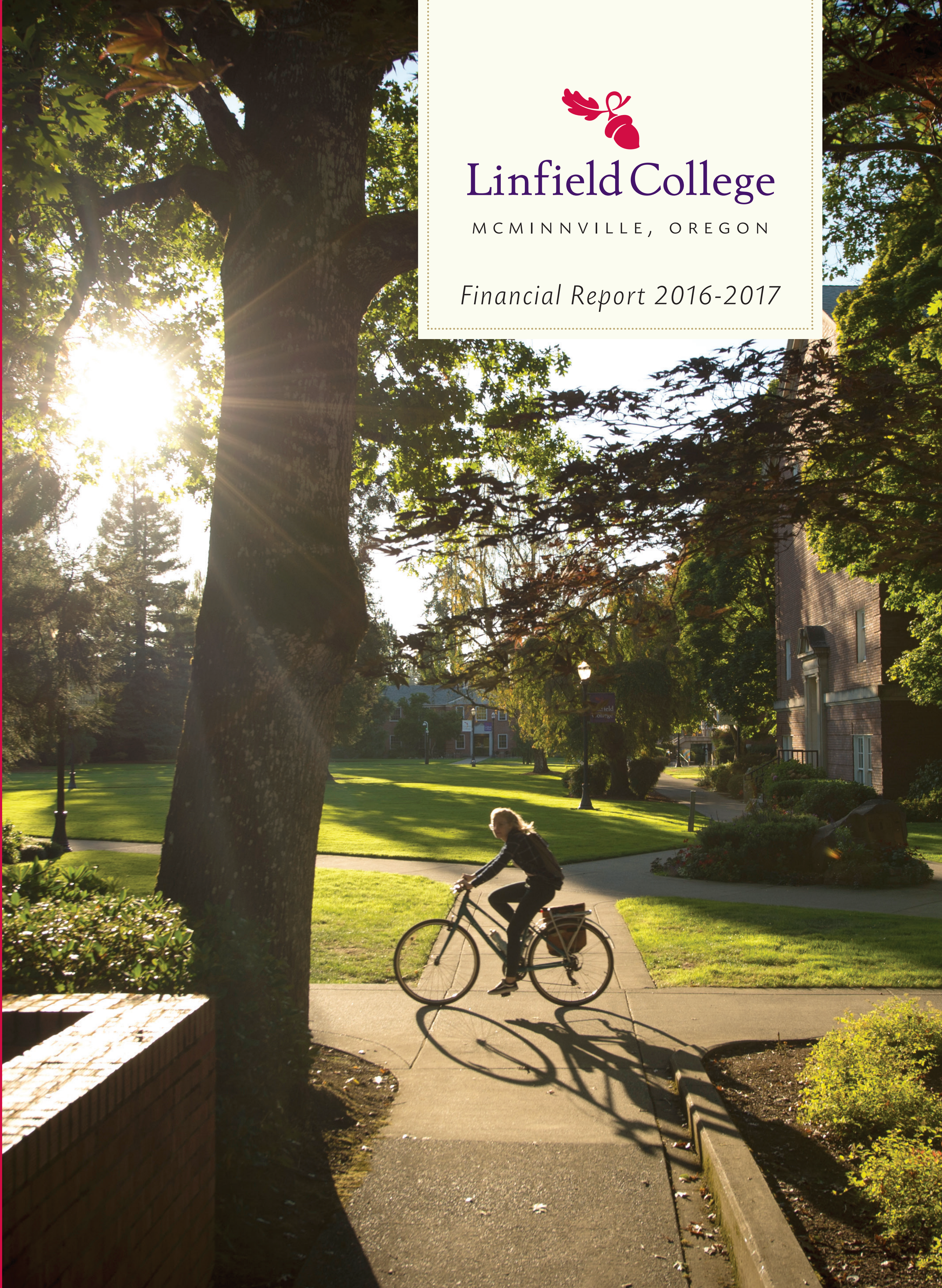
Linfield College

MCMINNVILLE, OREGON

Financial Report 2016-2017



LINFIELD COLLEGE

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Linfield College
Vice President for Finance & Administration/CFO

October 31, 2017

The Board of Trustees
Linfield College
McMinnville, OR 97128

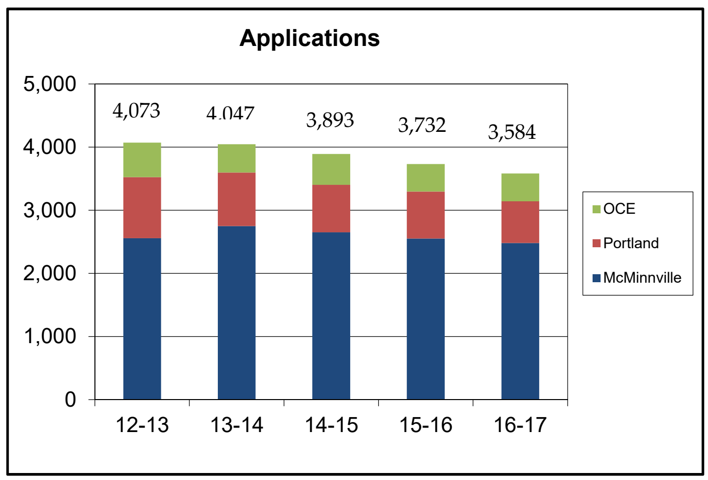
Dear Ladies and Gentlemen:

The following Linfield College Fiscal Year (FY) 2016-2017 financial statements, audited by KPMG LLP, provide significant detail for the year ended June 30, 2017. This cover letter is included to offer some historical context for a select list of key indicators. By focusing on the five-year trends, readers should improve their knowledge of Linfield's financial position.

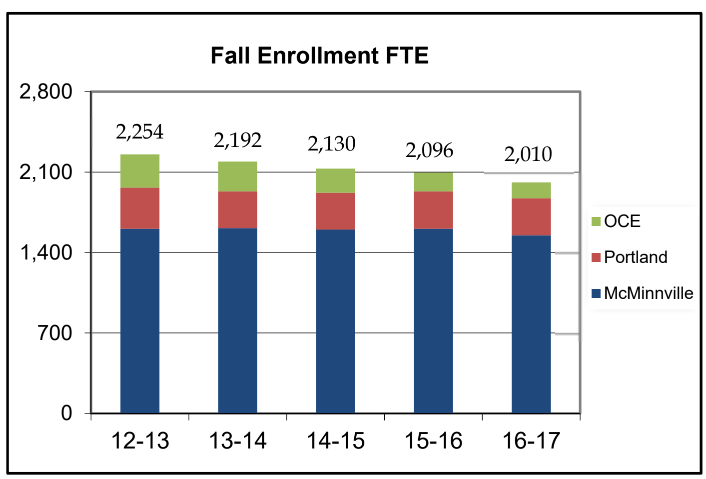
New Applications & Fall Enrollment

The fall application and enrollment graphs separately identify students in McMinnville, Portland, and the Online and Continuing Education (OCE). Total applications were down by 148 from the Fall of 2015 to Fall 2016.

The most common enrollment benchmark for colleges and universities is to measure full-time equivalent (FTE) students at a fixed point, following the start of the fall semester. FTE is calculated by dividing the total number of credit hours being taken by 15, the standard load for a full-time student. This does not measure the total number of students on campus, which is called headcount.

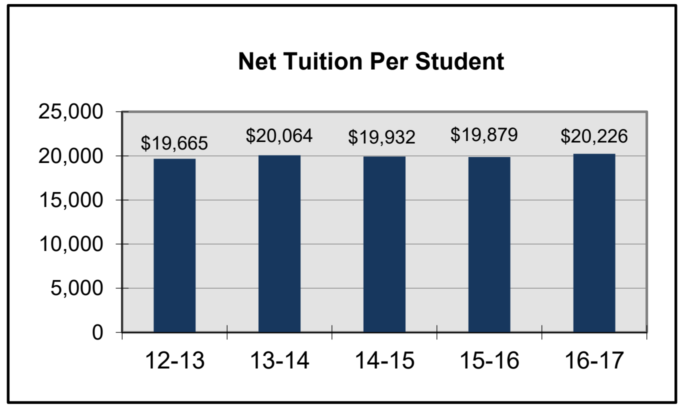


FTE enrollment is positively affected by the number of first-year students and transfers coming to campus and negatively impacted by withdrawals, transfers from campus, and graduations. The Fall 2016 FTE for all programs combined was down 86 from the Fall of 2015. McMinnville down 57, Portland Nursing down 3 and OCE down 26 FTE. The negative drivers are decreasing college age demographics in the NW, community college free tuition, price sensitivity and tuition discounting competition.



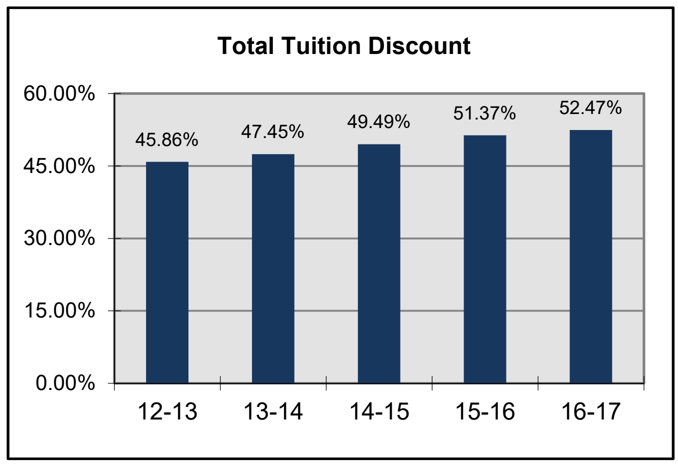
Net Tuition per Student and Total Tuition Discount

Net tuition revenue is a large factor in determining the annual funding for the college. Net tuition revenue reflects total tuition less financial aid discounts given by the college, while net tuition per student is the division of net tuition revenue by the average annual financial FTE enrollment number. During FY2016-2017 net tuition per student increased from $19,879 to $20,226. This represents a 1.7% increase from FY2015-2016.



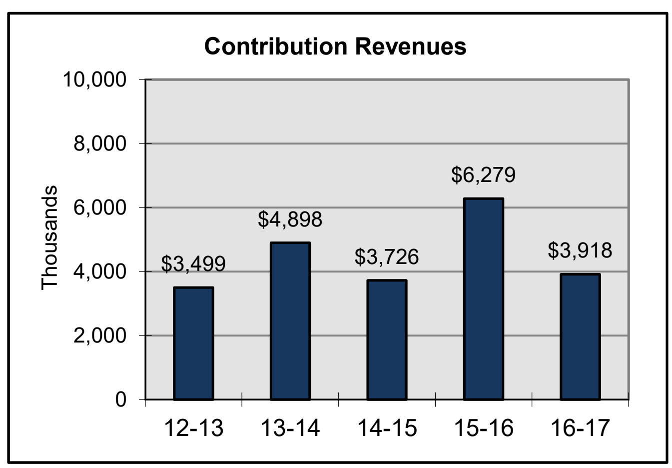
Total tuition discount reflects the amount of financial aid provided by the college (via the operating budget, endowment scholarships, etc.) divided by gross tuition. This increased by 1.1% from 51.4% to 52.5%; compared to the past two years which were up 2.0% and 1.9%, respectively.

Due to the extremely small number of OCE students receiving financial aid, OCE revenue is not included in the calculation of Net Tuition per Student nor Total Tuition Discount data.



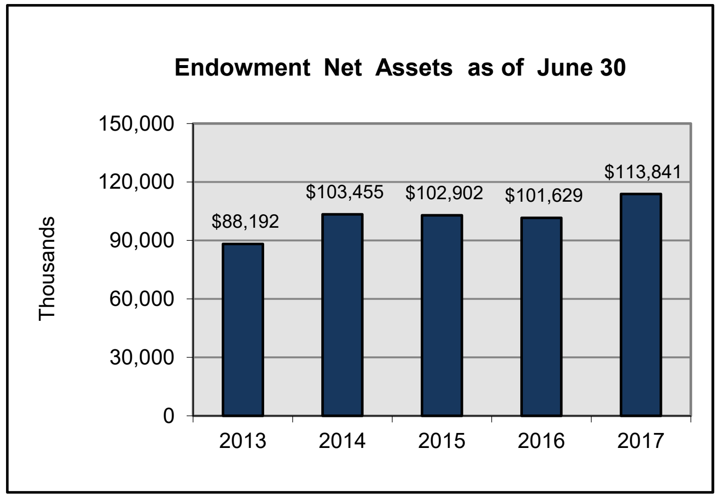
Contribution Revenues

Philanthropy is important to the fiscal health of the college, but the total amount of gift revenue can vary widely from year to year. This variability is a function of factors such as general economic conditions, tax law changes, and major gifts and campaigns for specific capital projects. During FY2016-2017, Linfield received over $3.9 million in gifts and net changes in pledge balances, reflective of another year in the quiet phase of a campaign, and average dollars from realized bequests. Included in the above is unrestricted gift revenue of $880,233 that was part of the college's FY2016-2017 operating budget.



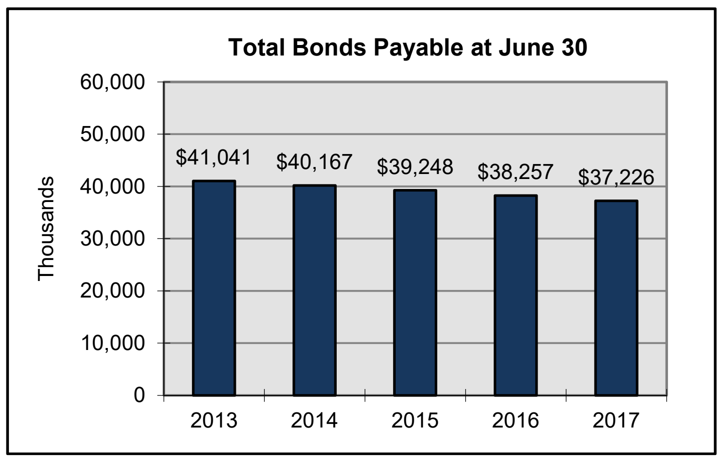
Total Endowment Net Assets

For the fiscal year ended June 30, 2017, Linfield's endowment portfolio had an overall net return of +15.3% (compared to our Custom Index of +12.2%). Linfield performed in the top 10% of endowments of $50 million - $250 million for FY2016-2017, in the top 8% over the last 5 years, the top 12% over the past 7 years, and the top 9% over the past 10 years. At year end, the endowment net assets market value was $113.8 million. The more conservatively invested life income trusts net assets were valued at an additional $10.6 million.

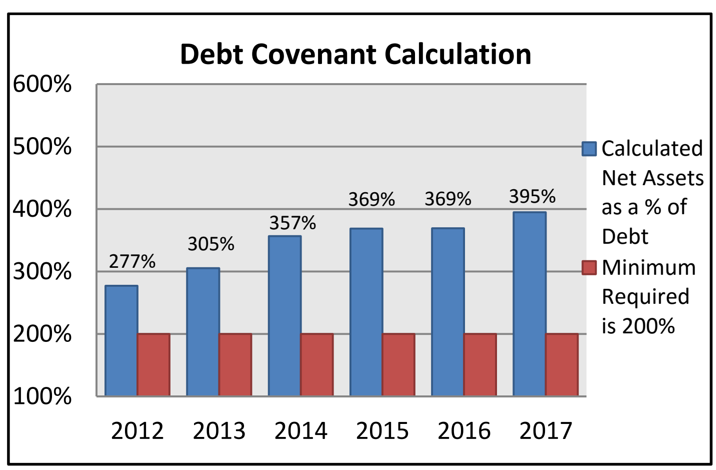


Total Bond Debt and Debt Covenant Calculation

New bonds were issued in July 2015 at a lower interest rate to refund/repay the outstanding 2005 series bonds and use the savings to reduce the annual debt service payments. The 2015 bonds intentionally did not raise any new capital and did not lengthen the debt repayment timeline, but resulted in a Net PV savings of $1.45 million to the college. The college's bond credit rating continued at Baa1 during FY2016-2017.

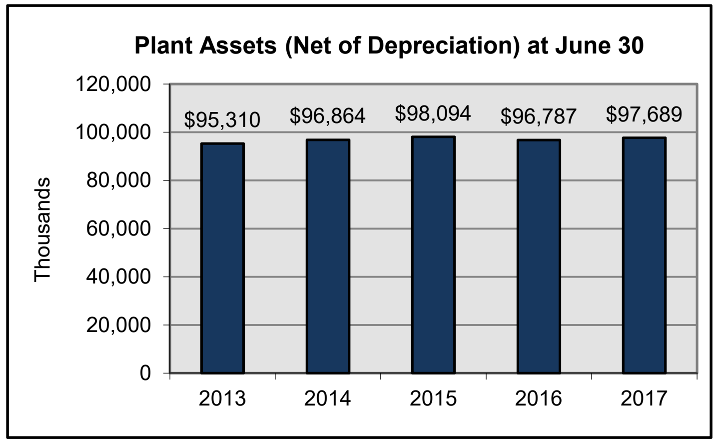


The college's debt covenant ratio remains well above the required minimum with an average increase of 22.0% in the college's net assets as a percent of debt over the past four years.



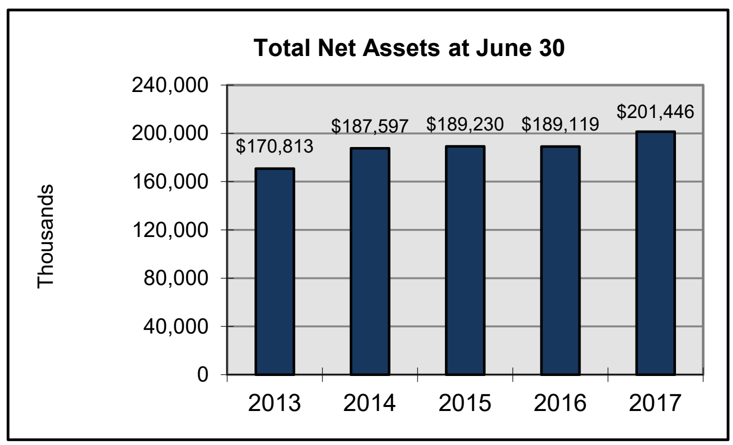
Plant Assets

Plant assets, net of depreciation, increased from $96.8 to $97.7million. New assets capitalized and CIP (Construction in Progress) added for FY2016/2017 amounted to $4.4 million and depreciation was $3.5 million for the year. This represents a net increase of $0.9 million, approximately 0.9% from June 30, 2016 to June 30, 2017.



Total Net Assets

Total net assets increased substantially in FY2016-2017 compared to FY2015-2016. Changes in total net assets are a direct result of changes in total revenue and total expense as outlined in the Statement of Activities. Thus it is affected by normal revenue and expense fluctuations plus financial aid given, investment returns (including unrealized market value gain/loss), depreciation, and change in value of split-interest agreements, etc. The increase this year was from a positive 13.4 million in realized and unrealized market value gain/loss on investments.



Summary

Linfield College finished FY 2016-17 with a balanced budget, the 43rd consecutive year for such an accomplishment. The college continued to pursue the goals of the 2012-2018 Strategic Plan, and during this year, the Strategic Plan was revised and extended to 2020. Our Strategic Plan Update and Review (SPUR) process was thorough and inclusive, designed to keep the Plan current with changes in the environment in which the College operates, and to respond to input from various College stakeholders about the Plan's vitality and applicability. The updated Strategic Plan will continue to guide purposeful resource allocations in support of our mission, including academic support, student services, enrollment initiatives, external relations and marketing, and infrastructure improvements. Our culture of fiscal integrity and responsibility at all levels, along with our student-centered approach, helps the College maintain a positive financial position and serve our diverse student body.

Linfield is and continues to be a most attractive college. More than ever, the value proposition of a Linfield education provides our students with an excellent undergraduate education. They graduate on time, regardless of major, and they receive a well-rounded liberal arts education enabling them to compete and succeed in a competitive global market. Our students are provided with a highly-personalized education with world-class professors. Our students benefit from our unique interdisciplinary Program for Liberal Arts and Civic Engagement (PLACE), and first-year students receive free January Term tuition. Nearly half of all Linfield graduates have studied outside the U.S. We boast a national reputation for NCAA Division III non-scholarship athletics, and have the only wine studies program at an American liberal arts college.

Linfield is proud of and continues to attract a diverse student population. This year, *U.S. News & World Report* ranked Linfield as the 34th most ethnically diverse student population in the nation, and the most diverse in Oregon, Washington and Idaho. In FY 2016-2017, American students of color represented 32% of the student body. The *U.S. News and World Report* recognized Linfield College as "Best Ethnic Diversity" of Liberal Arts Colleges in Oregon and Washington. Also *Washington Monthly* recognized Linfield as the "Best Bang for the Buck" in Oregon and Washington as well as *Money Magazine* included Linfield as the Number 2 College in Oregon for value. Four Fulbright Scholarships were awarded to Linfield students in 2016-17.

The College completed an upgrade to the Information Technology Services network, security, and wireless equipment across both the McMinnville and Portland campuses. We also continue to invest in our Athletic programs, including upgrades to the baseball stadium infield, and installation of an electronic message board promoting college events.

Linfield College continues to focuses its efforts on transforming our students to become productive citizens and leaders. We ensure excellence by providing a supportive community, where success is both an individual and a collaborative effort. Our close-knit environment encourages students from different backgrounds and disciplines to learn, grow, and explore. Linfield College advances a vision of connecting learning, life and community. Truly, this is The Power of a Small College.

Respectfully Submitted,

MA Rodriguez

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Portland, OR 97201

Independent Auditors' Report

The Board of Trustees
Linfield College:

Report on the Financial Statements

We have audited the accompanying financial statements of Linfield College (the College) (an Oregon nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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 controls relevant to the preparation and fair presentation of the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors consider internal controls 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 controls. 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 Linfield College as of June 30, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the College's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal controls over financial reporting and compliance.

KPMG LLP

October 31, 2017

LINFIELD COLLEGE

Statements of Financial Position

June 30, 2017 and 2016

Assets		2017	2016
Assets:			
Cash and cash equivalents	$	1,093,544	1,975,518
Accounts and notes receivable, net		7,544,721	7,590,513
Interest receivable		281,256	278,264
Prepaid expenses and other assets		1,669,386	1,494,022
Contributions receivable, net		1,413,814	954,428
Inventory		42,955	123,351
Investments		136,243,693	124,660,605
Assets held in trust by others		8,166,206	8,149,807
Plant assets, net		97,689,465	96,787,374
Total assets	$	254,145,040	242,013,882
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,004,601	5,412,875
Deferred revenue		2,216,112	2,294,356
Notes payable and capital leases		1,390,233	23,188
Bonds payable		37,226,309	38,257,355
U.S. government grants refundable		4,623,449	4,553,165
Obligations for split-interest agreements		2,238,471	2,354,137
Total liabilities		52,699,175	52,895,076
Net assets:			
Unrestricted:			
Operations and designated funds		7,636,679	8,201,082
Quasi-endowment		42,640,337	38,224,644
Net investment in plant		62,069,558	62,194,974
Total unrestricted		112,346,574	108,620,700
Temporarily restricted		40,169,514	32,762,920
Permanently restricted (endowments, annuities and trusts)		48,929,777	47,735,186
Total net assets		201,445,865	189,118,806
Total liabilities and net assets	$	254,145,040	242,013,882

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and losses:				
Student charges:				
Tuition and fees	$ 82,008,706	—	—	82,008,706
Less student financial aid	(39,473,706)	—	—	(39,473,706)
Tuition and fees, net	42,535,000	—	—	42,535,000
Contributions	932,688	1,838,228	1,146,708	3,917,624
Contracts and other exchange transactions	854,849	23,111	—	877,960
Investment income	1,097,456	1,283,135	22,572	2,403,163
Net realized/unrealized gains on investments	5,030,337	8,273,789	142,404	13,446,530
Other income	1,585,971	14,160	—	1,600,131
Sales and services of auxiliary enterprises	13,374,201	—	—	13,374,201
Total revenue and gains	65,410,502	11,432,423	1,311,684	78,154,609
Net assets released from restrictions	4,550,096	(4,550,096)	—	—
Total revenue, gains, and other support	69,960,598	6,882,327	1,311,684	78,154,609
Expenses:				
Education and general:				
Instruction	25,748,622	—	—	25,748,622
Academic support	5,132,336	—	—	5,132,336
Student services	11,766,860	—	—	11,766,860
Institutional support	8,014,163	—	—	8,014,163
Operation and maintenance of plant	3,327,736	—	—	3,327,736
Depreciation	3,537,557	—	—	3,537,557
Interest and amortization on indebtedness	1,801,481	—	—	1,801,481
Total education and general	59,328,755	—	—	59,328,755
Auxiliary enterprises	6,603,189	—	—	6,603,189
Total expenses	65,931,944	—	—	65,931,944
Other changes and transfers among funds	(41,104)	41,104	—	—
Change in value of split-interest agreements	(261,676)	483,163	(117,093)	104,394
Change in net assets	3,725,874	7,406,594	1,194,591	12,327,059
Net assets at beginning of year	108,620,700	32,762,920	47,735,186	189,118,806
Net assets at end of year	$ 112,346,574	40,169,514	48,929,777	201,445,865

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and losses:				
Student charges:				
Tuition and fees	$ 81,878,717	—	—	81,878,717
Less student financial aid	(38,415,979)	—	—	(38,415,979)
Tuition and fees, net	43,462,738	—	—	43,462,738
Contributions	1,275,614	1,676,522	3,327,152	6,279,288
Contracts and other exchange transactions	934,684	—	—	934,684
Investment income	1,111,863	1,258,455	30,579	2,400,897
Net realized/unrealized losses on investments	(1,192,289)	(1,655,394)	(3,962)	(2,851,645)
Other income	1,832,209	6,305	—	1,838,514
Sales and services of auxiliary enterprises	13,564,989	—	—	13,564,989
Total revenue and gains	60,989,808	1,285,888	3,353,769	65,629,465
Net assets released from restrictions	3,943,089	(3,943,089)	—	—
Total revenue, gains, and other support	64,932,897	(2,657,201)	3,353,769	65,629,465
Expenses:				
Education and general:				
Instruction	26,306,860	—	—	26,306,860
Academic support	5,351,336	—	—	5,351,336
Student services	11,632,870	—	—	11,632,870
Institutional support	7,894,746	—	—	7,894,746
Operation and maintenance of plant	2,926,340	—	—	2,926,340
Depreciation	3,719,682	—	—	3,719,682
Interest and amortization on indebtedness	1,786,561	—	—	1,786,561
Total education and general	59,618,395	—	—	59,618,395
Auxiliary enterprises	6,536,366	—	—	6,536,366
Total expenses	66,154,761	—	—	66,154,761
Other changes and transfers among funds	(42,474)	42,474	—	—
Change in value of split-interest agreements	(63,216)	494,091	(16,435)	414,440
Change in net assets	(1,327,554)	(2,120,636)	3,337,334	(110,856)
Net assets at beginning of year	109,948,254	34,883,556	44,397,852	189,229,662
Net assets at end of year	$ 108,620,700	32,762,920	47,735,186	189,118,806

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	12,327,059	(110,856)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		3,424,710	4,763,747
Actuarial change in split-interest agreements		80,214	(147,618)
Contributions restricted for long-term investment		(1,861,374)	(1,616,076)
Noncash contributions		(107,689)	(2,126,172)
Changes in current assets/liabilities:			
(Increase) decrease in interest receivable		(2,992)	10,247
Decrease in accounts and notes receivable, net		45,792	41,042
Increase in contributions receivable		(459,386)	(531,790)
Decrease (increase) in inventory		80,396	(60,861)
Increase in prepaid expenses and other assets		(175,364)	(865,556)
Decrease in accounts payable and accrued liabilities		(408,274)	(335,779)
Decrease in deferred revenue		(78,244)	(741,110)
Increase in U.S. government grants refundable		70,284	88,094
Decrease in obligations for split-interest agreements		(5,623)	(453,976)
Net cash provided by (used in) operating activities		12,929,509	(2,086,664)
Cash flows from investing activities:			
Purchase of plant and equipment		(4,392,848)	(2,412,594)
Reinvested dividends and net realized and unrealized gain on long-term investments		(15,848,677)	(1,887)
Proceeds from sale and maturities of investments		51,214,614	21,421,109
Purchases of investments		(46,953,050)	(19,398,054)
Net cash used in investing activities		(15,979,961)	(391,426)
Cash flows from financing activities:			
Cash contributions restricted for:			
Endowment		1,004,551	1,244,166
Annuities and trusts		—	30,366
Plant		1,040,421	973,573
Proceeds from sale of donated financial assets		—	(10,748)
New capital/lease purchase		1,381,114	—
Principal payments on notes payable (financed vehicles)		(14,069)	(14,069)
Principal payments on bonds payable		(965,000)	(2,035,000)
Payments on obligations for split-interest agreements		(278,539)	(453,849)
Net cash provided by (used in) financing activities		2,168,478	(265,561)
Net decrease in cash and cash equivalents		(881,974)	(2,743,651)
Cash and cash equivalents at beginning of year		1,975,518	4,719,169
Cash and cash equivalents at end of year	$	1,093,544	1,975,518
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	1,879,590	2,090,684
Supplemental schedule of noncash investing and financing activities:			
Gifts of marketable assets for current use or long-term use	$	107,689	2,136,921

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Summary of Operations

Linfield College (the College) is an accredited four-year, private, coeducational, liberal arts, and science institution located in McMinnville and Portland, Oregon. The College serves more than 2,280 students from 27 states and 20 foreign countries and offers 51 majors.

(b) Accrual Basis Accounting

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

(c) Basis of Presentation

Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The definitions used to clarify and report net assets are as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the College or the passage of time
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be permanently maintained by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets with the exception of the change in value of split-interest agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the donor-imposed conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date of gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

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

- Increases or decreases in permanently restricted net assets if the terms of the gift or the College’s interpretation of relevant state law requires they be added to or subtracted from the principal of a permanently restricted net asset.

- Increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.
- Increases or decreases in unrestricted net assets in all other cases.

(d) Investments

Investments in marketable equity securities and all debt securities are stated at fair value.

The College has certain investments in real estate and related assets that were recorded at cost when purchased or fair value on the date of gift, as appropriate. These investments remain at their initial value and are not marked to fair value each reporting period.

The College follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(e) Plant Assets, Net

The College's plant facilities are stated at cost or fair value at the date of donation (in the case of gifts), less accumulated depreciation. All plant assets, other than land, are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives used to calculate depreciation are as follows:

Buildings – main campus	70 years
Buildings – smaller residential	30 years
Building improvements	30 years
Land improvements	30 years
Furniture and equipment	10 years
Library books	10 years
Vehicles	10 years
Software	5 years
Land and art work	Not depreciated

(f) Inventory

Inventory consists primarily of Campus Mail Center postage and information technology (computer department) supplies as of June 30, 2017 and 2016 and is recorded at the lower of cost (first-in, first-out) or net realizable value.

The College is leasing its bookstore to Barnes & Noble. Barnes & Noble is providing all bookstore services for the College under the terms of a lease agreement that ended June 30, 2017; and has been renewed until June 30, 2022. During the term of the lease, Barnes & Noble will pay the College a guaranteed payment or a percentage of bookstore sales, whichever is greater.

(g) Bond Issuance Costs

Bond issuance costs (including bond issue costs, bond discounts, and bond premiums) represent amounts amortized by the College in connection with the issuance of the 2010 and 2015 Oregon Facilities Authority Bonds. See note 13 for further discussion.

The remaining unamortized portion of bond issuance costs and discounts are reported (per FASB Accounting Standards Update (ASU) 2015-03, Subtopic 835-30, *Simplifying the Presentation of Debt Issuance Costs*), as a contra bonds payable liability account and, along with unamortized premiums, are included in bonds payable on the statements of financial position. Amortization is calculated using a method that approximates the effective yield over the life of the bonds.

(h) Deferred Revenue

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

(i) Split-Interest Agreements

The College uses an actuarial method to record certain split-interest arrangements. Under this method, the present value of the payments to beneficiaries is estimated based upon life expectancy tables when the gift is received. The present value of those payments is recorded as a liability and the remainder as temporarily restricted net assets. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. The discount rates used by the College in calculating present value of all split-interest agreements range from 1.0% to 9.99% at June 30, 2017.

(j) Fair Value of Financial Instruments

At June 30, 2017 and 2016, the carrying values of cash and cash equivalents, accounts and contributions receivable, accounts payable, accrued liabilities, and split-interest agreements approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of June 30, 2017, the fair value of the College's bonds payable approximates $45,305,980 as compared to its carrying value of $37,226,309. At June 30, 2016, the fair value of the College's bonds payable approximates $48,170,470 as compared to its carrying value of $38,257,355. The fair value of bonds as of June 30, 2017 and 2016 reflects the difference between the current market rate and the College's actual average interest rate being paid on all debt obligations.

(k) Income Taxes

The College is 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 tax under Sections 511 through 515 of the IRC. Unrelated business income tax is insignificant or nonexistent, and therefore, no tax provision has been made.

Accounting principles generally accepted in the United States of America require the College's management to evaluate tax positions taken by the College and recognize a tax liability (or asset) if the College has taken an uncertain position that more likely than not, would not, be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the College and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The College is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The College's management believes it is no longer subject to income tax examinations for years prior to 2014.

(l) Use of Estimates

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

(Continued)

(2) Cash and Cash Equivalents

The College considers all short-term fixed income investments (highly liquid debt instruments with a maturity of three months or less at purchase), to represent cash equivalents, except for certain cash equivalents included in the investment portfolio that are intended to be invested on a long-term basis. These short-term fixed income investments are stated at cost, which approximates fair value. The cash and cash equivalent totals were $1,093,544 and $1,975,518 at June 30, 2017 and 2016, respectively. The cash and cash equivalent balances were held in money market or bank depository accounts.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are restricted for the following purposes:

		2017	2016
Term endowments and accumulated endowment return:			
Instruction and operations	$	9,897,863	6,989,744
Student aid		13,085,446	9,377,444
Endowment distributions available for:			
Instruction and operations		2,434,881	2,462,837
Student aid		802,614	808,159
Funds from split-interest agreements		9,662,907	9,514,931
Plant		2,048,972	1,418,208
Designated student loan funds		336,849	332,692
Other designated funds		1,899,982	1,858,905
	$	40,169,514	32,762,920

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2017 and 2016 are restricted for the following purposes:

		2017	2016
Endowments:			
Instruction and operations	$	20,463,490	19,794,624
Student aid		27,753,773	27,242,817
		48,217,263	47,037,441
Other:			
Split-interest agreements (restricted for future endowments)		712,514	697,745
	$	48,929,777	47,735,186

(Continued)

(5) 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 during the years ended June 30, 2017 and 2016 as follows:

	2017	2016
Purpose restrictions accomplished:		
Instruction and operations	$ 410,346	889,013
Academic support	42,348	117,994
Student services	755,232	45,226
Institutional support	160,272	214,467
Scholarships	2,167,774	1,860,389
Operations and maintenance of plant	—	3,684
Purchase or renovation of plant assets	471,698	244,823
Annuity/trust/life income	542,426	567,493
	$ 4,550,096	3,943,089

(6) Tuition and Fees

Student tuition and fee revenue for the years ended June 30, 2017 and 2016 consists of the following:

	2017	2016
Tuition and fees	$ 82,008,706	81,878,717
Less:		
Unfunded financial aid (institutional tuition discount)	(36,903,762)	(35,965,579)
Funded financial aid (endowed or other designations)	(2,569,944)	(2,450,400)
Tuition and fees, net	$ 42,535,000	43,462,738

(Continued)

(7) Liquidity

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2017 and 2016 is as follows:

	2017	2016
Total current assets	$ 16,732,244	19,404,060
Total long-term assets	237,412,796	222,609,822
Total assets	$ 254,145,040	242,013,882
Total current liabilities	$ 8,653,917	8,739,552
Total long-term liabilities	44,045,258	44,155,524
Total liabilities	52,699,175	52,895,076
Net assets	201,445,865	189,118,806
Total liabilities and net assets	$ 254,145,040	242,013,882

(8) Investments

Table 1 – Investments comprise the following at June 30, 2017 and 2016:

	2017	2016
Restricted cash and cash equivalents	$ 5,933,666	5,085,662
Fixed income securities	29,817,296	29,321,396
Domestic equities	41,510,630	37,293,111
International equities	30,577,045	26,986,387
Marketable alternatives	17,207,409	14,820,385
Real return assets	—	41,302
Life income assets with trustees:		
Cash and cash equivalents held for reinvestment	129,740	691,995
Equity funds	2,573,411	2,297,216
Fixed income funds	1,852,776	1,481,431
Subtotal	129,601,973	118,018,885
Real property held for investment	6,641,720	6,641,720
Total investments	$ 136,243,693	124,660,605

(Continued)

Table 2 – Certain net asset balances (found in note 18) differ from investment balances presented below due to other assets, liabilities, or timing of transactions between funds. The values of total investments as allocated by designation or donor restriction at June 30, 2017 and 2016 are as follows:

		2017	2016
Quasi-endowment	$	42,577,937	38,263,085
Endowment (temporarily and permanently restricted)		71,096,088	63,120,962
Split-interest agreements		4,142,294	4,132,972
Bond funds and reserves		2,908,681	2,940,238
CDs and other bank investments		12,938,046	13,000,783
Assets invested in real estate		2,276,720	2,276,720
Other		303,927	925,845
Total investments	$	136,243,693	124,660,605

Table 3 – The College signed a 40-year operating land lease on July 1, 2003 as the lessor for land included in real property held for investment. The College has leased 342,817 square feet of land. The minimum future rental income associated with this lease is as follows:

Year ending June 30:		
2018	$	188,977
2019		190,552
2020		198,426
2021		198,426
2022		198,426
Thereafter		1,440,244
	$	2,415,051

Revenue from the lease is recognized ratably over the life of the lease.

All endowed and quasi-endowed investments are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Pooled investments are professionally managed under the total return concept (unit fair value method). All life income assets are invested with money managers separate from the endowment investment pool, unless special considerations require that they be held collectively. At June 30, 2017 and 2016, the life income assets primarily consisted of equity and fixed income mutual funds.

Table 4a – The following table presents financial instruments that are measured at fair value on a recurring basis according to the ASC 820 hierarchy as of June 30, 2017:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 8,166,206	—	—	8,166,206	N/A	N/A
Investments:						
Restricted cash equivalents	$ 5,433,666	5,433,666	—	—		
Certificates of deposit	500,000	—	500,000	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	34,133,558	34,133,558	—	—	Daily	1 day
Small cap mutual funds	7,377,071	7,377,071	—	—	Daily	1 day
International equities:			—	—		
Large cap mutual funds	21,967,494	21,967,494	—	—	Daily	1 day
Small cap mutual funds	8,609,552	8,609,552	—	—	Daily	1 day
Fixed income securities and funds:						
Bonds funds	20,814,748	20,814,748	—	—	Daily	1 day
Agency funds	3,853,754	3,853,754	—	—	Daily	1 day
Commercial paper	5,148,794	5,148,794	—	—	Daily	1 day
Marketable alternatives	17,207,409	—	17,207,409	—	Monthly	30 days
Real return assets	—	—	—	—	Daily	1 day
Life income assets with trustees:						
Fixed income fund	1,852,776	2,427	1,850,349	—	Monthly	30 days
Equity fund	2,070,854	2,070,854	—	—	Monthly	30 days
Mutual funds:			—	—		
International growth			—	—		
fund	385,879	385,879	—	—	Daily	1 day
Real estate fund	116,678	116,678	—	—	Daily	1 day
Restricted cash and cash equivalents held for investment	129,740	129,740	—	—	Daily	1 day
	129,601,973	110,044,215	19,557,758	—		
Real property held for investment	6,641,720					
Total investments	$ 136,243,693					

Table 4b – The following table presents financial instruments that are measured at fair value on a recurring basis according to the ASC 820 hierarchy as of June 30, 2016:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 8,149,807	—	—	8,149,807	N/A	N/A
Investments:						
Restricted cash equivalents	$ 84,880	84,880	—	—		
Certificates of deposit	5,000,783	—	5,000,783	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	29,580,249	29,580,249	—	—	Daily	1 day
Small cap mutual funds	7,712,862	7,712,862	—	—	Daily	1 day
International equities:						
Large cap mutual funds	18,904,068	18,904,068	—	—	Daily	1 day
Small cap mutual funds	8,082,318	8,082,318	—	—	Daily	1 day
Fixed income securities and funds:						
Bonds funds	18,801,860	18,801,860	—	—	Daily	1 day
Agency funds	9,519,536	9,519,536	—	—	Daily	1 day
Commercial paper	1,000,000	1,000,000	—	—	Daily	1 day
Marketable alternatives	14,820,386	—	14,820,386	—	Monthly	30 days
Real return assets	41,302	41,302	—	—	Daily	1 day
Life income assets with trustees:						
Fixed income fund	1,667,549	2,427	1,665,122	—	Monthly	30 days
Equity fund	2,204,026	2,204,026			Monthly	30 days
Mutual funds:						
International growth fund	335,298	335,298	—	—	Daily	1 day
Real estate fund	125,178	125,178	—	—	Daily	1 day
Restricted cash and cash equivalents held for investment	138,590	138,590	—	—	Daily	1 day
	118,018,885	96,532,594	21,486,291	—		
Real property held for investment	6,641,720					
Total investments	$ 124,660,605					

Real property held for investment is recorded at cost. As such, these assets are not subject to the fair value leveling requirements in the above table.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

(a) Assets Held in Trusts by Others

The College's interest in irrevocable perpetual agreements held or controlled by a third party is classified as Level 3. The underlying investments in these trusts include marketable securities as well as directly held real estate. The value of the College's beneficial interest is primarily established using unobservable inputs, such as specific estimates of cash flows. Since the College has an irrevocable right to receive the income earned for the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trust's assets.

(b) Restricted Cash Equivalents and Certificates of Deposit (CDs)

The short-term investments of the College consist of actively traded, observable inputs (money market accounts, Federated Treasury Obligations, Bankers' Acceptance Notes, Commercial Paper, and Certificates of Deposit) classified as Level 1 or Level 2 (for those assets whose value is directly observable but are infrequently traded or in inactive markets) as appropriate.

(c) Domestic Equities

Investments in domestic equities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. This category includes large and small cap funds located in the United States.

(d) Preferred Equities

Investments in preferred stock are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

(e) International Equities

Investments in international equities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. This category includes large and small cap funds located outside the United States.

(f) Fixed Income Securities and Funds

Fixed income investments are measured at fair value using quoted market prices. They are classified as either Level 1 (for those assets traded in an active market for which closing stock prices are readily available) or Level 2 (for those assets whose value is directly observable but are infrequently traded or in inactive markets). This category includes both U.S. Treasury bond funds, government agency funds, as well as publicly traded bond funds.

(g) Marketable Alternatives

The investments in marketable alternatives are measured at fair value using readily available quoted market prices. They are classified as Level 2 as they may have some small degree of underlying assets that are illiquid or hard to value within the mutual funds used.

(h) Real Return Assets

Investments in these funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which daily prices are readily available. This consists of a multi-strategy fund that invests in several fixed income and equities categories and funds.

(i) Life Income Assets with Trustees

Investment in life income assets are those that are associated with split-interest agreements, whose investments are classified as either Level 1 or Level 2 depending upon the respective inputs. The investments that are classified as Level 1 are traded in active markets for which closing stock prices are readily available and include mutual funds and cash equivalents.

(Continued)

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(j) Assets Held in Trust by Others – Activity at Level 3

The College has been designated the beneficiary of the income of a portion of certain trust funds. The related assets are neither in the possession nor under the control of the College, but are recorded at their estimated fair value. Amounts received or accrued from these trusts were $265,025 and $264,886 for 2017 and 2016, respectively, and are included in the change in value of split-interest agreements for the years then ended.

The following table presents a reconciliation of the statements of financial position amounts for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

Balances, June 30, 2015	$	9,075,025
Net realized and unrealized gains included in change in net assets		(214,240)
Dividends		—
Purchases		—
Sales		(710,978)
Settlements		—
Transfers out of Level 3		—
Balances, June 30, 2016		8,149,807
Net realized and unrealized gains included in change in net assets		280,286
Dividends		1,138
Purchases		
Sales		(265,025)
Settlements		—
Transfers out of Level 3		—
Balances, June 30, 2017	$	8,166,206

(9) Accounts and Notes Receivable, Net

Accounts and notes receivable at June 30, 2017 and 2016 consist of the following:

		2017	2016
Accounts receivable:			
Student accounts	$	1,232,134	1,175,669
Other receivables		694,431	858,447
Subtotal		1,926,565	2,034,116
Less allowance for doubtful accounts		(152,390)	(85,995)
Net accounts receivables		1,774,175	1,948,121
Financing receivables (Student loans):			
Perkins loans		3,581,714	3,637,947
Nursing student loans		2,282,859	1,992,081
Institutional student loans		1,165,067	1,197,465
Subtotal		7,029,640	6,827,493
Less allowance for doubtful accounts		(1,259,094)	(1,185,101)
Net loans receivable		5,770,546	5,642,392
Combined accounts receivable and student loan funds, net	$	7,544,721	7,590,513

It is the College's obligation to collect loans made under the Perkins Loan Program (the Program). The loans are payable, including interest at 5%, over approximately 10 years following college attendance. Principal payments, interest, and losses due to cancellation are shared by the College and the U.S. government in proportion to their share of funds provided (approximately 83.6% of the funds have been provided by the U.S. government). The Program provides for cancellation of the 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.

(10) Credit Quality of Financing Receivables

The College's financing receivables consist of revolving loan funds for Federal Perkins Loans and Federal Nursing Student Loans (NSL) for which the College acts as an agent for the federal government, and institutional loan funds created by the College to assist students in funding their education. Student loans represent 2.8% of total assets of the College.

The availability of funds for loans under all three programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the federal loan programs at June 30, 2017 and 2016 of $4,623,449 and $4,553,165, respectively, are ultimately refundable to the government and are classified as a liability in the statements of financial position.

For each class of financing receivables, the following table presents the performing and nonperforming portion of the financing receivables as of June 30, 2017:

		Performing	Nonperforming (defaulted)	Total
Perkins loans	$	3,435,589	146,125	3,581,714
Nursing student loans		2,173,104	109,755	2,282,859
Institutional student loans		199,663	965,404	1,165,067
Total	$	5,808,356	1,221,284	7,029,640

The aging of financing receivables as of June 30, 2017 is presented as follows:

Aging		31-60	61-90	91+	Total past due	Total current	Total
Perkins loans	$	131,940	50,446	332,064	514,450	3,067,264	3,581,714
Nursing student loans		92,649	15,499	104,525	212,673	2,070,186	2,282,859
Institutional loans		35,182	24,563	1,053,511	1,113,256	51,811	1,165,067
Total	$	259,771	90,508	1,490,100	1,840,379	5,189,261	7,029,640

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, analyzed periodically. Loan balances are written off when they are deemed to be permanently uncollectible. Since student loans under the Perkins loan program and NSL can be assigned to the government when no longer collectible, a Perkins Loan write-off will reduce a portion of the amount refundable to the government. Changes in the allowance for estimated losses on financing receivables as of June 30, 2017 are presented as follows:

Allowances for uncollectible accounts:

		Perkins	NSL	Institutional	Total
June 30, 2016	$	374,707	152,176	658,218	1,185,101
Write-off		—	—	(37,471)	(37,471)
Recovery		—	—	—	—
Allowance adjustment		24,020	24,964	62,480	111,464
June 30, 2017	$	398,727	177,140	683,227	1,259,094

Assigned to the federal government (uncollectible by the College):

		Perkins
June 30, 2016	$	554,034
Assigned to federal government		—
Recovery – not applicable (A)		—
June 30, 2017	$	554,034

(A) The government does not repay any recovered amounts back to the College once uncollected principal has been assigned back to the government.

(11) Contributions Receivable, Net

At June 30, 2017, the College has received unconditional promises to give (greater than $4,999 each) of $1,446,127, which are shown net of unamortized discount and an allowance for doubtful pledges. Pledges receivable were discounted using an interest rate commensurate with the risks involved and are discounted at rates ranging from 0.97% to 1.07% as of June 30, 2017. Annual payments are scheduled to be received as follows:

		2017	2016
Amounts due in:			
Amounts receivable in less than one year	$	482,869	346,259
Amounts receivable in one to five years		963,258	624,775
		1,446,127	971,034
Less:			
Unamortized discount		(25,332)	(11,606)
Allowance for doubtful pledges		(6,981)	(5,000)
	$	1,413,814	954,428

(12) Plant Assets, Net

Plant assets at June 30, 2017 and 2016 consist of the following:

		2017	2016
Land	$	8,663,122	8,595,922
Land improvements		7,001,303	6,808,622
Buildings		84,814,958	84,928,958
Building improvements		25,577,898	23,872,852
Furniture and equipment		21,161,369	19,081,576
Library holdings		13,520,145	13,520,145
Vehicles		522,241	522,241
Software		111,278	46,278
Artwork		129,435	42,280
Construction in progress		889,458	579,485
		162,391,207	157,998,359
Less accumulated depreciation		(64,701,742)	(61,210,985)
	$	97,689,465	96,787,374

(13) Bonds Payable

Table 1 – At June 30, 2017 and 2016, bonds payable consist of the following:

		2017	2016
Oregon Facilities Authority Bonds of 2010 Series A, 4.75% to 5.25%, due serially to 2040. (a)	$	23,385,000	23,385,000
Oregon Facilities Authority Bonds of 2015 Series A, 3.75% to 5.00%, due serially to 2030. (b)		13,150,000	14,115,000
Total outstanding principal		36,535,000	37,500,000
Add unamortized bond premium		1,357,422	1,457,971
Net bonds payable		37,892,422	38,957,971
Less unamortized bond issue costs and discounts		(666,113)	(700,616)
Net bonds payable	$	37,226,309	38,257,355

(Continued)

(a) On August 1, 2010, the College entered into a Loan Agreement with the State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and on behalf of the Oregon Facilities Authority to issue bonds with an aggregate principal amount of $23,385,000 (the 2010 Bonds).

The proceeds of the 2010 Bonds were loaned to the College for (1) the refunding of all of the Issuer's outstanding Revenue Bonds (Linfield College Project), 1998 Series A; (2) the refunding of all of the Issuer's outstanding Revenue Bonds (Linfield College Project), 2001 Series A; (3) the planning, construction, and financing of capital construction, improvement, remodeling, renovation, and acquisition and installation of equipment for the renovation of Northup Hall and other capital improvements including the construction, remodel, retro-fit, and/or conversion of buildings to different uses and payment of architectural and engineering costs for the foregoing; (4) a reserve fund; (5) capitalized interest; and (6) the payment of costs of issuance of the 2010 Bonds.

As of June 30, 2017 and 2016, the reserve fund had assets remaining of $1,177,708 and $1,183,692, respectively (at cost). The College is responsible for bond principal and interest payments that vary from 4.75% to 5.25%. Principal reduction begins in October 2028 with the final maturation occurring on October 1, 2040. Bonds maturing on or after October 1, 2020 will be subject to redemption at the option of the College, in whole or in part on any date on or after October 1, 2020, in such maturities as are selected by the College, at a price of par plus accrued and unpaid interest. Other mandatory redemption provisions are outlined in the bond prospectus for bonds maturing in 2028, 2031, 2034, and 2040. Each of these bonds is unsecured and is to be redeemed through annual budgeted revenue.

(b) On June 16, 2015, the College entered into a Loan Agreement with the State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and on behalf of the Oregon Facilities Authority to issue bonds with an aggregate principal amount of $14,245,000 (the 2015 Bonds). The current principal outstanding on these bonds is $13,150,000.

On July 8, 2015, the College closed on the new 2015 Series A State of Oregon, Oregon Facilities Authority Revenue Bonds at a Par amount of $14,245,000. The remaining 2005 Bonds had a call date on October 1, 2015 and were eligible for "current refunding" within 90 days (beginning July 1, 2015) of the call date.

The proceeds of the 2015 Bonds were loaned to the College for (1) the refunding of the Issuer's remaining outstanding Revenue Bonds (Linfield College Project), 2005 Series A and (2) the payment of costs of issuance of the 2015 Bonds. As of June 30, 2017, the 2016 Bond reserve fund had assets remaining of $1,698,976 and $1,691,991, respectively (at cost). The College is responsible for bond principal and interest payments that vary from 3.75% to 5.00%.

Principal reduction began in October 2016 with the final maturation occurring on October 1, 2030. Bonds maturing on or after October 1, 2026 will be subject to redemption at the option of the College, in whole or in part on any date on or after October 1, 2025, in such maturities as are selected by the College, at a price of par plus accrued and unpaid interest. Other mandatory redemption provisions are outlined in the bond prospectus. Each of these bonds is unsecured and is to be redeemed through annual budgeted revenue.

(Continued)

The College's investment grade rating of Baa1 was maintained and reaffirmed by Moody's Investor Services. The new bonds did not extend the debt service schedule of the College and with reduced interest costs the College will benefit from a net present value savings of approximately $1.4 million. The above 2010 and 2015 Oregon Facilities Authority bonds contained certain covenants, which include the maintenance of certain financial ratios, as defined in the agreements. For the years ended June 30, 2017 and 2016, management believes that the College was in compliance with these covenants.

Table 2 – The projected debt service payments on these obligations of the plant funds are as follows:

		Principal	Interest	Total payments
Year ending June 30:				
2018	$	1,015,000	1,798,400	2,813,400
2019		1,065,000	1,746,400	2,811,400
2020		1,120,000	1,691,775	2,811,775
2021		1,180,000	1,634,275	2,814,275
2022		1,240,000	1,573,775	2,813,775
Thereafter until 2041		30,915,000	15,245,018	46,160,018
	$	36,535,000	23,689,643	60,224,643

(14) Pension Plan

The College has a defined-contribution retirement plan for all eligible staff and faculty. The plan provides for employee deferrals and for contributions by the College for eligible employees amounting to 11.25% (staff) and 16.00% (faculty) of eligible earnings. The College's contributions totaled $3,399,524 and $3,437,426, in 2017 and 2016, respectively.

(15) Auxiliary Enterprises

Auxiliary enterprises consist of food service, residence life and bookstore operations, and hosting of camps and conferences.

Certain expenses for the operation and maintenance of the College's physical plant have been allocated between education and general and auxiliary enterprises based on a square footage allocation of campus space. Interest has also been allocated to auxiliary enterprises for the portion that was incurred for food service and residence life facilities. Current unrestricted auxiliary enterprise revenue and allocated and direct expenses are as follows:

		2017					
		Bookstore	**Food service**	**Main residence halls**	**Outside camps & conferences**	**Auxiliary property pool**	**Total**
Revenue	$	112,242	4,467,085	7,116,781	862,053	816,040	13,374,201
Expenses:							
Operating	$	1,237	2,718,742	2,497,083	762,065	624,062	6,603,189
Interest and amortization allocated		—	53,493	481,434	—	—	534,927
Depreciation allocation		—	159,573	562,161	—	67,350	789,084
O&M overhead allocation		4,456	177,356	282,557	34,226	31,168	529,763
Total expenses	$	5,693	3,109,164	3,823,235	796,291	722,580	8,456,963

		2016					
		Bookstore	**Food service**	**Main residence halls**	**Outside camps & conferences**	**Auxiliary property pool**	**Total**
Revenue	$	118,861	4,743,504	7,294,467	730,532	677,625	13,564,989
Expenses:							
Operating	$	289	2,766,316	2,359,262	879,734	530,765	6,536,366
Interest and amortization allocated		—	68,731	618,575	—	—	687,306
Depreciation allocation		—	159,573	529,199	—	73,950	762,722
O&M overhead allocation		2,904	115,876	178,194	17,846	16,553	331,373
Total expenses	$	3,193	3,110,496	3,685,230	897,580	621,268	8,317,767

(16) Expenses by Function

Total expenses by functional classification, including indirect expenses, after allocating operations and maintenance of plant, depreciation, and interest on indebtedness are as follows for the years ended June 30, 2017 and 2016:

		2017	2016
Instruction	$	29,211,285	29,725,224
Academic support		5,822,531	6,046,699
Student services		13,349,261	13,144,468
Institutional support		9,091,904	8,920,603
Auxiliary enterprises		8,456,963	8,317,767
	$	65,931,944	66,154,761

Included in institutional support are costs of $1,082,101 and $1,437,715 associated with fund-raising activities in 2017 and 2016, respectively.

(17) Endowment and Quasi-Endowment Funds

The College's endowment consists of approximately 377 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) 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 (if any) 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 College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College 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 College 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 College
7. The investment policies of the College

Endowment net assets consist of the following at June 30, 2017, excluding annuity and trust funds:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:				
Instruction and operations	$ —	9,759,468	20,670,298	30,429,766
Student aid	4,296,910	13,090,525	27,546,965	44,934,400
Contributions receivable	—	133,315	—	133,315
Board-designated endowment funds	38,343,427	—	—	38,343,427
Total endowment net assets	$ 42,640,337	22,983,308	48,217,263	113,840,908

Endowment net assets consist of the following at June 30, 2016, excluding annuity and trust funds:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:				
Instruction and operations	$ —	6,822,920	19,794,624	26,617,544
Student aid	3,795,139	9,377,444	27,242,817	40,415,400
Contributions receivable	50,000	166,824	—	216,824
Board-designated endowment funds	34,379,505	—	—	34,379,505
Total endowment net assets	$ 38,224,644	16,367,188	47,037,441	101,629,273

Changes in endowment net assets for the year ended June 30, 2017 are as follows, excluding balances associated with annuities and trusts:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2016	$	38,224,644	16,367,188	47,037,441	101,629,273
Investment return:					
Investment and other Income		758,762	1,267,337	3,434	2,029,533
Net appreciation		4,999,561	8,070,531	11,403	13,081,495
Total investment return		5,758,323	9,337,868	14,837	15,111,028
Contributions		—	(133,315)	1,164,985	1,031,670
Appropriation of endowment assets for expenditure		(1,550,404)	(2,642,125)	—	(4,192,529)
Transfer including board-designated funds		207,774	53,692	—	261,466
Endowment net assets, June 30, 2017	$	42,640,337	22,983,308	48,217,263	113,840,908

Changes in endowment net assets for the year ended June 30, 2016 are as follows, excluding balances associated with annuities and trusts:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2015	$	39,974,357	19,194,528	43,733,100	102,901,985
Investment return:					
Investment and other income		775,865	1,231,110	3,320	2,010,295
Net appreciation (depreciation)		(1,080,669)	(1,654,841)	2,449	(2,733,061)
Total investment return		(304,804)	(423,731)	5,769	(722,766)
Contributions		90,129	110,420	3,298,572	3,499,121
Appropriation of endowment assets for expenditure		(1,753,787)	(2,549,398)	—	(4,303,185)
Transfer including board-designated funds		218,749	35,369	—	254,118
Endowment net assets, June 30, 2016	$	38,224,644	16,367,188	47,037,441	101,629,273

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to $0. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds, with a fair value of associated assets that is less than the original gift amount, at June 30, 2017 and 2016 was approximately $17,281 and $116,841, respectively. 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.

(c) Return Objectives and Risk Parameters

Endowment and other board-designated 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 capital gains, in addition to investment income, can be used to support operations. In certain circumstances, the Board of Trustees has authorized spending from endowment funds that have a fair value less than the historical gift value. In all cases, authorized spending amounts are utilized in accordance with donor-imposed restrictions on the use of income earned by the endowment funds.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom index composed of 35% Russell 3000 index, 25% of the MSCI ACWI Ex-U.S. IMI index, 20% Barclays U.S. Aggregate Bond index, 15% Custom Marketable Alternatives Index, and 5% of Linfield’s Real Estate actual return, while assuming a moderate level of investment risk. The primary objective is to achieve a total return that exceeds the combination of the annual withdrawal per the Endowment’s spending policy, the effect of inflation, and management fees. The Board recognizes and acknowledges prudent risk must be assumed in order to achieve these long-term investment objectives.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on investments in equities to achieve its long-term return objective within prudent risk constraints.

(Continued)

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 4.5% of its endowment funds' average fair value using the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. The primary objective is to achieve a total return that exceeds the combination of the annual withdrawal per the Endowment's spending policy, the effect of inflation, and management fees. The Board recognizes and acknowledges prudent risk must be assumed in order to achieve these long-term investment objectives. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

At June 30, 2017 and 2016, the spending rate adopted by the College was 4.5% of a 20-quarter moving average market value of pooled net assets with the allocation of earned income made annually.

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

(18) Commitments and Contingencies

The College receives and expends money 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 College.

The College has placed certain of its medical insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical, dental, and vision 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 and pay the administrative expenses of the Plan, which are not otherwise paid by the College directly, and to establish and maintain a minimum reserve as determined by the Trustee. In the event that losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the College is approximately $705,755. 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.

(Continued)

The College leases space under an operating lease that expires on June 30, 2018. The lease contains certain rent escalation clauses and can only be terminated with an 18-month notice and certain other conditions. The college also has copy machine leases that extend over multiple years. At June 30, 2017 the projected lease payments under these operating leases extending beyond the current year were as follows:

Year ending June 30:		
2018	$	273,272
2019		101,328
2020		75,996
2021		—
Thereafter		—
	$	450,596

For the years ended June 30, 2017 and 2016, total remaining operating lease expense for the operating leases were $450,596 and $718,859, respectively.

(19) Subsequent Events

The College has evaluated any subsequent events after the statement of financial position date of June 30, 2017 through October 31, 2017, which was the date the financial statements were issued.

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