KPMG

PACIFIC UNIVERSITY

Financial Statements

June 30, 2014

(With Independent Auditors’ Report Thereon)

PACIFIC UNIVERSITY

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KPMG LLP
Suite 3800
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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, 2014, 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, 2014 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.

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Other Matters

The accompanying 2013 summarized comparative information has been derived from Pacific University's 2013 financial statements, and in our report dated October 29, 2013, we expressed an unqualified opinion on those financial statements.

KPMG LLP

October 29, 2014

PACIFIC UNIVERSITY

Statement of Financial Position

June 30, 2014
(with comparative financial information as of June 30, 2013)

Assets	Operations	Long-term investment	Capital	Totals 2014	Totals 2013
Cash and cash equivalents	$ 16,607,205	1,956,835	8,274,957	26,838,997	22,530,486
Accounts, contributions, and notes receivable, net (note 10)	11,115,953	464,511	1,206,681	12,787,145	10,905,031
Inventories	460,574	—	—	460,574	451,227
Prepaid expenses and other assets	735,068	—	4,403,170	5,138,238	4,707,674
Deposits	61,690	—	7,716,223	7,777,913	6,538,667
Investments (note 8)	—	46,041,159	—	46,041,159	40,930,701
Funds held in trust by others (note 8 & 17)	—	20,902,463	—	20,902,463	19,035,970
Restricted cash	—	—	2,468,146	2,468,146	—
Property, plant, and equipment, net (note 12)	—	—	134,435,876	134,435,876	119,573,990
Total assets	$ 28,980,490	69,364,968	158,505,053	256,850,511	224,673,746
Liabilities and Net Assets					
Accounts payable and accrued liabilities	$ 4,735,213	—	4,053,327	8,788,540	6,433,271
Notes payable to bank (note 14)	—	—	3,449,963	3,449,963	4,273,371
Salaries payable and compensated absences	2,897,300	—	—	2,897,300	2,696,783
Deferred revenues	5,864,170	—	5,108,889	10,973,059	5,849,782
Refundable deposits	918,842	—	—	918,842	781,249
Capital lease obligations (note 20)	—	—	160,433	160,433	137,195
Asset retirement obligation (note 13)	—	—	1,030,925	1,030,925	1,259,790
Annuities payable	—	907,852	—	907,852	894,035
Accrued postretirement benefits obligation	641,555	—	—	641,555	676,308
Long-term debt (note 14)	—	—	91,180,810	91,180,810	74,500,437
U.S. government grants refundable (note 11)	7,154,361	—	—	7,154,361	7,124,992
Net asset borrowings (note 18)	18,524	(18,524)	—	—	—
Total liabilities	22,229,965	889,328	104,984,347	128,103,640	104,627,213
Net assets:					
Unrestricted	3,200,522	15,151,541	52,711,323	71,063,386	68,846,455
Temporarily restricted (note 3)	3,550,003	14,539,082	809,383	18,898,468	15,235,755
Permanently restricted (note 4)	—	38,785,017	—	38,785,017	35,964,323
Total net assets	6,750,525	68,475,640	53,520,706	128,746,871	120,046,533
Total liabilities and net assets	$ 28,980,490	69,364,968	158,505,053	256,850,511	224,673,746

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Activities

Year ended June 30, 2014
(with comparative financial information for the year ended June 30, 2013)

	Operations	Long-term investment	Capital	Totals 2014	Totals 2013
Changes in unrestricted net assets:					
Revenues and gains:					
Tuition and fees	$ 114,349,748	—	—	114,349,748	104,998,540
Scholarships and fellowships	(32,811,222)	—	—	(32,811,222)	(28,916,866)
Net tuition and fees	81,538,526	—	—	81,538,526	76,081,674
Contributions	477,812	—	153,000	630,812	473,834
Contracts and other exchange transactions	1,634,744	—	—	1,634,744	1,761,214
Investment income on quasi-endowment and trusts	373,377	—	—	373,377	348,538
Other investment income	7,319	25	130,136	137,480	140,393
Net realized gains (losses)	2,041	397,685	(143,682)	256,044	214,613
Net unrealized gains on quasi-endowment and trusts	—	896,191	—	896,191	725,913
Sales of services at clinics	2,854,609	—	—	2,854,609	2,774,657
Sales of services of auxiliary enterprises	11,119,911	—	90,917	11,210,828	10,913,793
Other sources	551,931	(30,571)	8,269	529,629	377,437
Total unrestricted revenues and gains	98,560,270	1,263,330	238,640	100,062,240	93,812,066
Net assets released from restrictions (note 6)	4,261,466	506,724	9,317	4,777,507	5,207,084
Total revenues and gains and net assets released from restrictions	102,821,736	1,770,054	247,957	104,839,747	99,019,150
Expenses and losses:					
Education and general:					
Instruction	35,145,610	—	—	35,145,610	31,722,926
Research	2,074,170	—	—	2,074,170	1,999,250
Public service	187,131	—	—	187,131	325,795
Academic support	14,241,886	—	—	14,241,886	13,104,405
Clinics	4,448,566	—	—	4,448,566	4,119,505
Student services	11,407,606	—	—	11,407,606	11,032,727
Institutional support	11,164,366	—	—	11,164,366	10,680,809
Operation and maintenance of plant	3,882,802	—	—	3,882,802	3,772,571
Interest on long-term debt	—	—	4,521,720	4,521,720	4,456,064
Depreciation and amortization	—	—	5,114,037	5,114,037	4,555,037
Loss-extinguishment of debt	—	—	1,281,555	1,281,555	—
Other	—	—	403,283	403,283	557,815
Total education and general	82,552,137	—	11,320,595	93,872,732	86,326,904
Auxiliary enterprises	8,750,084	—	—	8,750,084	8,962,052
Total expenses and losses	91,302,221	—	11,320,595	102,622,816	95,288,956
Transfers:					
Debt service	6,263,545	—	(6,263,545)	—	—
Capital purchases	1,331,164	—	(1,331,164)	—	—
Long-term investment in operations	(1,049,508)	1,049,508	—	—	—
Operating to capital	4,959,416	—	(4,959,416)	—	—
Total expenses, losses and transfers	102,806,838	1,049,508	(1,233,530)	102,622,816	95,288,956
Increase in unrestricted net assets	14,898	720,546	1,481,487	2,216,931	3,730,194
Changes in temporarily restricted net assets:					
Contributions	3,552,516	—	326,297	3,878,813	3,819,981
Investment income on endowments/trusts	505,419	36,520	—	541,939	612,846
Investment income on annuities/life income and other	257,197	135,099	—	392,296	387,693
Net realized gains on endowment investments and trusts	—	914,554	—	914,554	525,163
Net realized gains (losses) on other investments	—	105,983	—	105,983	150,592
Changes in net unrealized gains on endowment investments and trusts	—	2,565,231	—	2,565,231	2,317,687
Changes in net unrealized gains (losses) on other investments	—	493,841	—	493,841	117,808
Net assets released from restrictions (note 6)	(4,261,466)	(506,724)	(9,317)	(4,777,507)	(5,207,084)
Actuarial adjustments	—	(452,437)	—	(452,437)	(372,060)
Increase in temporarily restricted net assets	53,666	3,292,067	316,980	3,662,713	2,352,626
Changes in permanently restricted net assets:					
Contributions	—	820,519	—	820,519	434,523
Investment income on trusts and endowment	—	187,519	—	187,519	191,227
Net realized and unrealized gains (losses) on funds held in perpetuity	—	1,812,656	—	1,812,656	783,779
Increase in permanently restricted net assets	—	2,820,694	—	2,820,694	1,409,529
Increase in net assets	68,564	6,833,307	1,798,467	8,700,338	7,492,349
Net assets at beginning of year	6,681,961	61,642,333	51,722,239	120,046,533	112,554,184
Net assets at end of year	$ 6,750,525	68,475,640	53,520,706	128,746,871	120,046,533

See accompanying notes to financial statements.

PACIFIC UNIVERSITY

Statement of Financial Position

Statement of Cash Flows

Year ended June 30, 2014
(with comparative financial information for the year ended June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Increase in net assets	$ 8,700,338	7,492,349
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and amortization	5,114,037	4,555,037
Net realized and unrealized gains on investments	(7,440,101)	(5,240,885)
Loss on extinguishment of debt	1,281,555	—
Actuarial adjustments	452,437	372,060
Noncash contributions	(153,000)	—
Contributions and net gains on investments restricted to long term	(1,146,816)	(820,391)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts and notes receivable	(1,882,114)	(769,042)
Inventories, prepaid expenses, and other assets	(439,911)	(1,103,239)
Accounts payable and accrued liabilities	(197,437)	170,652
Deferred revenues	5,123,277	955,288
Refundable deposits	137,593	119,015
Asset retirement obligation	(228,865)	(13,616)
U.S. government grants refundable	29,369	8,886
Net cash provided by operating activities	9,350,362	5,726,114
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(16,593,006)	(2,222,139)
Purchases of investment securities	(7,806,600)	(13,383,488)
Proceeds from sale and maturity of investment securities	8,276,001	10,828,828
(Increase) decrease in deposits	(1,239,246)	315,326
Changes in restricted cash	(2,468,146)	—
Net cash used in investing activities	(19,830,997)	(4,461,473)
Cash flows from financing activities:		
Principal payments on note payable	(823,408)	(786,196)
Contributions and net gains on investments restricted to long term	1,146,816	820,391
Principal payments on long-term debt	(1,280,000)	(1,365,000)
Redemption of 2009 series bonds	(36,451,555)	—
New bond issue 2013 series	14,172,163	—
New bond issue 2014 series	38,491,433	—
Principal payments on capital lease obligations	(27,683)	(82,686)
Annuity disbursements	(438,620)	(381,147)
Net cash provided by (used in) financing activities	14,789,146	(1,794,638)
Net increase (decrease) in cash and cash equivalents	4,308,511	(529,997)
Cash and cash equivalents at beginning of year	22,530,486	23,060,483
Cash and cash equivalents at end of year	$ 26,838,997	22,530,486
Supplemental cash flow disclosure:		
Cash paid for interest	$ 4,521,720	4,456,064
Supplemental schedule of noncash investing and financing activities:		
Equipment acquired under capital lease	$ 50,921	136,993
Accrued purchases of plant and equipment	$ 3,185,248	412,385

See accompanying notes to financial statements.

(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.

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

(Continued)

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 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, 2014. The assets associated with split-interest agreements are recorded at fair value as of June 30, 2014.

(e) Cash Equivalents

Cash equivalents of $830,541 as of June 30, 2014 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.

(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 2005, are being amortized on a method that approximates the effective interest method over the term of the bonds, which is 31 years. In September 2013, the University issued new bonds with the City of Forest Grove, Oregon, Pacific University Campus Improvement Revenue Bonds, Series 2013. Additionally, in March 2014, the University issued new bonds with the City of Forest Grove, Oregon, Pacific University Campus Improvement and Refunding bonds, Series 2014. The legal, accounting, and other expenses associated with the issuance of these bonds are being amortized using a method that approximates effective yield over the term of the bonds, which is 25 years. During the current fiscal year, the University amortized $62,887 for Series 2005, $13,897 for Series 2013, and $7,566 for Series 2014 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, 2014 for all Series totaled $2,581,875 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.

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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.

(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, 2014.

(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, 2014. 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 receivables, 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 2014 financial statements should be read in conjunction with the University's financial statements for the year ended June 30, 2013, from which the information was derived.

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(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 are available for the following:

	Operations	Long-term investment	Capital	Total
Student services	$ 676,129	—	—	676,129
Instruction	395,832	—	—	395,832
Research	667,896	—	—	667,896
Public service	220,077	—	—	220,077
Academic support	553,979	—	—	553,979
Clinics	82,163	—	—	82,163
Institutional support	42,997	—	—	42,997
Operation and maintenance of plant	167,107	—	—	167,107
Scholarships and fellowships	743,823	—	—	743,823
Split-interest agreements	—	4,264,194	—	4,264,194
Endowment earnings	—	9,274,536	—	9,274,536
Funds held in trust by others – time restricted	—	1,000,352	—	1,000,352
Capital	—	—	809,383	809,383
	$ 3,550,003	14,539,082	809,383	18,898,468

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 $9,274,536 and is included in temporarily restricted net assets as of June 30, 2014.

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 are restricted to the following:

		Long-term investment
Scholarships	$	23,227,527
Student cultural activities		5,185,492
Endowed chairs and other		4,417,135
Operational use		5,954,863
	$	38,785,017

(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

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, 2014, the approved spending rate was 4.5%. 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. There were no donor-restricted endowment funds with a fair value of associated assets that were less than the original gift amount as of June 30, 2014.

Endowment net asset composition by fund type, excluding funds held in trust, as of June 30, 2014 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	9,274,536	18,650,927	27,925,463
Board-designated endowment funds	15,145,907	—	—	15,145,907
Total funds	$ 15,145,907	9,274,536	18,650,927	43,071,370

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$ 14,425,386	6,251,511	17,744,397	38,421,294
Investment return:				
Net investment income	120,915	316,997	8,267	446,179
Net appreciation of investments	1,293,876	3,479,785	80,391	4,854,052
Contributions	—	—	817,872	817,872
Other reclassifications and transfers	(338,182)	328,156	—	(10,026)
Appropriation of endowment assets for expenditure	(356,088)	(1,101,913)	—	(1,458,001)
Endowment net assets, June 30, 2014	$ 15,145,907	9,274,536	18,650,927	43,071,370

(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, 2014 are as follows:

	Operations	Long-term investment	Capital	Total
Purpose restrictions accomplished:				
Instruction	$ 11,866	—	—	11,866
Research	1,317,361	—	—	1,317,361
Public service	104,966	—	—	104,966
Academic support	816,605	—	—	816,605
Clinics	4,923	—	—	4,923
Student services	593,915	—	—	593,915
Scholarships and fellowships	1,411,830	—	—	1,411,830
Endowment and split-interest agreements	—	506,724	—	506,724
Capital	—	—	9,317	9,317
	$ 4,261,466	506,724	9,317	4,777,507

(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. For the 2005 Series bonds, taking into account current borrowing rates as of June 30, 2014, the estimated fair value of the University’s bonds approximates $38,321,000 as compared to its carrying value of $37,890,000 (note 14). The University issued additional debt in September 2013. Using the borrowing rates as of June 30, 2014, the fair value of the 2013 Series bonds approximates $15,074,000 as compared to its carrying value of $14,172,163 (note 14). Additionally, the University issued additional debt in March 2014. Using the borrowing rates as of June 30, 2014, the fair value of the 2014 Series bonds approximates $40,877,760 as compared to its carrying value of $38,640,000 (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.
- 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	$	2,235,176	2,235,176	—	—
Mutual funds:					
Fixed income		8,236,434	7,915,523	320,911	—
Large cap		6,817,003	6,817,003	—	—
Mid cap		260,301	260,301	—	—
Small cap		4,089,907	4,089,907	—	—
International		9,235,536	9,235,536	—	—
Commodities		1,662,270	1,662,270	—	—
REITS		1,102,585	1,102,585	—	—
Private equity		1,392,040	—	—	1,392,040
Hedge funds		10,434,093	—	—	10,434,093
Real estate		575,814	—	—	575,814
Funds held in trust by others		20,902,463	—	—	20,902,463
Total assets	$	66,943,622	33,318,301	320,911	33,304,410

Changes in Level 3 investments for the year ended June 30, 2014 are as follows:

Beginning balance at June 30, 2013	$	30,775,618
Net realized and unrealized gains		2,486,732
Purchases		1,605,626
Sales		(1,563,566)
Ending balance at June 30, 2014	$	33,304,410
Gains for 2014 included in income related to assets held at June 30, 2014	$	3,253,541

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	$ 971,994	—	Quarterly	30
Hedge funds	Absolute return	35,050	—	Quarterly	100
Hedge funds	Emerging markets	1,386,577	—	Quarterly	60
Hedge funds	Absolute return	1,022,515	—	Quarterly	30
Hedge funds	Low volatility hedge	2,725,352	—	Quarterly	45
Hedge funds	Global long/short	1,396,383	—	Annually	90
Hedge funds	Long/short growth	2,346,940	—	Quarterly	65
Hedge funds (a)	Long/short growth	549,282	—	N/A	N/A
Private equity (b)	Asia – fund of funds	223,616	280,334	N/A	N/A
Private equity (b)	Global secondaries	427,826	47,465	N/A	N/A
Private equity (b)	Venture capital	254,554	136,162	N/A	N/A
Private equity (b)	Buyout, fund of funds	374,040	77,997	N/A	N/A
Private equity (b)	Special opportunity	112,004	144,445	N/A	N/A
Real Estate (c)	Private real estate	415,814	16,749	N/A	N/A
Real Estate (d)	Real estate	160,000	—	N/A	N/A
Funds held in trust by others (e)		20,902,463	—	N/A	N/A
		$ 33,304,410	703,152		

(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.

(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.

(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	$ 135,099
Net realized gain	105,983
Change in cumulative net unrealized gain	493,841
Total	$ 734,923

(10) Accounts, Contributions, and Notes Receivable

Accounts, contributions, and notes receivable consist of the following at June 30, 2014:

	Operations	Long-term investment	Capital	Total
Student accounts receivable	$ 2,015,535	—	—	2,015,535
Accounts in collections	477,864	—	—	477,864
Clinic receivable	294,893	—	—	294,893
Perkins loans	5,057,605	—	—	5,057,605
Health professional loans	2,369,351	—	—	2,369,351
Grants and contracts receivable	645,192	—	—	645,192
Pledges and contributions receivable, net of discounts of $199,671	225,209	491,947	2,287	719,443
Other receivables	289,867	6,995	1,204,519	1,501,381
	11,375,516	498,942	1,206,806	13,081,264
Less allowance for doubtful accounts	(259,563)	(34,431)	(125)	(294,119)
	$ 11,115,953	464,511	1,206,681	12,787,145

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.

Contributions Receivable

Included in accounts receivable are the following unconditional promises to give as of June 30, 2014:

Unconditional promises to give before unamortized discount and allowance for uncollectibles	$ 919,114
Less unamortized discount	(199,671)
Allowance for uncollectibles	(45,956)
Net unconditional promises to give	$ 673,487

Amounts due in:		
Amounts receivable in less than one year	$	87,500
Amounts receivable in one to five years		256,614
Amounts receivable in more than five years		575,000
	$	919,114

Contributions receivable due in excess of one year are discounted between 0.11% and 3.36% at June 30, 2014.

(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 $7,154,361 are ultimately refundable to the government and are classified as a liability in the statement of financial position.

Balances of financing receivables as of June 30, 2014 consist of the following:

		Perkins Loans	HPL Loans	Institutional Loans	Total
Receivable	$	5,057,605	2,369,351	2,493,399	9,920,355
Less allowance		—	—	(114,238)	(114,238)
Balance at June 30, 2014	$	5,057,605	2,369,351	2,379,161	9,806,117

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, 2014. The delinquency status is updated monthly by the University's loan servicer.

		Perkins Loans	HPL Loans	Institutional Loans	Total
Performing	$	4,692,105	2,274,776	2,015,535	8,982,416
Nonperforming (defaulted)		365,500	94,575	477,864	937,939
Balance at June 30, 2014	$	5,057,605	2,369,351	2,493,399	9,920,355

The aging of financing receivables as of June 30, 2014 is presented as follows:

Aging		31–60	61–90	91+	Total past due	Total current	Total
Perkins	$	—	2,834	376,988	379,822	4,677,783	5,057,605
HPL		—	325	95,215	95,540	2,273,811	2,369,351
Institutional		165,384	379,379	1,736,724	2,281,487	211,912	2,493,399
Total	$	165,384	382,538	2,208,927	2,756,849	7,163,506	9,920,355

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.

Changes in allowance for estimated losses on financing receivables held under Institutional loans (receivables) as of June 30, 2014 are presented as follows:

Beginning balance	$	116,391
Write-off		63,950
Recovery		—
Provision		61,797
Ending balance	$	114,238

(12) Property, Plant, and Equipment

The University’s property, plant, and equipment consist of the following at June 30, 2014:

		Cost	Accumulated depreciation	Net carrying value
Land	$	6,496,765	—	6,496,765
Land improvements		2,635,494	(680,093)	1,955,401
Building and improvements		139,856,338	(37,353,262)	102,503,076
Furniture and equipment		17,809,705	(13,629,200)	4,180,505
Library books		5,025,696	(3,720,255)	1,305,441
Artifacts		416,009	—	416,009
Construction in progress		17,578,679	—	17,578,679
	$	189,818,686	(55,382,810)	134,435,876

Depreciation expense amounted to $5,114,037 during the year ended June 30, 2014.

Leased property included above and recorded under capital leases as of June 30, 2014:

Classes of property:		
Furniture and equipment	$	2,442,576
Less accumulated amortization		(1,912,532)
	$	530,044

(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 $1,030,925 as of June 30, 2014 related to asset retirement obligations.

(14) Notes Payable and Long-Term Debt

Long-term debt consists of the following at June 30, 2014:

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.	$ 37,890,000
Unamortized premium on 2005 Campus Improvement and Refunding Revenue Bonds	625,729
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.	14,172,163
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	(147,082)
	$ 91,180,810

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. As of June 30, 2014, the Series 2005 bonds had a balance of $37,890,000. 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, 2014, the University had drawn $14,172,163 of the $18,500,000 Series 2013A bonds. 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 will be used for campus capital projects on the Forest Grove Campus.

(Continued)

The following table shows principal payment requirements subsequent to June 30, 2014:

Year ending June 30:		
2015	$	1,447,629
2016		2,058,185
2017		2,149,966
2018		2,247,467
2019		2,409,469
Thereafter		80,389,447
		90,702,163
Unamortized bond premium		625,729
Unamortized bond discount		(147,082)
	$	91,180,810

The 2005 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, 2014 for future debt service payments were $6,439,088. 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, 2014, required deposits held for the Series 2013 bonds were $1,277,135. During the fiscal year, $177,074 of interest was capitalized in current projects. The Series 2009 bond principal balance of $35,170,000 was fully redeemed May 1, 2014. The Series 2009 debt service reserve funds of $850,331 and the Series 2005 debt service reserve funds of $146,193 held with the trustee were transferred to the Series 2014 bonds. There was a loss of $1,281,555 on the extinguishment of debt included in the statement of activities.

The University has a revolving line of credit in the amount of $6,000,000, which expires in February 2015. 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, 2014, the University had no amounts outstanding under this line of credit.

The University has a term note payable with an aggregate amount of $3,449,963 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, 2014 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 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, 2014 is as follows:

Total assets	$	29,429,299
Total liabilities		(32,581,489)
Net deficit		(3,152,190)
Total revenue		2,245,815
Total expenses		2,310,029

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:

2015	$	2,433,586
2016		2,473,326
2017		2,475,881
2018		2,481,421
2019		2,483,006
Thereafter		44,595,338
	$	56,942,558

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:		
2015	$	99,946
2016		102,945
2017		106,032
2018		109,208
2019		112,486
Thereafter		45,492,068
	$	46,022,685

(Continued)

(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, 2014:

Instruction	$	41,257,898
Research		2,434,896
Public service		219,675
Academic support		16,718,739
Clinics		5,222,231
Student services		13,391,540
Institutional support		13,105,997
Auxiliary		10,271,840
	$	102,622,816

(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, 2014 was $19,902,111. In addition, there are five trusts held by others in life income annuities with assets with a fair value of $1,000,352 at June 30, 2014.

(18) Net Asset Borrowings

Net asset borrowings at June 30, 2014 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, 2014 under the plan was $3,730,074.

(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 $3,720,643 for the year ended June 30, 2014.

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

Year ending June 30:		
2015	$	3,617,965
2016		3,621,910
2017		3,584,351
2018		3,217,471
2019		2,933,080
Thereafter		45,778,818
	$	62,753,595

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 $42,769 during the year ended June 30, 2014.

(b) Capital Leases

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

Year ending June 30:		
2015	$	53,863
2016		48,726
2017		48,726
2018		36,152
2019		—
Thereafter		—
Total minimum lease payments		187,467
Less amount representing interest		(27,034)
Present value of net minimum lease payment	$	160,433

(21) Liquidity

Summarized information regarding the classification of assets and liabilities of the University as of June 30, 2014 is as follows:

Total current assets	$	39,240,556
Total long-term assets		217,609,955
Total assets	$	256,850,511
Total current liabilities	$	19,826,511
Total long-term liabilities		108,277,129
Total liabilities		128,103,640
Net assets		128,746,871
Total liabilities and net assets	$	256,850,511

(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 $1,100,000. This exposure will fluctuate based on factors including changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

(23) Subsequent Events

The University evaluated subsequent events after the balance sheet date of June 30, 2014 through October 29, 2014, which was the date the financial statements were issued.