



PACIFIC UNIVERSITY

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

PACIFIC UNIVERSITY

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

Independent Auditors' Report

The Board of Trustees
Pacific University:

We have audited the accompanying financial statements of Pacific University, which comprise the statement of financial position as of June 30, 2015, 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, 2015 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.



Other Matters

The accompanying 2014 summarized comparative information has been derived from Pacific University's 2014 financial statements, and in our report dated October 29, 2014, we expressed an unmodified opinion on those financial statements.

KPMG LLP

October 22, 2015

PACIFIC UNIVERSITY
Statement of Financial Position
June 30, 2015
(with comparative financial information as of June 30, 2014)

Assets		Operations	Long-term investment	Capital	Totals	
					2015	2014
Cash and cash equivalents	\$	16,352,673	2,461,196	5,766,727	24,580,596	26,838,997
Accounts, contributions, and notes receivable, net (note 10)		12,247,810	403,356	1,116,622	13,767,788	12,787,145
Inventories		437,748	—	—	437,748	460,574
Prepaid expenses and other assets		1,052,943	—	2,668,466	3,721,409	5,138,238
Deposits		56,406	—	5,703,999	5,760,405	7,777,913
Investments (note 8)		82,475	45,231,080	—	45,313,555	46,041,159
Funds held in trust by others (notes 8 and 17)		—	20,507,600	—	20,507,600	20,902,463
Restricted cash		—	—	2,998,033	2,998,033	2,468,146
Property, plant, and equipment, net (note 12)		—	—	143,140,742	143,140,742	134,435,876
Total assets	\$	<u>30,230,055</u>	<u>68,603,232</u>	<u>161,394,589</u>	<u>260,227,876</u>	<u>256,850,511</u>
Liabilities and Net Assets						
Accounts payable and accrued liabilities	\$	5,594,491	—	1,483,892	7,078,383	8,788,540
Notes payable to bank (note 14)		—	—	2,587,582	2,587,582	3,449,963
Salaries payable and compensated absences		2,858,522	—	—	2,858,522	2,897,300
Deferred revenues		5,961,192	—	4,770,139	10,731,331	10,973,059
Refundable deposits		437,729	—	—	437,729	918,842
Capital lease obligations (note 20)		—	—	118,487	118,487	160,433
Asset retirement obligation (note 13)		—	—	943,214	943,214	1,030,925
Annuities payable		—	832,140	—	832,140	907,852
Accrued postretirement benefits obligation		568,239	—	—	568,239	641,555
Long-term debt (note 14)		—	—	95,434,400	95,434,400	91,180,810
U.S. government grants refundable (note 11)		7,193,973	—	—	7,193,973	7,154,361
Net asset borrowings (note 18)		35,592	(35,592)	—	—	—
Total liabilities		<u>22,649,738</u>	<u>796,548</u>	<u>105,337,714</u>	<u>128,784,000</u>	<u>128,103,640</u>
Net assets:						
Unrestricted		3,221,615	14,478,132	54,984,279	72,684,026	71,063,386
Temporarily restricted (note 3)		4,358,702	13,744,303	1,072,596	19,175,601	18,898,468
Permanently restricted (note 4)		—	39,584,249	—	39,584,249	38,785,017
Total net assets		<u>7,580,317</u>	<u>67,806,684</u>	<u>56,056,875</u>	<u>131,443,876</u>	<u>128,746,871</u>
Total liabilities and net assets	\$	<u>30,230,055</u>	<u>68,603,232</u>	<u>161,394,589</u>	<u>260,227,876</u>	<u>256,850,511</u>

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Activities

Year ended June 30, 2015

(with comparative financial information for the year ended June 30, 2014)

	Operations	Long-term investment	Capital	Totals	
				2015	2014
Changes in unrestricted net assets:					
Revenues and gains:					
Tuition and fees	\$ 121,081,488	—	—	121,081,488	114,349,748
Scholarships and fellowships	(35,057,953)	—	—	(35,057,953)	(32,811,222)
Net tuition and fees	86,023,535	—	—	86,023,535	81,538,526
Contributions	466,113	—	9,500	475,613	630,812
Contracts and other exchange transactions	1,559,941	—	—	1,559,941	1,634,744
Investment income on quasi-endowment and trusts	408,536	—	—	408,536	373,377
Other investment income	8,386	2,390	2,260	13,036	137,480
Net realized gains	1,378	557,962	—	559,340	256,044
Net realized (losses) gains on quasi-endowment and trusts	—	(483,479)	—	(483,479)	896,191
Sales of services at clinics	2,933,001	—	—	2,933,001	2,854,609
Sales of services of auxiliary enterprises	11,919,341	—	338,750	12,258,091	11,210,828
Other sources	505,873	(32,487)	11,730	485,116	529,629
Total unrestricted revenues and gains	103,826,104	44,386	362,240	104,232,730	100,062,240
Net assets released from restrictions (note 6)	3,619,232	702,149	566,200	4,887,581	4,777,507
Total revenues and gains and net assets released from restrictions	107,445,336	746,535	928,440	109,120,311	104,839,747
Expenses and losses:					
Education and general:					
Instruction	36,938,645	—	—	36,938,645	35,145,610
Research	1,968,739	—	—	1,968,739	2,074,170
Public service	185,531	—	—	185,531	187,131
Academic support	15,475,237	—	—	15,475,237	14,241,886
Clinics	4,377,484	—	—	4,377,484	4,448,566
Student services	12,157,200	—	—	12,157,200	11,407,606
Institutional support	12,356,689	—	—	12,356,689	11,164,366
Operation and maintenance of plant	4,095,776	—	—	4,095,776	3,882,802
Interest on long-term debt	—	—	4,579,110	4,579,110	4,521,720
Depreciation and amortization	—	—	4,946,105	4,946,105	5,114,037
Loss-extinguishment of debt	—	—	731,953	731,953	1,281,555
Other	—	—	359,969	359,969	403,283
Total education and general	87,555,301	—	10,617,137	98,172,438	93,872,732
Auxiliary enterprises	9,327,233	—	—	9,327,233	8,750,084
Total expenses and losses	96,882,534	—	10,617,137	107,499,671	102,622,816
Transfers:					
Debt service	6,088,010	—	(6,088,010)	—	—
Capital purchases	1,490,571	—	(1,490,571)	—	—
Long-term investment in operations	(1,419,943)	1,419,943	—	—	—
Capital to operating	4,383,072	—	(4,383,072)	—	—
Total expenses, losses and transfers	107,424,244	1,419,943	(1,344,516)	107,499,671	102,622,816
Change in unrestricted net assets	21,092	(673,408)	2,272,956	1,620,640	2,216,931
Change in unrestricted net assets					
Contributions	3,591,102	—	829,413	4,420,515	3,878,813
Investment income on endowments/trusts	563,530	37,256	—	600,786	541,939
Investment income on annuities/life income and other	273,300	134,314	—	407,614	392,296
Net realized gains on endowment investments and trusts	—	1,305,949	—	1,305,949	914,554
Net realized gains on other investments	—	153,273	—	153,273	105,983
Changes in net unrealized (losses) gains on endowment investments and trusts	—	(1,188,485)	—	(1,188,485)	2,565,231
Changes in net unrealized (losses) gains on other investments	—	(207,776)	—	(207,776)	493,841
Net assets released from restrictions (note 6)	(3,619,232)	(699,649)	(566,200)	(4,885,081)	(4,777,507)
Actuarial adjustments	—	(329,662)	—	(329,662)	(452,437)
Change in temporarily restricted net assets	808,700	(794,780)	263,213	277,133	3,662,713
Changes in permanently restricted net assets:					
Contributions	—	1,181,281	—	1,181,281	820,519
Investment income on trusts and endowment	—	195,162	—	195,162	187,519
Reclassification of net assets (note 6)	—	(2,500)	—	(2,500)	—
Net realized and unrealized (losses) gains on funds held in perpetuity	—	(574,711)	—	(574,711)	1,812,656
Change in permanently restricted net assets	—	799,232	—	799,232	2,820,694
Change in net assets	829,792	(668,956)	2,536,169	2,697,005	8,700,338
Net assets at beginning of year	6,750,525	68,475,640	53,520,706	128,746,871	120,046,533
Net assets at end of year	\$ 7,580,317	67,806,684	56,056,875	131,443,876	128,746,871

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Financial Position

Statement of Cash Flows

Year ended June 30, 2015

(with comparative financial information for the year ended June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 2,697,005	8,700,338
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	4,946,105	5,114,037
Net realized and unrealized losses (gains) on investments	82,987	(7,440,101)
Loss on extinguishment of debt	731,953	1,281,555
Actuarial adjustments	329,662	452,437
Noncash contributions	(9,500)	(153,000)
Contributions and net gains on investments restricted to long term	(2,010,694)	(1,146,816)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts and notes receivable	(980,643)	(1,882,114)
Inventories, prepaid expenses, and other assets	1,439,655	(439,911)
Accounts payable and accrued liabilities	(3,288,930)	(197,437)
Deferred revenues	(241,728)	5,123,277
Refundable deposits	(481,113)	137,593
Asset retirement obligation	(87,711)	(228,865)
U.S. government grants refundable	39,612	29,369
Net cash provided by operating activities	3,166,660	9,350,362
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(12,841,294)	(16,593,006)
Purchases of investment securities	(10,156,905)	(7,806,600)
Proceeds from sale and maturity of investment securities	11,217,351	8,276,001
Decrease (increase) in deposits	2,017,508	(1,239,246)
Changes in restricted cash	(529,887)	(2,468,146)
Net cash used in investing activities	(10,293,227)	(19,830,997)
Cash flows from financing activities:		
Principal payments on note payable	(862,381)	(823,408)
Contributions and net gains on investments restricted to long term	2,010,694	1,146,816
Principal payments on long-term debt	(53,742)	(1,280,000)
Redemption of 2005 series bonds	(38,621,953)	—
Redemption of 2009 series bonds	—	(36,451,555)
New bond issue 2013 series	4,327,837	14,172,163
New bond issue 2014 series	—	38,491,433
New bond issue 2015 series	38,515,031	—
Principal payments on capital lease obligations	(41,946)	(27,683)
Annuity disbursements	(405,374)	(438,620)
Net cash provided by financing activities	4,868,166	14,789,146
Net (decrease) increase in cash and cash equivalents	(2,258,401)	4,308,511
Cash and cash equivalents at beginning of year	26,838,997	22,530,486
Cash and cash equivalents at end of year	\$ 24,580,596	26,838,997
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 4,579,110	4,521,720
Supplemental schedule of noncash investing and financing activities:		
Equipment acquired under capital lease	\$ —	50,921
Accrued purchases of plant and equipment	821,143	3,185,248

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2015

(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 is a private organization operating as an independent 501(c)(3), and is a fully accredited institution of higher education. The University strives to provide an education of exceptional quality in liberal arts and sciences and selected professional programs to prepare students for service to a changing community, nation, and world. The University's historic main campus is located in Forest Grove, with its Health Professions Campus in Hillsboro. The University also maintains campuses, offices, or clinical sites in Portland, Beaverton, Cornelius, Woodburn and Eugene, Oregon, and Honolulu, Hawaii.

Colleges of the University consist of the College of Arts and Sciences, which includes the School of Social Sciences, the School of Arts and Humanities, the School of Natural Sciences, and offers a Master of Social Work and a Master of Fine Arts in Writing program. The College of Education offers programs in the undergraduate and graduate level and includes the School of Communication Sciences and Disorders and the School of Learning and Teaching. The College of Health Professions has programs in the undergraduate, graduate and professional level, and includes the following Schools: the School of Occupational Therapy, the School of Physical Therapy, the School of Professional Psychology, the School of Physician Assistant Studies, the School of Dental Health Sciences, the School of Pharmacy, the School of Audiology, and the School of Healthcare Administration and Leadership. In addition, the University includes the College of Optometry and the College of Business.

(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.

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Notes to Financial Statements

June 30, 2015

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.

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 has been named as a beneficiary for various split-interest agreements that name third parties as co-beneficiaries. The University has reflected appropriate liabilities for such agreements in the statement of financial position. The University uses an actuarial method of recording certain

PACIFIC UNIVERSITY

Notes to Financial Statements

June 30, 2015

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. 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, 2015. The assets associated with split-interest agreements are recorded at fair value as of June 30, 2015.

(e) Cash Equivalents

Cash equivalents of \$1,341,670 as of June 30, 2015 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, the University adopted the measurement provisions of ASC Topic 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 (NAV), in many instances, may not equal fair value that would be calculated pursuant to ASC Topic 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 fair value under the first-in, first-out method.

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Notes to Financial Statements
June 30, 2015

(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 under \$5,000 are expensed as incurred. Estimated useful lives used to calculate depreciation are as follows:

Land improvements and buildings	30 to 50 years
Building improvements	10 to 20 years
Library books	15 years
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 2015 and Series 2014, are being amortized on a method that approximates the effective interest method over the term of the bonds, which is 30 years and 25 years respectively. In addition, the City of Forest Grove, Oregon, Pacific University Campus Improvement Revenue Bonds, Series 2013 bonds, are being amortized using a method that approximates the effective interest method over the term of the bonds, which is 25 years. During the current fiscal year, for the Series 2015, Series 2014, and Series 2013 the University amortized \$3,932, \$30,263, and \$18,530 respectively of debt issuance costs. The remaining unamortized debt issuance costs at June 30, 2015 for all Series totaled \$1,617,496 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 Topic 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. FASB ASC 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure.

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Notes to Financial Statements
June 30, 2015

(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, 2015.

(m) Postretirement Benefits

The University maintains a postretirement benefit plan and accounts for the plan within the framework of FASB ASC Topics 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, 2015. 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, contributions receivable, allowances for doubtful accounts, split-interest agreements, and actuarial estimates.

(o) Comparative Information

The financial statements include only one year of notes to the financial statements. Accordingly, the 2015 financial statements should be read in conjunction with the University's financial statements for the year ended June 30, 2014, from which the information was derived.

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Notes to Financial Statements
June 30, 2015

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 are available for the following:

	<u>Operations</u>	<u>Long-term investment</u>	<u>Capital</u>	<u>Total</u>
Student services	\$ 714,325	—	—	714,325
Instruction	428,361	—	—	428,361
Research	611,879	—	—	611,879
Public service	254,306	—	—	254,306
Academic support	1,060,485	—	—	1,060,485
Clinics	116,954	—	—	116,954
Institutional support	146,835	—	—	146,835
Operation and maintenance of plant	193,096	—	—	193,096
Scholarships and fellowships	832,461	—	—	832,461
Split-interest agreements	—	3,846,326	—	3,846,326
Endowment earnings	—	8,945,855	—	8,945,855
Funds held in trust by others – time restricted	—	952,122	—	952,122
Capital	—	—	1,072,596	1,072,596
	<u>\$ 4,358,702</u>	<u>13,744,303</u>	<u>1,072,596</u>	<u>19,175,601</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 endowment gains was \$8,945,855 and is included in temporarily restricted net assets as of June 30, 2015.

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Notes to Financial Statements
June 30, 2015

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2015 are restricted to the following:

	Long-term investment
Scholarships	\$ 23,602,998
Student cultural activities	5,206,770
Endowed chairs and other	5,220,455
Operational use	5,554,026
	\$ 39,584,249

(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 the 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

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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 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. Based on an annual Board approved spending rate, the policy of spending endowment income is to spend up to 5% of the average net assets using a three-year moving average value at July 1, each year. For the year ended June 30, 2015, the approved spending rate was 4.75%. 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. 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. The value of donor-restricted endowment funds with a fair value of associated assets that is less than the original gift amount is \$834 at June 30, 2015. 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, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (834)	8,945,855	19,794,394	28,739,415
Board-designated endowment funds	<u>14,470,942</u>	<u>—</u>	<u>—</u>	<u>14,470,942</u>
Total funds	<u>\$ 14,470,108</u>	<u>8,945,855</u>	<u>19,794,394</u>	<u>43,210,357</u>

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Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 15,145,907	9,274,536	18,650,927	43,071,370
Investment return:				
Net investment income	139,001	362,598	4,139	505,738
Net appreciation (depreciation) of investments	74,484	117,464	(37,077)	154,871
Contributions	—	—	1,178,905	1,178,905
Other reclassifications and transfers	(458,994)	443,633	(2,500)	(17,861)
Appropriation of endowment assets for expenditure	(430,290)	(1,252,376)	—	(1,682,666)
Endowment net assets, June 30, 2015	<u>\$ 14,470,108</u>	<u>8,945,855</u>	<u>19,794,394</u>	<u>43,210,357</u>

(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, 2015 are as follows:

	<u>Operations</u>	<u>Long-term investment</u>	<u>Capital</u>	<u>Total</u>
Purpose restrictions accomplished:				
Instruction	\$ 135,986	—	—	135,986
Research	1,160,325	—	—	1,160,325
Public service	94,970	—	—	94,970
Academic support	226,082	—	—	226,082
Clinics	4,461	—	—	4,461
Student services	544,894	—	—	544,894
Scholarships and fellowships	1,452,514	—	—	1,452,514
Endowment and split-interest agreements	—	702,149	—	702,149
Capital	—	—	566,200	566,200
	<u>\$ 3,619,232</u>	<u>702,149</u>	<u>566,200</u>	<u>4,887,581</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.

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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. In April 2015, the University refunded the 2005 Series bonds and issued new bonds. The 2015 Series bonds, taking into account current borrowing rates as of June 30, 2015, the estimated fair value of the University's bonds approximates \$38,110,000 as compared to its carrying value of \$35,425,000 (note 14). The University issued additional debt in March 2014. Using the borrowing rates as of June 30, 2015, the fair value of the 2014 Series bonds approximates \$41,469,000 as compared to its carrying value of \$38,640,000 (note 14). The University issued additional debt in September 2013. Using the borrowing rates as of June 30, 2015, the fair value of the 2013 Series bonds approximates \$19,890,600 as compared to its carrying value of \$18,446,258 (note 14).

(8) Investments

The University adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 Topic 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; and
 - 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 used to measure fair value to the extent that observable inputs are not available.

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.

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- 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 NAV which approximates market value. The investment value is adjusted with additional capital calls and withdrawals and changes in performance as reported by the manager. 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. Investments in real estate are recorded at cost or appraised value. 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.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Equity securities	\$ 1,980,744	1,980,744	—	—
Mutual funds:				
Fixed income	7,076,061	6,749,348	326,713	—
Large cap	9,455,906	9,455,906	—	—
Mid cap	899,765	899,765	—	—
Small cap	3,367,637	3,367,637	—	—
International	9,888,944	9,888,944	—	—
Commodities	1,002,598	1,002,598	—	—
REITS	982,509	982,509	—	—
Private equity	1,540,163	—	—	1,540,163
Hedge funds	8,342,267	—	—	8,342,267
Real estate	776,961	—	—	776,961
	<u>45,313,555</u>	<u>34,327,451</u>	<u>326,713</u>	<u>10,659,391</u>
Funds held in trust by others	20,507,600	—	—	20,507,600
Total assets	<u>\$ 65,821,155</u>	<u>34,327,451</u>	<u>326,713</u>	<u>31,166,991</u>

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Changes in Level 3 investments for the year ended June 30, 2015 are as follows:

Beginning balance at June 30, 2014	\$	33,304,410
Net realized and unrealized gains		7,951
Purchases		1,071,992
Sales		<u>(3,217,362)</u>
Ending balance at June 30, 2015	\$	<u>31,166,991</u>
Gains for 2015 included in income related to assets held at June 30, 2015	\$	629,519

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	Number of days notice
Hedge funds	Low volatility hedge	\$ 1,043,921	—	Quarterly	30
Hedge funds	Emerging markets	1,412,144	—	Quarterly	60
Hedge funds	Absolute return	100,626	—	Quarterly	30
Hedge funds	Low volatility hedge	2,755,187	—	Quarterly	45
Hedge funds	Long/short growth	2,467,335	—	Quarterly	65
Hedge funds (a)	Long/short growth	563,054	—	N/A	N/A
Private equity (b)	Asia – fund of funds	386,373	171,326	N/A	N/A
Private equity (b)	Asia – fund of funds	47,261	445,283	N/A	N/A
Private equity (b)	Global secondaries	399,515	28,429	N/A	N/A
Private equity (b)	Venture capital	197,942	80,860	N/A	N/A
Private equity (b)	Buyout, fund of funds	334,394	68,374	N/A	N/A
Private equity (b)	Special opportunity	174,678	111,945	N/A	N/A
Real Estate (c)	Private real estate	277,702	15,556	N/A	N/A
Real Estate (c)	Private real estate	339,259	151,592		
Real Estate (d)	Real estate	160,000	—	N/A	N/A
Funds held in trust by others (e)		<u>20,507,600</u>	<u>—</u>	N/A	N/A
		<u>\$ 31,166,991</u>	<u>1,073,365</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 2 to 10 years.
- (c) A residential real estate partnership investment has a term of 10 years.
- (d) This real estate investment is from a donation of real property through a unitrust.
- (e) Funds held in trust by others are held in remainder trusts and perpetual trusts that are not under the control of the University.

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(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	\$	134,314
Net realized gain		153,273
Change in cumulative net unrealized gain		<u>(207,776)</u>
Total	\$	<u><u>79,811</u></u>

(10) Accounts, Contributions, and Notes Receivable

Accounts, contributions, and notes receivable consist of the following at June 30, 2015:

	<u>Operations</u>	<u>Long-term investment</u>	<u>Capital</u>	<u>Total</u>
Student accounts receivable	\$ 2,055,692	—	—	2,055,692
Accounts in collections	569,145	—	—	569,145
Clinic receivable	322,014	—	—	322,014
Perkins loans	5,159,039	—	—	5,159,039
Health professional loans	2,493,520	—	—	2,493,520
Grants and contracts receivable	1,005,158	—	—	1,005,158
Pledges and contributions receivable, net of discounts of \$196,316	562,279	428,919	—	991,198
Other receivables	322,509	5,587	1,116,622	1,444,718
	<u>12,489,356</u>	<u>434,506</u>	<u>1,116,622</u>	<u>14,040,484</u>
Less allowance for doubtful accounts	(241,546)	(31,150)	—	(272,696)
	<u><u>\$ 12,247,810</u></u>	<u><u>403,356</u></u>	<u><u>1,116,622</u></u>	<u><u>13,767,788</u></u>

The Perkins and Health Professional Loans (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.

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Contributions Receivable

Included in accounts receivable are the following unconditional promises to give as of June 30, 2015:

Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 1,187,514
Less unamortized discount	(196,316)
Allowance for uncollectibles	(59,376)
Net unconditional promises to give	\$ 931,822
Amounts due in:	
Amounts receivable in less than one year	\$ 556,015
Amounts receivable in one to five years	75,000
Amounts receivable in more than five years	556,500
	\$ 1,187,515

Contributions receivable due in excess of one year are discounted between 0.47% and 3.36% at June 30, 2015.

(11) Financing Receivables

The University's financing receivables consist of a revolving loan fund for Federal Perkins Loans and 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 Professional 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 Professional Loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the Federal loan programs of \$7,193,973 are ultimately refundable to the government and are classified as a liability in the statement of financial position.

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Balances of financing receivables as of June 30, 2015 consist of the following:

	Perkins Loans	HPL Loans	Institutional Loans	Total
Receivable	\$ 5,159,039	2,493,520	2,624,837	10,277,396
Less allowance	—	—	(114,238)	(114,238)
Balance at June 30, 2015	<u>\$ 5,159,039</u>	<u>2,493,520</u>	<u>2,510,599</u>	<u>10,163,158</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, 2015. The delinquency status is updated monthly by the University's loan servicer.

	Perkins Loans	HPL Loans	Institutional Loans	Total
Performing	\$ 4,851,672	2,394,427	2,055,692	9,301,791
Nonperforming (defaulted)	307,367	99,093	569,145	975,605
Balance at June 30, 2015	<u>\$ 5,159,039</u>	<u>2,493,520</u>	<u>2,624,837</u>	<u>10,277,396</u>

The aging of financing receivables as of June 30, 2015 is presented as follows:

Aging	31-60	61-90	91+	Total past due	Total current	Total
Perkins	\$ —	5,653	315,753	321,406	4,837,633	5,159,039
HPL	—	318	100,079	100,397	2,393,123	2,493,520
Institutional	150,722	340,421	1,937,727	2,428,870	195,966	2,624,836
Total	<u>\$ 150,722</u>	<u>346,392</u>	<u>2,353,559</u>	<u>2,850,673</u>	<u>7,426,722</u>	<u>10,277,395</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.

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Changes in the allowance for estimated losses on financing receivables held under Institutional loans (receivables) as of June 30, 2015 are presented as follows:

Beginning balance	\$	114,238
Write-off		61,799
Provision		61,799
		61,799
Ending balance	\$	114,238

(12) Property, Plant, and Equipment

The University's property, plant, and equipment consist of the following at June 30, 2015:

	Cost	Accumulated depreciation	Net carrying value
Land	\$ 6,496,765	—	6,496,765
Land improvements	2,655,551	(757,019)	1,898,532
Building and improvements	167,886,264	(40,814,332)	127,071,932
Furniture and equipment	18,654,107	(14,696,025)	3,958,082
Library books	5,151,883	(3,905,153)	1,246,730
Artifacts	425,709	—	425,709
Construction in progress	2,042,992	—	2,042,992
	\$ 203,313,271	(60,172,529)	143,140,742

Depreciation expense amounted to \$4,946,105 during the year ended June 30, 2015.

Leased property included above and recorded under capital leases as of June 30, 2015:

Classes of property:		
Furniture and equipment	\$	2,307,794
Less accumulated amortization		(2,075,499)
		\$ 232,295

(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 \$943,214 as of June 30, 2015 related to asset retirement obligations.

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(14) Notes Payable and Long-Term Debt

Long-term debt consists of the following at June 30, 2015:

City of Forest Grove, Oregon, Pacific University Campus Improvement and Refunding Revenue Bonds, Series 2015, principal due yearly (in varying amounts) through May 1, 2045, with fixed interest rates averaging 3.92%, secured by unrestricted revenues and a trust deed on the Hillsboro property.	\$ 35,425,000
Unamortized premium on 2015 Campus Improvement and Refunding Revenue Bonds	3,064,281
City of Forest Grove, Oregon, Pacific University Campus Improvement and Refunding Revenue Bonds, Series 2014, principal due yearly (in varying amounts) through May 1, 2039, with fixed interest rates averaging 5.19%, secured by unrestricted revenues and a trust deed on the Hillsboro property.	38,640,000
Unamortized discount on 2014 Campus Improvement Revenue Bonds	(141,139)
City of Forest Grove, Oregon, Pacific University Campus Improvement Revenue Bonds, Series 2013, principal due yearly (in varying amounts) through October 1, 2038, with fixed interest rate of 3.26% for years 1–5 and 4.76% fixed interest rate for years 6–10 and an assumed variable rate of 1.43% for years 11–25, secured by unrestricted revenues and a debt service reserve fund equal to 12 months of debt service.	18,446,258
	<u>\$ 95,434,400</u>

In April 2015, the University issued Campus Improvement and Refunding Revenue Bonds totaling \$35,425,000 with the City of Forest Grove, Oregon. The bond proceeds were used to refund the Series 2005 bonds and the remaining proceeds will be used for campus capital projects on the Forest Grove Campus. As of June 30, 2015, the Series 2015 bonds had a balance of \$35,425,000. In March 2014, the University issued Improvement and Refunding Revenue Bonds totaling \$38,640,000. The bond proceeds were used to refund the Series 2009 bonds and the remaining proceeds were used for campus capital projects on the Forest Grove Campus. In September 2013, the University issued Campus Revenue bonds totaling \$18,500,000. The bond proceeds were used to construct a residence hall on the Forest Grove Campus. As of June 30, 2015, the Series 2013A bonds had a balance totaling \$18,446,258.

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The following table shows principal payment requirements subsequent to June 30, 2015:

Year ending June 30:		
2016	\$	1,116,402
2017		1,188,123
2018		1,310,564
2019		2,137,672
2020		2,125,497
Thereafter		84,633,000
		92,511,258
Unamortized bond premium		3,064,281
Unamortized bond discount		(141,139)
	\$	95,434,400

The 2015 Campus Improvement and Refunding Revenue Bonds and the 2014 Campus Improvement and Refunding Revenue Bonds are subject to certain restrictive covenants. Required deposits held by the trustee at June 30, 2015 for future debt service payments were \$4,358,913. In addition, the 2013 Campus Improvement Revenue Bonds were sold as a direct placement and are subject to certain restrictive covenants. As of June 30, 2015, required deposits held for the Series 2013 bonds were \$1,345,086. During the fiscal year, \$93,932 of interest was capitalized in current projects. The Series 2005 bond principal balance of \$37,890,000 was fully redeemed on April 22, 2015. There was a loss of \$731,953 on the extinguishment of debt included in the statement of activities. The Series 2015 bonds did not require a debt service reserve fund. The Series 2005 debt service reserve funds of \$1,434,200 held with the trustee were transferred to the Series 2014 bonds.

The University has a revolving line of credit in the amount of \$6,000,000, which expires in February 2016. Use of the borrowings is used for general operating expenses. Borrowings pursuant to the revolving line of 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, 2015, the University had no amounts outstanding under this line of credit.

The University has a term note payable with an aggregate amount of \$2,587,582 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, 2015 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.

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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 Topic 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, 2015 is as follows:

Total assets	\$ 28,847,445
Total liabilities	(32,328,372)
Net deficit	(3,480,927)
Total revenue	1,982,096
Total expenses	2,259,134

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:

2016	\$ 2,473,326
2017	2,475,881
2018	2,481,421
2019	2,483,006
2020	2,485,731
Thereafter	<u>42,109,607</u>
	<u>\$ 54,508,972</u>

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:	
2016	\$ 102,945
2017	106,032
2018	109,208
2019	112,486
2020	115,856
Thereafter	<u>45,376,212</u>
	<u>\$ 45,922,739</u>

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(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, 2015:

Instruction	\$	42,795,894
Research		2,280,916
Public service		214,950
Academic support		17,929,098
Clinics		5,071,608
Student services		14,084,930
Institutional support		14,316,052
Auxiliary		10,806,223
		107,499,671
	\$	107,499,671

(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, 2015 was \$19,555,478. In addition, there are five trusts held by others in life income annuities with assets with a fair value of \$952,122 at June 30, 2015.

(18) Net Asset Borrowings

Net asset borrowings at June 30, 2015 represent temporarily unfunded transfers, which will be eliminated principally through collections of accounts and pledges receivable, appropriation of other receipts, or 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 employees' 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, 2015 under the plan was \$3,953,626.

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(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 \$3,766,143 for the year ended June 30, 2015.

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

Year ending June 30:	
2016	\$ 3,808,906
2017	3,773,654
2018	3,452,039
2019	3,221,068
2020	3,139,656
Thereafter	<u>43,601,232</u>
	<u>\$ 60,996,555</u>

Beginning in the 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 the 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 \$59,687 during the year ended June 30, 2015.

(b) *Capital Leases*

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

Year ending June 30:	
2016	\$ 48,726
2017	48,726
2018	36,152
2019	—
2020	—
Thereafter	<u>—</u>
Total minimum lease payments	133,604
Less amount representing interest	<u>(15,117)</u>
Present value of net minimum lease payment	<u>\$ 118,487</u>

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(21) Liquidity

Summarized information regarding the classification of assets and liabilities of the University as of June 30, 2015 is as follows:

Total current assets	\$	38,148,554
Total long-term assets		<u>222,079,322</u>
Total assets	\$	<u><u>260,227,876</u></u>
Total current liabilities	\$	17,443,804
Total long-term liabilities		<u>111,340,196</u>
Total liabilities		128,784,000
Net assets		<u>131,443,876</u>
Total liabilities and net assets	\$	<u><u>260,227,876</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.

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 approximately \$1,448,312. 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

The University evaluated subsequent events after the balance sheet date of June 30, 2015 through October 22, 2015, which was the date the financial statements were issued.