Net assets released from restrictions (note 6)	4,190,043	776,914	240,127	5,207,084	4,558,271
Total revenues and gains and net assets released from restrictions	96,734,139	1,677,402	607,609	99,019,150	91,861,076
Expenses and losses:					
Education and general:					
Instruction	31,722,926	—	—	31,722,926	30,216,961
Research	1,999,250	—	—	1,999,250	1,497,171
Public service	325,795	—	—	325,795	358,433
Academic support	13,104,405	—	—	13,104,405	10,228,288
Clinics	4,119,505	—	—	4,119,505	3,951,594
Student services	11,032,727	—	—	11,032,727	10,004,372
Institutional support	10,680,809	—	—	10,680,809	10,957,065
Operation and maintenance of plant	3,772,571	—	—	3,772,571	3,778,440
Interest on long-term debt	—	—	4,456,064	4,456,064	4,564,424
Depreciation and amortization	—	—	4,555,037	4,555,037	4,352,557
Other	—	—	557,815	557,815	94,250
Total education and general	76,757,988	—	9,568,916	86,326,904	80,003,555
Auxiliary enterprises	8,962,052	—	—	8,962,052	8,327,527
Total expenses and losses	85,720,040	—	9,568,916	95,288,956	88,331,082
Transfers:					
Debt service	6,075,095	—	(6,075,095)	—	—
Capital purchases	1,395,368	—	(1,395,368)	—	—
Long-term investment in operations	(40,278)	40,278	—	—	—
Operating to capital	3,562,290	—	(3,562,290)	—	—
Total expenses, losses and transfers	96,712,515	40,278	(1,463,837)	95,288,956	88,331,082
Increase in unrestricted net assets	21,624	1,637,124	2,071,446	3,730,194	3,529,994
Changes in temporarily restricted net assets:					
Contributions	3,434,113	30,000	355,868	3,819,981	2,953,497
Investment income on endowments/trusts	565,425	47,421	—	612,846	524,548
Investment income on annuities/life income and other	241,831	145,862	—	387,693	380,731
Net realized gains on endowment investments and trusts	—	525,163	—	525,163	734,820
Net realized gains (losses) on other investments	—	150,592	—	150,592	(17,058)
Changes in net unrealized gains (losses) on endowment investments and trusts	—	2,317,687	—	2,317,687	(1,533,231)
Changes in net unrealized gains (losses) on other investments	—	117,808	—	117,808	(220,685)
Net assets released from restrictions (note 6)	(4,190,043)	(776,914)	(240,127)	(5,207,084)	(4,558,271)
Actuarial adjustments	—	(372,060)	—	(372,060)	(353,444)
Increase (decrease) in temporarily restricted net assets	51,326	2,185,559	115,741	2,352,626	(2,089,093)
Changes in permanently restricted net assets:					
Contributions	—	434,523	—	434,523	641,547
Investment income on trusts and endowment	—	191,227	—	191,227	974,782
Net realized and unrealized gains (losses) on funds held in perpetuity	—	783,779	—	783,779	(1,763,517)
Increase (decrease) in permanently restricted net assets	—	1,409,529	—	1,409,529	(147,188)
Increase in net assets	72,950	5,232,212	2,187,187	7,492,349	1,293,713
Net assets at beginning of year	6,609,011	56,410,121	49,535,052	112,554,184	111,260,471
Net assets at end of year	\$ 6,681,961	61,642,333	51,722,239	120,046,533	112,554,184

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2013

(with comparative financial information for the year ended June 30, 2012)

	2013	2012
Cash flows from operating activities:		
Increase in net assets	\$ 7,492,349	1,293,713
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and amortization	4,555,037	4,352,557
Net realized and unrealized (gains) loss on investments	(5,240,885)	1,894,088
Actuarial adjustments	372,060	353,444
Contributions and net gains on investments restricted to long term	(820,391)	(1,144,407)
(Increase) decrease in accounts and notes receivable	(769,042)	2,476,032
Increase in inventories, prepaid expenses, and other assets	(1,103,239)	(677,181)
Increase (decrease) in accounts payable and accrued liabilities	170,652	(764,436)
Increase in deferred revenues	955,288	462,827
Increase (decrease) in refundable deposits	119,015	(61,008)
Decrease in asset retirement obligation	(13,616)	(29,402)
Increase in U.S. government grants refundable	8,886	87,132
Net cash provided by operating activities	5,726,114	8,243,359
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(2,222,139)	(2,783,807)
Purchases of investment securities	(13,383,488)	(12,695,875)
Proceeds from sale and maturity of investment securities	10,828,828	13,455,264
Decrease in deposits	315,326	42,693
Decrease in restricted cash	—	262,607
Net cash used in investing activities	(4,461,473)	(1,719,118)
Cash flows from financing activities:		
Principal payments on note payable	(786,196)	(750,014)
Contributions and net gains on investments restricted to long term	820,391	1,144,407
Principal payments on long-term debt	(1,365,000)	(1,655,000)
Principal payments on capital lease obligations	(82,686)	(116,350)
Annuity disbursements	(381,147)	(587,447)
Net cash used in financing activities	(1,794,638)	(1,964,404)
Net increase (decrease) in cash and cash equivalents	(529,997)	4,559,837
Cash and cash equivalents at beginning of year	23,060,483	18,500,646
Cash and cash equivalents at end of year	\$ 22,530,486	23,060,483
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 4,456,064	4,564,424
Supplemental schedule of noncash investing and financing activities:		
Equipment acquired under capital lease	\$ 136,993	7,562

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

(1) Organization and History

Pacific University (the University) was established through an act passed by the Legislative Assembly of the Territory of Oregon on September 26, 1849, for the purpose of establishing a seminary of learning, in Washington County, for the instruction of persons of both sexes in science and literature. The University consists of an undergraduate College of Arts and Sciences, graduate and/or professional schools including the College of Education, College of Optometry, and the College of Health Professions, which include occupational therapy, physical therapy, clinical psychology, physicians' assistant, dental health science, healthcare administration, and pharmacy. The University operates as an independent 501(c)(3) organization.

(2) Summary of Significant Accounting Policies

(a) *Accrual Basis*

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions or donor-restricted contributions whose restrictions are met in the same reporting period.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the University and/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 except for actuarial adjustments. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restrictions or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The University follows a practice of classifying its assets, liabilities, net assets, revenues, and expenses as operations, long-term investment, or capital. Items classified as long-term investment include accounts and transactions related to annuity and life income funds, endowment funds, and student loan funds. Items classified as capital include accounts and transactions related to plant facilities. All other accounts and transactions are classified as operations.

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

Contributions, including unconditional promises to give, are recognized as revenues in the period in which the unconditional promise is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved, including a factor for estimating credit risk of the donor. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. 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. Restrictions related to contributions for the purchase of capital additions are released when the asset is placed in service.

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

As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanently restricted net asset

As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or net realizable gains, or if endowment income has not yet been appropriated for expenditure

As increases in unrestricted net assets in all other cases

(c) ***Board-Designated Reserves***

Board-designated reserves represent unrestricted "operating" funds transferred to "long-term investment" for investment in the endowment pool. The University's Board of Trustees must approve all quasi-endowment activity.

(d) ***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 on published actuarial factors for ages of the beneficiaries discounted using the risk-free rate adjusted for mortality uncertainties and are not changed after the date of the gift. 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. Annual adjustments are made between the liability and the net assets to record actuarial gains and losses. The discount rate used by the University in calculating present value of all split-interest agreements ranged from 4.2% to 8.2% at June 30, 2013.

(e) ***Cash Equivalents***

Cash equivalents of \$287,379 as of June 30, 2013 consist of short-term, highly liquid investments with original maturities at purchase of three months or less.

(f) ***Investments***

Investments in marketable equity securities with readily determinable fair values, all investments in debt securities, and all other investments are carried at fair value. In conjunction with the adoption of

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements*, the University adopted the measurement provisions of ASC No. 820-10, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, and real estate. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC No. 820.

Realized and unrealized gains and losses arising from the sale, collection, or other disposition of investments (also called net appreciation), as well as all dividends, interest, and other investment income, are shown in the statement of activities. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in temporarily restricted net assets, and are released from restriction when appropriated for expenditure. Losses on investments related to gifts that the donor required to be invested in perpetuity (i.e., endowment funds) are classified as decreases in temporarily restricted net assets until accumulated gains are reduced to zero. Further losses reduce unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as increases in unrestricted net assets.

(g) *Inventory*

Inventory consists primarily of eyeglass frames, which are stated at the lower of cost or market under the first-in, first-out method.

(h) *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost at date of acquisition or, in the case of gifts, fair value on the date received. Normal repair and maintenance expenses and equipment replacement costs are expensed as incurred. Estimated useful lives used to calculate depreciation are land improvements and buildings (30 to 50 years), building improvements (10 to 20 years), library books (15 years), and furniture and equipment (3 to 10 years). Depreciation is calculated using the straight-line method. The capitalized cost of assets acquired under capital leases is amortized using the straight-line method over the terms of the related leases or useful life, whichever is shorter. Land and artifacts are not depreciated.

(i) *Revenue Recognition and Deferred Revenue*

The University recognizes tuition revenue over the academic year, based on the percentage-of-completion method. Deferred revenue consists primarily of prepayments of tuition and fees related to future academic periods.

(j) *Debt Issuance Costs*

Legal and accounting fees, printing costs, and other expenses associated with the issuance of the City of Forest Grove, Oregon, Pacific University Campus Improvement and Refunding Bonds, Series 2005, are being amortized on a method that approximates the effective interest method over the term of the bonds, which is 31 years. Additionally, in July 2009, the University issued new bonds with the City of Forest Grove, Oregon, Pacific University Campus Improvement Revenue Bonds, Series 2009, totaling \$35,305,000. The legal, accounting, and other expenses associated with this

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

issuance are being amortized using a method that approximates effective yield over the term of the bonds, which is 30 years. During the current fiscal year, the University amortized \$62,887 for Series 2005 and \$31,765 for Series 2009 of debt issuance costs, which is included in interest on long-term debt in the accompanying statement of activities. The remaining unamortized debt issuance costs at June 30, 2013 for both Series totaled \$2,272,290 and are included in prepaid expenses and other assets in the accompanying statement of financial position.

(k) *Income Taxes*

The Internal Revenue Service has recognized the University as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC except to the extent of unrelated business income under Sections 511 through 515. Management believes that unrelated business income tax, if any, is immaterial, and therefore, no tax provision has been made.

The University accounts for income taxes in accordance with FASB ASC No. 740-10, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*, 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. ASC 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure.

(l) *Self-Insurance*

The University is self-insured for certain medical and dental benefits through a benefit trust. Annual contributions to the trust are recorded as expenses when incurred. Reserves for unpaid claims are estimated using actuarial methods. It is possible that the amounts paid in connection with self-insured risks will vary from amounts accrued as self-insurance reserves as of June 30, 2013.

(m) *Postretirement Benefits*

The University maintains a postretirement benefit plan and accounts for the plan within the framework of FASB ASC Nos. 715, *Compensation – Retirement benefits*, and 958, *Not-For-Profit Entities*.

The University measures the costs of the obligation based on its best estimate. The primary actuarial assumption is the discount rate used to estimate the liability at June 30, 2013. The University evaluates the assumptions annually and modifies them as appropriate. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

(n) *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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, asset retirement obligations, investments, allowances for

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

doubtful accounts, and actuarial estimates. The current economic environment has increased the degree of inherent uncertainty in these estimates and assumptions.

(o) **Comparative Information**

The financial statements include only one year of notes to the financial statements. Accordingly, the 2013 financial statements should be read in conjunction with the University's financial statements for the year ended June 30, 2012, from which the information was derived.

(3) **Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2013 are available for the following:

	<u>Operations</u>	<u>Long-term investment</u>	<u>Capital</u>	<u>Total</u>
Student services	\$ 656,565	—	—	656,565
Instruction	345,593	—	—	345,593
Research	499,166	—	—	499,166
Public service	210,070	—	—	210,070
Academic support	771,385	—	—	771,385
Clinics	76,078	—	—	76,078
Institutional support	30,957	—	—	30,957
Operation and maintenance of plant	144,095	—	—	144,095
Scholarships and fellowships	762,428	—	—	762,428
Split-interest agreements	—	3,950,145	—	3,950,145
Endowment earnings	—	6,251,511	—	6,251,511
Funds held in trust by others – time restricted	—	1,045,359	—	1,045,359
Capital	—	—	492,403	492,403
	<u>\$ 3,496,337</u>	<u>11,247,015</u>	<u>492,403</u>	<u>15,235,755</u>

Through December 31, 2007, the University's management and investment of donor-restricted endowment funds were 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), which 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 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 funds existing on or established after that date. The balance of unappropriated net gains was \$6,251,511 and is included in temporarily restricted net assets as of June 30, 2013.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 are restricted to the following:

	Long-term investment
Scholarships	\$ 21,508,481
Student cultural activities	4,692,489
Endowed chairs and other	4,199,934
Operational use	5,563,419
	\$ 35,964,323

(5) Endowments

The University's endowment consists of approximately 168 individual funds, which are both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University have interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Endowment funds are invested on the basis of a total return policy to provide income and to realize appreciation on invested assets. Under this policy, a portion of realized and unrealized gains, in addition to interest and dividend income, can be used to support operations. The investment policy creates a

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

framework to provide growth and stability consistent with the current needs of the University, while promoting growth of the endowment for the future. The income and appreciation used to support operations are allocated from funds that have a fair value in excess of historical value and are utilized in accordance with donor-imposed restrictions.

The University spends endowment income and appreciation within a spending policy that preserves principal in accordance with the UPMIFA. The policy of spending endowment income is to spend 5% of the average net assets using a three-year moving average value at July 1, each year. If losses reduce the assets of a donor-restricted endowment fund, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to zero. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds with a fair value of associated assets that is less than the original gift amount is \$1,017 at June 30, 2013. Gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

Endowment net asset composition by fund type, excluding funds held in trust, as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,017)	6,251,511	17,744,397	23,994,891
Board-designated endowment funds	14,426,403	—	—	14,426,403
Total funds	<u>\$ 14,425,386</u>	<u>6,251,511</u>	<u>17,744,397</u>	<u>38,421,294</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 12,788,332	4,138,154	17,292,449	34,218,935
Investment return:				
Net investment income	136,360	386,171	5,269	527,800
Net appreciation of investments	940,975	2,842,850	15,527	3,799,352
Contributions	—	—	431,152	431,152
Other reclassifications and transfers	62,850	(99,668)	—	(36,818)
Appropriation of endowment assets for expenditure	(323,431)	(1,015,996)	—	(1,339,427)
Transfers relating to board-designated endowment fund	820,300	—	—	820,300
Endowment net assets, June 30, 2013	<u>\$ 14,425,386</u>	<u>6,251,511</u>	<u>17,744,397</u>	<u>38,421,294</u>

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

(6) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restriction during the year ended June 30, 2013 are as follows:

	<u>Operations</u>	<u>Long-term investment</u>	<u>Capital</u>	<u>Total</u>
Purpose restrictions accomplished:				
Research	\$ 1,184,446	—	—	1,184,446
Public service	218,100	—	—	218,100
Academic support	383,628	—	—	383,628
Clinics	34,102	—	—	34,102
Student services	785,094	—	—	785,094
Institutional support	36,608	—	—	36,608
Scholarships and fellowships	1,548,065	—	—	1,548,065
Endowment and split-interest agreements	—	776,914	—	776,914
Capital	—	—	240,127	240,127
	<u>\$ 4,190,043</u>	<u>776,914</u>	<u>240,127</u>	<u>5,207,084</u>

(7) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, student and contributions receivable, other assets, accounts payable, and accrued expenses: The carrying amount approximates fair value, based on the short maturity of those instruments.

Contributions receivable and funds held in perpetuity: The fair value is determined by the present value of future contractual cash flows, discounted at an interest rate that reflects the risks inherent in these cash flows.

Long-term debt: The fair value of the University's notes payable and long-term debt is estimated based on the stream of principal payments represented by the 2005 Series bonds. Taking into account current borrowing rates as of June 30, 2013, the estimated fair value of the University's bonds approximates \$39,831,000 as compared to its carrying value of \$39,824,171 (note 14). The University issued additional debt in July 2009. Using the borrowing rates as of June 30, 2013, the fair value of the new debt approximates \$35,550,000 as compared to its carrying value of \$34,676,266 (note 14).

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

(8) Investments

Investments presented by type at fair value were as follows:

Equity securities	\$	2,476,929
Mutual funds:		
Fixed income		8,227,235
Large cap		5,365,257
Small cap		3,378,616
International		7,289,594
Commodities		1,430,514
Real estate investment trusts		1,022,908
Private equity		1,217,458
Hedge funds		10,032,964
Real estate		489,226
Total investments	\$	40,930,701

The University adopted FASB ASC No. 820 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC No. 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They may include
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 inputs are unobservable inputs for the asset or liability.

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. A description of the valuation methodologies and redemption frequency used for assets measured at fair value is as follows:

- Level 1 assets include investments in fixed income securities, equity securities, exchange traded funds, and mutual funds that are traded in active markets for which closing prices are readily available. These investments can be traded daily with a trade settlement between one and three days.
- Level 2 assets include investments in government and corporate bonds. These investments use other observable inputs to measure fair value such as dealer market prices for comparable investments based on interest rates, spreads, and various trade activity in this market.
- Level 3 assets include investments in hedge funds, private equity funds, real estate partnerships, and private real estate. Hedge funds and private equity fund purchases are recorded at historic cost which approximates market value. The investment value is adjusted with additional capital calls and withdrawals and changes in performance as reported by the manager. Investments in real estate are recorded at cost or appraised value. The fair value of level 3 assets has been estimated using the Net Asset Value (NAV) as reported by the management of the fund. Redemption periods for hedge funds are generally between quarterly and annually with the appropriate days' notice to the fund. Private equity is illiquid for a period of years between 3 and 10 years. The real estate partnership has a term of 10 years after closing. Other private real estate has been donated to the University under a unitrust arrangement.

Also included in Level 3 are funds held in trust by others which are not under the control of the University.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Equity securities	\$ 2,476,929	2,476,929	—	—
Mutual funds:				
Fixed income	8,227,235	7,794,180	433,055	—
Large cap	5,365,257	5,365,257	—	—
Small cap	3,378,616	3,378,616	—	—
International	7,289,594	7,289,594	—	—
Commodities	1,430,514	1,430,514	—	—
REITS	1,022,908	1,022,908	—	—
Private equity	1,217,458	—	—	1,217,458
Hedge funds	10,032,964	—	—	10,032,964
Real estate	489,226	—	—	489,226
Funds held in trust by others	19,035,970	—	—	19,035,970
Total assets	<u>\$ 59,966,671</u>	<u>28,757,998</u>	<u>433,055</u>	<u>30,775,618</u>

Changes in Level 3 investments for the year ended June 30, 2013 are as follows:

Beginning balance at June 30, 2012	\$ 26,258,736
Net realized and unrealized gains	1,944,162
Purchases	3,099,829
Sales	<u>(527,109)</u>
Ending balance at June 30, 2013	<u>\$ 30,775,618</u>
Gains for 2013 included in income related to assets held at June 30, 2013	\$ 2,309,948

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

The fair value of Level 3 funds has been estimated using the Net Asset Value (NAV) as reported by the management of the fund. The following table summarizes fair value of the investments in Level 3.

Category of Investment	Significant investment strategy	Fair value	Unfunded commitments	Redemption period	# of days notice
Hedge funds	Low volatility hedge	\$ 500,000	\$ -	Quarterly	30
Hedge funds	Absolute return	900,609	-	Quarterly	100
Hedge funds	Emerging markets	1,221,676	-	Quarterly	60
Hedge funds	Absolute return	559,454	-	Semi-annual	95
Hedge funds	Absolute return	564,351	-	Quarterly	30
Hedge funds	Low volatility hedge	2,593,849	-	Quarterly	45
Hedge funds	Low volatility hedge	20,203	-	N/A	N/A
Hedge funds	Global long/short	1,256,874	-	Annually	90
Hedge funds (a)	Long/short growth	316,308	-	N/A	N/A
Hedge funds	Long/short growth	2,099,640	-	Quarterly	65
Private equity (b)	Asia - fund of funds	95,964	404,036	N/A	N/A
Private equity (b)	Global secondaries	301,339	198,661	N/A	N/A
Private equity (b)	Venture capital	325,957	256,991	N/A	N/A
Private equity (b)	Buyout, fund of funds	393,621	106,379	N/A	N/A
Private equity (b)	Special opportunity	100,577	149,423	N/A	N/A
Real Estate (c)	Private real estate	329,226	170,774	N/A	N/A
Real Estate (c)	Real estate	160,000	-	N/A	N/A
Funds held in trust by others (d)		19,035,970	-	N/A	N/A
		<u>\$ 30,775,618</u>	<u>\$ 1,286,264</u>		

- (a) The exit frequency of this investment is between 6 to 7 years after initial closing.
- (b) These funds will remain illiquid for a period of 3 to 10 years.
- (c) A residential real estate partnership investment has a term of 10 years. The other real estate investment is from a donation of real property through a unitrust.
- (d) Funds held in trust by others are held in remainder trusts and perpetual trusts that are not under the control of the University.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

(9) Split-Interest Agreements

The following schedule summarizes the change in value of split interest agreements and its presentation in the statement of activities investment returns applicable to split-interest agreements presented as part of Investments:

Dividends and interest	\$	145,862
Net realized gain		150,592
Change in cumulative net unrealized gain		117,808
Total	\$	414,262

(10) Accounts, Contributions, and Notes Receivable

Accounts, contributions, and notes receivable consist of the following at June 30, 2013:

	Operations	Long-term investment	Capital	Total
Student accounts receivable	\$ 1,678,812	—	—	1,678,812
Accounts in collections	492,873	—	—	492,873
Clinic receivable	279,062	—	—	279,062
Perkins loans	4,576,276	—	—	4,576,276
Health professional loans	2,177,069	—	—	2,177,069
Grants and contracts receivable	1,136,162	—	—	1,136,162
Pledges and contributions receivable, net of discounts of \$199,016	156,497	346,997	50,642	554,136
Other receivables	81,919	9,426	194,750	286,095
	10,578,670	356,423	245,392	11,180,485
Less allowance for doubtful accounts	(245,922)	(26,657)	(2,875)	(275,454)
	\$ 10,332,748	329,766	242,517	10,905,031

The Perkins and Health Professional Loan Funds (HPL) generally are payable including interest at 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. The Perkins program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. government.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

Contributions Receivable

Included in accounts receivable are the following unconditional promises to give as of June 30, 2013:

Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 753,152
Less unamortized discount	(199,016)
Allowance for uncollectibles	(37,658)
Net unconditional promises to give	\$ 516,478
Amounts due in:	
Amounts receivable in less than one year	\$ 34,486
Amounts receivable in one to five years	218,666
Amounts receivable in more than five years	500,000
	\$ 753,152

Contributions receivable due in excess of one year are discounted between 0.41% and 5.00% at June 30, 2013.

(11) Financing Receivables

The University's financing receivables consist of a revolving loan fund for Federal Perkins Loans and Health Professions Loans (HPL) for which the University acts as an agent for the federal government and institutional loan funds created by the University to assist students in funding their education. The institutional loans are valued based on the outstanding principal balance, less an allowance for estimated losses. For Federal Perkins Loans and Health Professions Loans, interest earned on outstanding loan balances is recorded based on the terms of the individual loan agreements and continues to accrue even when past due. Interest is not assessed on institutional loans.

The availability of funds for loans under the Federal Perkins Loan program and the Health Professions Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the Federal loan programs of \$7,124,992 are ultimately refundable to the government and are classified as a liability in the statement of financial position.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

Balances of financing receivables as of June 30, 2013 consist of the following:

	Perkins Loans	HPL Loans	Institutional Loans	Total
Receivable	\$ 4,576,276	2,177,069	2,171,685	8,925,030
Less allowance	—	—	(116,391)	(116,391)
Balance at June 30, 2013	<u>\$ 4,576,276</u>	<u>2,177,069</u>	<u>2,055,294</u>	<u>8,808,639</u>

For each class of financing receivables, the following table presents the credit quality indicator as determined by the delinquency status of the loan as of June 30, 2013. The delinquency status is updated monthly by the University's loan servicer.

	Perkins	HPL	Institutional	Total
Performing	\$ 4,307,686	2,021,774	1,678,812	8,008,272
Nonperforming (defaulted)	268,590	155,295	492,873	916,758
Balance at June 30, 2013	<u>\$ 4,576,276</u>	<u>2,177,069</u>	<u>2,171,685</u>	<u>8,925,030</u>

The aging of financing receivables as of June 30, 2013 is presented as follows:

Aging	31 – 60	61 – 90	91+	Total past due	Total current	Total
Perkins	\$ —	1,816	275,148	276,964	4,299,312	4,576,276
HPL	—	—	155,295	155,295	2,021,774	2,177,069
Institutional	103,398	545,699	1,416,640	2,065,737	105,948	2,171,685
Total	<u>\$ 103,398</u>	<u>547,515</u>	<u>1,847,083</u>	<u>2,497,996</u>	<u>6,427,034</u>	<u>8,925,030</u>

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, as well as a consideration of current economic trends and indicators. For Institutional loans, loan balances are written off when they are deemed to be ultimately uncollectible. Since student loans under the Perkins loan program and Health Professions loan program can be assigned back to the government when no longer collectible, in these cases a loan write-off will reduce the amount refundable to the government. Due to this reduction of the liability, the University does not maintain an allowance for doubtful accounts for Perkins or Health Professions loans.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

Changes in allowance for estimated losses on financing receivables held under Institutional loans (receivables) as of June 30, 2013 are presented as follows:

Beginning balance	\$	116,391
Write-off		61,766
Recovery		—
Provision		61,766
		61,766
Ending balance	\$	116,391

(12) Property, Plant, and Equipment

The University's property, plant, and equipment consist of the following at June 30, 2013:

	Cost	Accumulated depreciation	Net carrying value
Land	\$ 6,496,765	—	6,496,765
Land improvements	2,635,494	(600,272)	2,035,222
Building and improvements	138,197,369	(33,877,945)	104,319,424
Furniture and equipment	17,385,117	(12,820,356)	4,564,761
Library books	4,879,110	(3,345,625)	1,533,485
Artifacts	261,659	—	261,659
Construction in progress	362,674	—	362,674
	\$ 170,218,188	(50,644,198)	119,573,990

Depreciation expense amounted to \$4,555,037 during the year ended June 30, 2013.

Leased property included above and recorded under capital leases as of June 30, 2013:

Classes of property:		
Furniture and equipment	\$	2,408,444
Less accumulated amortization		(1,683,136)
		725,308
	\$	725,308

(13) Asset Retirement Obligation

The University has asset retirement obligations arising from regulatory requirements to perform cleanup related to asbestos found in buildings owned by the University. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of estimated cash flows. The corresponding asset retirement costs are capitalized as a part of the carrying amount of the related long-lived asset and depreciated over the asset's remaining useful life. The University has recorded \$1,259,790 as of June 30, 2013 related to asset retirement obligations.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

(14) Notes Payable and Long-Term Debt

Long-term debt consists of the following at June 30, 2013:

City of Forest Grove, Oregon, Pacific University Campus Improvement and Refunding Revenue Bonds, Series 2005, principal due yearly (in varying amounts) through May 1, 2036, with fixed interest rates averaging 4.86%, secured by unrestricted revenues and a trust deed on the Hillsboro property	\$ 39,170,000
Unamortized premium on 2005 Campus Improvement and Refunding Revenue Bonds	654,171
City of Forest Grove, Oregon, Pacific University Campus Improvement Revenue Bonds, Series 2009, principal due yearly (in varying amounts) through May 1, 2039, with fixed interest rates averaging 6.54%, secured by unrestricted revenues and a trust deed on the Hillsboro property	35,170,000
Unamortized discount on 2009 Campus Improvement Revenue Bonds	<u>(493,734)</u>
	<u>\$ 74,500,437</u>

In August 2005, the University issued Campus Improvement and Refunding Revenue Bonds totaling \$46,625,000 with the City of Forest Grove, Oregon. The bond proceeds were used to construct a new Health Professions Campus in Hillsboro and to refund the Series 2000 bonds. In July 2009, the University issued Campus Improvement Revenue Bonds totaling \$35,305,000. The bond proceeds were used to construct a second building in Hillsboro at the Health Professions Campus.

The following table shows principal payment requirements subsequent to June 30, 2013:

Year ending June 30:	
2014	\$ 1,425,000
2015	1,485,000
2016	1,550,000
2017	1,630,000
2018	1,710,000
Thereafter	<u>66,540,000</u>
	74,340,000
Unamortized bond premium	654,171
Unamortized bond discount	<u>(493,734)</u>
	<u>\$ 74,500,437</u>

The 2005 Campus Improvement and Refunding Revenue Bonds and the 2009 Campus Improvement Revenue Bonds are subject to certain restrictive covenants. Required deposits held by the trustee at June 30, 2013 for future debt service payments were \$6,481,131. No interest was capitalized in the current fiscal year.

The University has a revolving line of credit in the amount of \$6,000,000, which expires in February 2014. Use of the borrowings is used for general operating expenses. Borrowings pursuant to the revolving line of

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

credit bear interest at a fully floating variable interest rate equal to each bank's prime lending rate. The line of credit has a commitment fee of 0.1%. As of June 30, 2013, the University had no amounts outstanding under this line of credit.

The University has a term note payable with an aggregate amount of \$4,273,371 outstanding. The note requires monthly principal and interest payments and matures March 10, 2018. The use of the borrowings was for capital projects. The interest rate on the amounts outstanding as of June 30, 2013 is 4.57%.

(15) Related-Party Transactions

In March 2006, the University entered into a 30-year lease agreement with the Oak Tree Foundation (the Foundation), an Oregon nonprofit corporation formed in 1994 to benefit the University by providing financing and management assistance in on-campus and off-campus housing for University students, to lease a newly constructed residence hall. The Foundation has leased from the University the ground on which the residence hall was constructed for a term of 99 years.

In June 2007, the University entered into a second 30-year lease agreement with the Foundation, to lease a second residence hall. The Foundation has leased from the University the ground on which the residence hall was constructed for a term of 99 years.

The Foundation is governed by a seven-member board of which there are four independent members and three members from the University. In accordance with FASB ASC No. 985-810-15, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, the University is not required to consolidate the Foundation but has chosen to disclose certain summarized financial data.

The Foundation's financial data as of and for the year ended June 30, 2013 is as follows:

Total assets	\$	29,675,275
Total liabilities		32,693,457
Net deficit		(3,018,182)
Total revenues		2,079,647
Total expenses		2,380,614

The future aggregate minimum operating lease payments the University has committed to pay the Foundation under the 2006 and 2007 lease agreements are as follows:

2014	\$	2,337,433
2015		2,433,586
2016		2,473,326
2017		2,475,881
2018		2,481,421
Thereafter		47,078,344
	\$	<u>59,279,991</u>

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

The University's future aggregate minimum lease receipts from the Foundation under both 99-year ground lease agreements are as follows:

Year ending June 30:		
2014	\$	97,034
2015		99,946
2016		102,945
2017		106,032
2018		109,208
Thereafter		<u>45,604,555</u>
	\$	<u><u>46,119,720</u></u>

(16) Expenses by Function

Expenses by functional classification after allocating depreciation, operation and maintenance of plant, and interest are as follows for the year ended June 30, 2013:

Instruction	\$	36,887,588
Research		2,324,739
Public service		378,836
Academic support		15,237,873
Clinics		4,790,182
Student services		12,828,914
Institutional support		12,419,702
Auxiliary		<u>10,421,122</u>
	\$	<u><u>95,288,956</u></u>

(17) Funds Held in Trust by Others

Funds held in trust by others represent assets held and administered by trustees other than the University. The University as a beneficiary derives income or a residual interest from the assets of such funds after the passage of time or occurrence of specified future events. When the University is notified that funds have been put in a trust held by others and is designated as beneficiary, contribution income is recognized as an increase in temporarily or permanently restricted net assets, depending on the nature of restriction imposed by the donor, at the estimated present value of future cash flows to be received by the University.

The University has an irrevocable interest in six trusts held by others in perpetuity with the University receiving income distributions annually. The fair value at June 30, 2013 was \$17,990,611. In addition, there are five trusts held by others in life income annuities with assets with a fair value of \$1,045,359 at June 30, 2013.

(18) Net Asset Borrowings

Net asset borrowings at June 30, 2013 represent temporarily unfunded transfers, which will be eliminated principally through collections of accounts and pledges receivable, appropriation of other receipts, or

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

charges to “operations.” University management believes that the University has the ability and intent to repay the net asset borrowings.

(19) Employee Retirement Plan

The University makes contributions to employee’s defined contribution retirement plan covering substantially all full-time personnel. The University contributes a rate of 9% towards employees’ monthly compensation. Aggregate expense for the year ended June 30, 2013 under the plan was \$3,449,245.

(20) Leases

(a) Operating Leases and Lease Commitments

The University has several noncancelable operating leases for office space for various instructional activities and certain equipment in addition to the leases discussed in note 15. Total rental expense amounted to \$3,548,956 for the year ended June 30, 2013.

The future aggregate minimum operating lease payments (including 2006 and 2007 related-party leases with the Foundation) are as follows:

Year ending June 30:	
2014	\$ 3,536,874
2015	3,213,560
2016	3,229,452
2017	3,201,881
2018	2,873,571
Thereafter	<u>47,850,586</u>
	<u>\$ 63,905,924</u>

Beginning in fiscal year ended June 30, 1997, the University leased its bookstore to Barnes & Noble. Barnes & Noble is providing all bookstore services for the University under the terms of a lease agreement ending in November 2016. In fiscal year ended June 30, 1997, the University sold the bookstore inventory at cost to Barnes & Noble with the agreement that Barnes & Noble will sell the remaining inventory back to the University at cost at the end of this lease agreement. During the term of the lease, Barnes & Noble will pay the University a percentage of bookstore sales for the use of the University’s property. The University received \$47,577 during the year ended June 30, 2013.

PACIFIC UNIVERSITY
Notes to Financial Statements
June 30, 2013

(b) Capital Leases

The future minimum lease payments under capital leases are as follows:

Year ending June 30:				
2014	\$		39,182	
2015			39,182	
2016			34,345	
2017			34,345	
2018			25,761	
Thereafter			—	
Total minimum lease payments			<u>172,815</u>	
Less amount representing interest			<u>(35,620)</u>	
Present value of net minimum lease payment	\$		<u><u>137,195</u></u>	

(21) Liquidity

Summarized information regarding the classification of assets and liabilities of the University as of June 30, 2013 is as follows:

Total current assets			\$ 30,762,744	
Total long-term assets			<u>193,911,002</u>	
Total assets			<u><u>\$ 224,673,746</u></u>	
Total current liabilities			\$ 16,712,808	
Total long-term liabilities			<u>87,914,405</u>	
Total liabilities			104,627,213	
Net assets			<u>120,046,533</u>	
Total liabilities and net assets	\$		<u><u>224,673,746</u></u>	

(22) Commitments and Contingencies

The University receives and expends moneys under federal grant programs and is subject to audits by cognizant governmental agencies. Management believes that any liabilities arising from such audits will not have a material effect on the University.

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2013

The University has placed certain of its medical and dental insurance coverage with 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 trustees. In no event shall the total contributions paid by any college in any month to the fund be less than the amount of contributions to the cost of the benefit program that employees of such college have paid during the period. In the event losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the University is \$917,887. 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.

(23) Subsequent Events

In September 2013, the University issued campus improvement revenue bonds totaling \$18,500,000 with the City of Forest Grove, Oregon. The bond proceeds will be used to construct a new resident hall on the campus in Forest Grove, Oregon.

The University evaluated subsequent events after the balance sheet date of June 30, 2013 through October 29, 2013, which was the date the financial statements were issued.