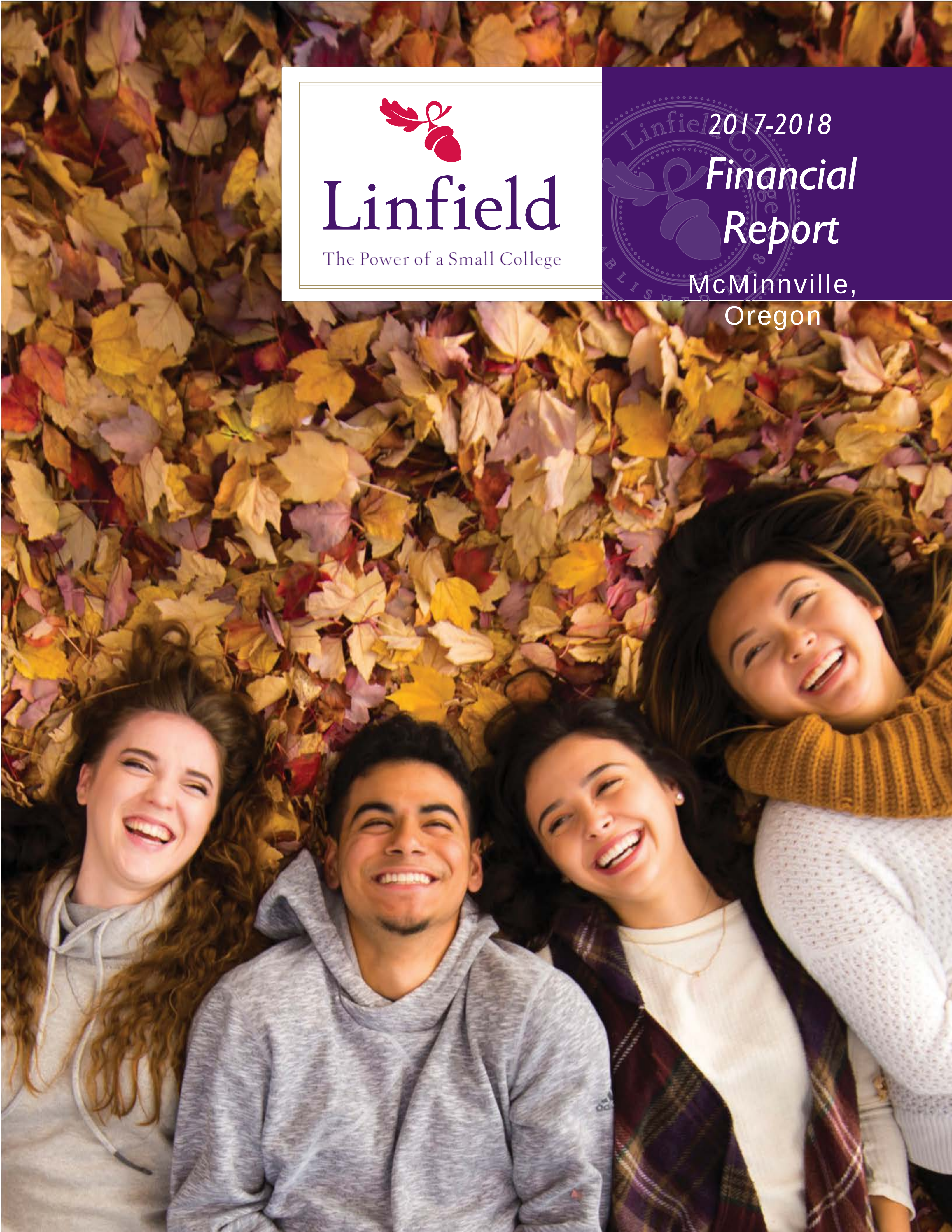
Linfield

The Power of a Small College

2017-2018 Financial Report

McMinnville, Oregon



Summary

Linfield College finished FY 2017-18 with a balanced budget, the 44th consecutive year for such an accomplishment. The college continued to pursue the goals of the 2012-2020 Strategic Plan, which guides 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 all first-year students participate in January Term at no additional 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 major (and minor) at an American liberal arts college.

Linfield is proud of consistently achieving high national and regional rankings for student diversity, educational benefits for veterans, value and quality education, and also for geographic location. Our accolades include the following:

> The *U.S. Department of Education College Scorecard* recognized Linfield for producing "Top-Earning Graduates in Oregon," and *The Equality of Opportunity Project* found Linfield to be a "Top Regional College in Graduates' Economic Mobility." For three years in a row, *U.S. News & World Report* ranked Linfield as number 1 among the Pacific Northwest liberal arts colleges for "Best Ethnic Diversity" and this year, also ranked the college as among the "Top 10 Colleges in America for Veterans." Additionally, Linfield is recognized by *U.S. News & Work Report* and *Money Magazine* as "Best Bang for the Buck" in Oregon and by the *Washington Monthly* as the "Best Bang for the Buck" in Oregon and Washington. The *U.S. Department of State* recognized Linfield as a "Top American Producer of Fulbright Scholars. *BestValueSchools.com* recognized Linfield's RN to BSN Program as "#1 on the West Coast". *The Wall Street Journal* recognized Linfield for the "Best Small-Town College in the West.

In FY 2017-18, the College continued to upgrade the Information Technology Services network, security, and wireless equipment across both the McMinnville and Portland campuses. The College created a new student lounge space in Riley Hall, refreshed two HP Apartments and made security upgrades at the Portland Campus with a gift from the Juan Young Trust.

Linfield College continues to focuses its efforts on providing transformative educational experiences that result in our students becoming 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.

Respectfully Submitted,

MARodriguez

Mary Ann Rodriguez
Vice President for Finance and Administration/CFO
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Linfield College
June 30, 2018

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Independent Auditor’s Report

Board of Trustees
Linfield College
McMinnville, Oregon

We have audited the accompanying financial statements of Linfield College (College), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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 College'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 College'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 Linfield College as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2018, the College adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The letter from the Vice President for Finance and Administration is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Fort Wayne, Indiana
November 1, 2018

Linfield College

Statement of Financial Position

June 30, 2018

	2018
Assets	
Assets - Current	
Cash and cash equivalents	$ 2,295,625
Accounts and notes receivable, net (Note 8)	4,771,956
Interest receivable	143,181
Prepaid expenses and other assets	833,937
Contributions receivable, net (Note 10)	2,308,946
Inventory	17,655
Investments (Note 6)	5,787,237
Assets held for sale	170,263
Total current assets	16,328,800
Assets - Non-Current	
Accounts and notes receivable, net (Note 8)	4,904,516
Interest receivable	30,098
Prepaid expenses and other assets	5,860
Contributions receivable, net (Note 10)	1,974,176
Investments (Note 6)	134,469,336
Assets held in trust by others	8,156,108
Plant assets, net (Note 11)	95,657,150
Total non-current assets	245,197,244
Total assets	$ 261,526,044
Liabilities and Net Assets	
Liabilities - Current	
Accounts payable and accrued liabilities	$ 4,770,830
Deferred revenue	2,203,411
Notes payable and capital leases	347,519
Bonds payable (Note 12)	1,131,046
U.S. government grants refundable	54,152
Obligations for split-interest agreements	182,355
Total current liabilities	8,689,313
Liabilities - Non-Current	
Accounts payable and accrued liabilities	71,922
Notes payable and capital leases	690,557
Bonds payable (Note 12)	35,014,216
U.S. government grants refundable	4,842,771
Obligations for split-interest agreements	1,899,282
Total non-current liabilities	42,518,748
Total liabilities	51,208,061
Net Assets (Note 3)	
Without donor restriction	111,835,916
With donor restriction	98,482,067
Total net assets	210,317,983
Total liabilities and net assets	$ 261,526,044

Linfield College
Statement of Activities
Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income and Other Support			
Student tuition and fees	$ 80,026,098	$ -	$ 80,026,098
Less student financial aid	(39,560,436)	-	(39,560,436)
Tuition and fees, net	40,465,662	-	40,465,662
Contributions	999,794	865,368	1,865,162
Contracts and grants	781,854	-	781,854
Net investment income designated for operations	325,798	-	325,798
Other income	1,341,609	-	1,341,609
Auxiliary enterprises	12,659,116	-	12,659,116
Endowment return designated for operations	1,600,976	2,392,109	3,993,085
Net assets released from restrictions, operating	3,429,312	(3,429,312)	-
Total revenue, income and other support	61,604,121	(171,835)	61,432,286
Expenses			
Instruction	29,093,271	-	29,093,271
Academic support	6,108,713	-	6,108,713
Student services	12,580,964	-	12,580,964
Institutional support	8,566,644	-	8,566,644
Auxiliary enterprises	7,921,932	-	7,921,932
Fundraising	1,821,296	-	1,821,296
Total expenses	66,092,820	-	66,092,820
Change in Net Assets Before Other Activites	(4,488,699)	(171,835)	(4,660,534)
Other Activities			
Contributions for endowment and capital aquistion	50,000	7,048,470	7,098,470
Gain on sale of plant assets	1,516,696	-	1,516,696
Realized and unrealized gains on investments	2,313,037	4,114,496	6,427,533
Endowment return designated for operations	(1,600,976)	(2,392,109)	(3,993,085)
Net investment income, non-operating	938,766	1,507,170	2,445,936
Net assets released from restrictions, non-operating	1,310,932	(1,310,932)	-
Change in value of split-interest agreements	(166,667)	203,769	37,102
Reclassification	(383,747)	383,747	-
Total other activities	3,978,041	9,554,611	13,532,652
Change in Net Assets	(510,658)	9,382,776	8,872,118
Net Assets, Beginning of Year	112,346,574	89,099,291	201,445,865
Net Assets, End of Year	$ 111,835,916	$ 98,482,067	$ 210,317,983

Linfield College

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services					Supporting Services			
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Total Program	Institutional Support	Operation and Maintenance	Fundraising	Total
Salaries and wages	$ 16,819,230	$ 2,643,143	$ 5,477,498	$ 522,199	$ 25,462,070	$ 3,082,805	$ 2,327,586	$ 965,354	$ 31,837,815
Employee benefits	6,085,675	965,167	1,899,394	103,600	9,053,836	1,382,437	1,083,225	253,405	11,772,903
Depreciation	1,204,871	797,769	521,029	779,385	3,303,054	430,207	-	-	3,733,261
Interest and amortization	564,543	107,509	244,129	633,528	1,549,709	201,573	-	-	1,751,282
Operation and maintenance	1,384,973	263,748	598,911	2,391,215	4,638,847	408,347	(5,133,361)	86,167	-
Contracted services	584,195	145,571	588,900	3,086,983	4,405,649	1,105,199	979,034	64,640	6,554,522
Other	2,449,784	1,185,806	3,251,103	405,022	7,291,715	1,956,076	743,516	451,730	10,443,037
	$ 29,093,271	$ 6,108,713	$ 12,580,964	$ 7,921,932	$ 55,704,880	$ 8,566,644	$ -	$ 1,821,296	$ 66,092,820

See Notes to Financial Statements

Linfield College

Statement of Cash Flows

Year Ended June 30, 2018

	2018
Operating Activities	
Change in net assets	$ 8,872,118
Items not requiring (providing) operating activities cash flows	
Depreciation	3,733,261
Amortization of debt issuance costs	29,604
Amortization of discount/premium on debt	(95,651)
Increase in allowance for uncollectible accounts, notes and contributions receivable	225,172
Contributions received and payments on contributions receivable restricted for long-term investment	(3,046,912)
Contributions received and payments on contributions receivable restricted for capital investment	(925,775)
Gain on sale of plant assets	(1,516,696)
Realized and unrealized gains on investments	(6,427,533)
Changes in	
Interest receivable	107,977
Accounts and notes receivable	(238,160)
Contributions receivable	(3,002,390)
Inventory	25,300
Prepaid expenses and other assets	829,589
Accounts payable and accrued liabilities	(221,796)
Deferred revenue	(12,701)
U.S. Government grants refundable	273,474
Assets held in trusts by others	10,098
Obligations for split-interest agreements	136,946
Net cash used in operating activities	(1,244,075)
Investing Activities	
Purchase of plant assets	(2,280,247)
Proceeds from sales and maturities of investments	35,937,900
Purchase of investments	(33,523,247)
Net cash provided by investing activities	134,406
Financing Activities	
Proceeds from contributions received and payments on contributions receivable restricted for long-term investment	3,046,912
Proceeds from contributions received and payments on contributions receivable restricted for capital investment	925,775
Principal payments on notes payable and capital leases	(352,157)
Principal payments on bonds payable	(1,015,000)
Payments on obligations for split-interest agreements	(293,780)
Net cash provided by financing activities	2,311,750
Increase in Cash and Cash Equivalents	1,202,081
Cash and Cash Equivalents, Beginning of Year	1,093,544
Cash and Cash Equivalents, End of Year	$ 2,295,625
Supplemental Cash Flows Information	
Cash paid for interest	$ 1,817,399
Gifts of marketable assets for current or long-term use	419,177
Amount receivable for sale of plant assets	1,985,681
Plant asset acquisitions in accounts payable	59,947

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Linfield College (the College) is a not-for-profit, accredited four year, comprehensive undergraduate, private, coeducational, liberal arts and science institution located in McMinnville and Portland, Oregon. The College serves more than 2,150 students from 24 states and 23 foreign countries and offers 55 majors. The College's revenues and other support are derived principally from student tuition, fees, room and board and donor contributions. In addition, the College processes federal and state assistance grants and loans for its students to help pay for their educational costs. Some federal, state and private grants are also received for research and development.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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. The cash and cash equivalent total was $2,295,625 at June 30, 2018. The cash and cash equivalent balances were held in money market, bank certificates of deposit or petty cash on hand.

At June 30, 2018, the College's cash accounts exceeded federally insured limits by approximately $2,300,000.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is initially included in net assets with donor restrictions, but then shown as net assets released from restrictions in the same year. Other investment returns are reflected in the statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The College maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

The College follows the provisions of Financial Accounting Standards Board 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.

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 evaluated annually for impairment. There was no such impairment as of June 30, 2018.

Accounts and Notes Receivable

Accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts that are unpaid after the due date bear interest at 1 percent per month for the first three months following the end of the applicable semester, after which the balances are transitioned to a service provider to aid with collections and are charged 5 percent annually. Accounts past due more than 120 days are considered delinquent. Interest continues to accrue on delinquent accounts. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Notes receivable consist primarily of amounts due under the Federal Perkins Loan Program and Nursing Student Loan Program, and are stated at their outstanding principal amount, net of an allowance for doubtful loans. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program and Nursing Student Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The College provides an allowance for doubtful loans which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Inventory

Inventory consists primarily of Campus Mail Center postage and Facilities/Departmental bulk purchased paper supplies as of June 30, 2018 and is recorded at the lower of cost (first in, first out) and net realizable value.

Contributions

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 to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Unconditional promises to give (pledges) expected to be collected within one year are reported at their net realizable value. Unconditional promises to give (pledges) expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. Future pledge commitments previously booked are reviewed each year and adjustments made for any doubtful pledges.

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Gifts of property and equipment are recorded at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Plant Assets

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:

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

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 12 for further discussion.

The remaining unamortized portion of bond issuance costs and discounts are reported (per FASB ASU 2015-03, Suptopic 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.

Long-lived Asset Impairment

The College evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No asset impairment was recognized during the year ended June 30, 2018.

Deferred Revenue

Deferred revenue consists primarily of prepayments of tuition and fees related to future academic semesters and is recognized over the periods to which the fees relate.

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 net assets with donor restrictions. 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 percent to 10.0 percent at June 30, 2018. Obligations for split-interest agreements include certain liabilities related to charitable gift annuities. These liabilities totaled $865,998 at June 30, 2018.

Net Assets – Basis of Presentation

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

Net Assets without Donor Restrictions – Net assets that are not subject to donor imposed stipulations and are available for use in general operations or are part of what's invested in property, plant and equipment (net of related debt). However, the governing board may designate any of these funds for specific purposes (*i.e.,* specific purpose reserves or endowments).

Net Assets with Donor Restrictions – Net assets subject to donor imposed stipulations (1) that will be met either by actions of the College or the passage of time or (2) that are to 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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among program services, institutional support and fund raising categories based on total operating costs or square footage or time and effort.

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, 2018, 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 2015.

Note 2: Change in Accounting Principle

During 2018, the College adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The statement of financial position distinguishes between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification of unrestricted net assets.

Statement of activities:

- The standard requires the College to report expenses by both nature and function, either in the statement of activities, as a separate statement or within the notes.
- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.
- Provide disclosures on amounts and purposes of governing Board or self-imposed designations and appropriations as of the end of the period.

This change had no impact on previously reported total change in net assets.

Note 3: Net Assets

	2018
Without Donor Restrictions	
Internally designated purposes (A)	$ 2,810,275
Quasi-endowment funds (B)	44,329,042
Special annuities and institutional student loan funds	621,279
Net investment in plant	63,207,883
Institutional portion of Perkins/Nursing loan funds	867,437
Total net assets without donor restrictions	111,835,916
With Donor Restrictions	
Subject to the passage of time or expenditure for specified purpose	
Operational and academic projects, one-time scholarships and pending endowments	1,903,043
Endowment distributions held for expenditure	
Instruction and operations	2,137,335
Student aid	657,906
Endowments	
Earnings subject to future appropriations	
Instruction and operations	10,976,095
Student aid	14,828,957
Perpetual endowment funds - original gift corpus	
Instruction and operations	26,025,089
Student aid	28,378,715
Split-interest agreements	9,865,737
Loan funds	332,836
Plant funds and designations for construction projects	3,376,354
Total net assets with donor restrictions	98,482,067
Total net assets	$ 210,317,983

(A) A variety of reserve or set aside funds. Examples are student course/lab fees, academic projects, grants, capital campaign, reserves (for faculty development and initiatives, wine education studies, technology, enrollment, academic and administrative equipment needs, library, student life/leadership programs, etc.), IPO fees, vehicles, building repairs, energy conservation projects, insurance, strategic initiatives, accreditation, etc.

(B) The College's Board of Trustees (governing Board) through specific action has created internal use designations on all quasi-endowment net assets without donor restrictions. These internal use designations also follow the College's endowment investment and spending policy and thus annually support specific programs and operations that the College relies upon.

Note 4: Net Assets Released from Donor 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 year ended June 30, 2018, as follows:

	2018
Purpose restrictions accomplished	
Instruction and operations	$ 1,114,783
Academic support	96,317
Student services	521,114
Institutional support	158,017
Scholarships	1,914,717
Operations and maintenance of property and equipment	3,942
Annuity/trust/life income	931,354
Total net assets released from restrictions	$ 4,740,244

Note 5: Tuition and Fees

Student tuition and fee revenues for the year ended June 30, 2018, consist of the following:

	2018
Tuition and fees	$ 80,026,098
Less	
Unfunded financial aid (institutional tuition discount)	(36,956,768)
Funded financial aid (endowed or other designations)	(2,603,668)
Tuition and fees, net	$ 40,465,662

Note 6: Investments

Investments at June 30 consisted of the following:

	2018
Restricted cash and cash equivalents	$ 10,326,448
Fixed income securites	24,255,292
Equity mutual funds	
Domestic	45,287,737
International	31,102,266
Marketable alternatives	18,032,144
Split-interest agreements and other assets with trustees	
Cash and cash equivalents held for reinvestment	98,734
Equity and mutual funds	2,470,504
Fixed income funds	2,041,728
	133,614,853
Real property held for investment	6,641,720
Total investments	$ 140,256,573

	2018
Short-term investments	$ 5,787,237
Long-term investments	134,469,336
	$ 140,256,573

Certain net asset balances (Note 3) in the financial statements differ from investment balances below due to other assets, liabilities, or timing of transactions between funds. The values of total investments by function at June 30, 2018, were as follows:

	2018
Endowments with and without donor restrictions	$ 121,439,714
Split-interest agreements	4,087,521
Bond funds and reserves	2,911,892
CD's and other bank investments	9,134,464
Assets invested in real estate, non-endowed	2,276,720
Other investments	406,262
Total investments	$ 140,256,573

Endowment funds are in an investment pool that is professionally managed under the total return concept (unit fair value method), unless special considerations or donor stipulations require that they be held separately or unless in real estate holdings.

All split-interest agreement assets are invested with money managers separate from the endowment investment pool, unless special considerations require that they be held collectively. At June 30, 2018, the split-interest agreement assets primarily consisted of equity and fixed income mutual funds.

The College signed a 40 year operating land lease on July 1, 2003, as the lessor for the 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	
2019	$ 190,552
2020	198,426
2021	198,426
2022	198,426
2023	198,426
Thereafter	1,241,817
	$ 2,226,073

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

Note 7: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

	2018			
		Fair Value Measurements Using		
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Restricted cash and cash equivalents	$ 10,326,448	$ 1,191,985	$ 9,134,463	$ -
Domestic equity mutual funds				
Large cap mutual funds	36,718,302	36,718,302	-	-
Small cap mutual funds	8,569,435	8,569,435	-	-
International equity mutual funds				
Large cap mutual funds	22,348,356	22,348,356	-	-
Small cap mutual funds	4,214,161	4,214,161	-	-
Emerging markets	4,539,749	4,539,749	-	-
Fixed income securities				
Bonds funds	23,906,300	23,906,300	-	-
Commercial paper	348,992	348,992	-	-
Marketable alternatives	18,032,144	18,032,144	-	-
Split-interest agreements and other assets with trustees				
Fixed income funds	2,041,728	1,692,635	349,093	-
Equity funds	1,991,128	1,991,128	-	-
Mutual funds				
International growth funds	348,144	348,144	-	-
Real estate funds	131,232	131,232	-	-
Restricted cash and cash equivalents held for reinvestment	98,734	98,734	-	-
Real property held for investment (A)	6,641,720	-	-	-
Total investments	140,256,573			
Assets Held in Trust by Others	8,156,108	-	-	8,156,108

(A) Real property held for investment is valued at the lower of cost or market and has therefore not been classified in the fair value hierarchy. The amount included above is intended to permit reconciliation of the fair value hierarchy to the amount presented in the statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. The College has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities and trusts are the responsibility of the Business Office. The Business Office obtains information to generate fair value estimates on a monthly or quarterly basis. The Business Office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States of America.

Assets Held in Trusts by Others

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement, which approximates the fair value of the underlying assets of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The College has been designated the irrevocable beneficiary of the income of a portion of certain perpetual trust funds held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the College; however, the College will never receive the assets of the trusts. The related assets are neither in the possession of nor under the control of the College, but are recorded at their estimated fair value. The amounts received or accrued from these trusts was $162,407 for 2018, and is included in the change in value of split-interest agreements for the year ended.

The College's interest in these 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.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Assets Held in Trusts by Others
Balance, July 1, 2017	$ 8,166,206
Dividends	4,762
Sales	(167,169)
Total realized and unrealized gains included in change in net assets	152,309
Balance, June 30, 2018	$ 8,156,108

The unrealized gains for the assets held in trusts by others are included in the change in value of split-interest agreements on the statement of activities.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
Assets held in trust by others	$ 8,156,108	Discounted cash flows	Discount rates Market return rates	3% - 7%

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement:

Assets Held in Trust by Others

The significant unobservable inputs used in the fair value measurement of the College's assets held in trust by others are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

Note 8: Accounts and Notes Receivable

Accounts and notes receivable at June 30, 2018, consist of the following:

	2018
Accounts receivable	
Student accounts: Current students	$ 1,304,504
Student accounts: Prior students	1,011,341
Other receivables	2,953,087
	5,268,932
Less allowance for doubtful accounts	(760,397)
Net accounts receivable	4,508,535
Notes receivable	
Perkins loans	3,454,628
Nursing student loans	2,272,305
	5,726,933
Less allowance for doubtful accounts	(558,996)
Net notes receivable	5,167,937
Total accounts and notes receivable, net	$ 9,676,472

It is the College's obligation to collect loans made under the Perkins Loan Program (Program). The loans are payable, including interest at 5 percent, over approximately 10 years following college attendance. Principal payments, interest and losses due to cancelation are shared by the College and the U.S. Government in proportion to their share of funds provided (approximately 83.6 percent of the funds have been provided by the U.S. government). The Program provides for cancelation of the loans if the student is employed in certain occupations following graduation (employment cancelations). Such employment cancelations are absorbed in full by the U.S. Government.

Note 9: Credit Quality of Financing Receivables

The College's financing receivables consist of the Federal Perkins Loans balance (no longer revolving) and the revolving Federal Nursing Student Loans (NSL) for which the College acts as an agent for the federal Government. Student loans represent 2.2 percent of total assets of the College.

The availability of funds for loans under the Nursing loan program is dependent on reimbursements to the pool from repayments on outstanding loans. The federal liability portion (the College also contributed a smaller portion) of funds held in the federal loan programs at June 30, 2018, was $4,898,590, and is ultimately refundable to the Government and is classified as a liability in the statement of financial position.

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.

The Perkins loan program authorization to make new loans ended with fiscal year 2018 and all of the federal portion of these funds will be returned to the federal government as collected (paid back) from students.

Balances of financing receivables as of June 30, 2018, are presented as follows:

	2018
Perkins loans	$ 3,454,628
Nursing student loans	2,272,305
	5,726,933
Less allowance for doubtful accounts	(558,996)
Notes receivable, net	$ 5,167,937

For each class of financing receivables, the following table presents the performing and nonperforming portion of the financing receivables as of June 30, 2018:

	Performing	Nonperforming (Defaulted)	Total
Perkins loans	$ 3,132,440	$ 322,188	$ 3,454,628
Nursing student loans	2,182,173	90,132	2,272,305
Total	$ 5,314,613	$ 412,320	$ 5,726,933

The aging of financing receivables as of June 30, 2018, is presented as follows:

Aging	31-60	61-90	91+	Total past due	Total current	Total
Perkins loans	$ 78,619	$ 37,736	$ 363,804	$ 480,159	$ 2,974,469	$ 3,454,628
Nursing student loans	89,487	-	96,487	185,974	2,086,331	2,272,305
Total	$ 168,106	37,736	460,291	666,133	5,060,800	5,726,933

Note 10: Contributions Receivable

Contributions receivable at June 30 consist of the following:

	2018
Due within one year	$ 2,308,946
Due in one to five years	2,139,571
	4,448,517
Less	
Unamortized discount (2.06%)	(68,482)
Allowance for doubtful pledges	(96,913)
	$ 4,283,122

Note 11: Plant Assets

Plant assets at June 30, 2018 consist of the following:

	2018
Land	$ 8,324,860
Land improvements	7,086,729
Buildings	84,449,863
Building improvements	25,731,907
Furniture and equipment	21,476,498
Library holdings	13,761,555
Vehicles	522,241
Software	332,649
Artwork	129,435
Construction in progress	1,826,831
	$ 163,642,568
Less accumulated depreciation	(67,985,418)
	$ 95,657,150

Note 12: Bonds Payable

At June 30, 2018, bonds payable consisted of the following:

	2018
Oregon Facilities Authority Bonds of 2010	
Series A, 4.75% to 5.25%, due serially to 2040 (A)	$ 23,385,000
Oregon Facilities Authority Bonds of 2015	
Series A, 3.75% to 5.00%, due serially to 2030 (B)	12,135,000
	35,520,000
Add unamortized bond premium	1,256,872
Less unamortized debt issuance costs and discounts	(631,610)
	$ 36,145,262

(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, 2018, the reserve fund had assets remaining of $1,167,700 (at cost). The College is responsible for bond principal and interest payments that vary from 4.75 percent to 5.25 percent. 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. Unamortized bond issuance costs totaled $326,090 as of June 30, 2018.

(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).

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, 2018, Bond reserve fund had assets remaining of $1,744,108 (at cost). The College is responsible for bond principal and interest payments that vary from 3.75 percent to 5.00 percent.

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 revenues. Unamortized bond issuance costs totaled $192,821 as of June 30, 2018.

The College's investment grade rating of Baa1 was reviewed and reaffirmed by Moody's Investor Services in June 2018. 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 year ended June 30, 2018, management is not aware of any violations of these covenants.

The future maturities of bonds payable excluding any amortization of bond issuance costs or discount/premium are as follows:

	Principal	Interest	Total Payments
Year ending June 30			
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
2023	1,300,000	1,510,275	2,810,275
Thereafter until 2041	29,615,000	13,734,743	43,349,743
	$ 35,520,000	$ 21,891,243	$ 57,411,243

Note 13: Note Payable and Capital Lease Obligations

At June 30, 2018, notes payable and capital lease obligations consisted of the following:

	2018
Note payable	$ 2,241
Capital lease covering certain data processing and network equipment for 5 years expiring	1,035,835
	$ 1,038,076

Annual maturities of notes payable and capital lease obligations at June 30 are:

	Notes Payable (Exlcuding Leases)	Capital Lease Obligations
Year ending June 30		
2019	$ 2,241	$ 376,966
2020	-	376,966
2021	-	376,966
	$ 2,241	1,130,898
Less amount representing interest		(95,063)
		$ 1,035,835

Plant assets include the following property under capital leases at June 30, 2018:

	2018
Equipment	$ 1,753,980
Less accumulated depreciation	(191,105)
	$ 1,562,875

Note 14: Line of Credit

The College has a $5,000,000 revolving line of credit expiring on March 31, 2019. At June 30, 2018, there were no monies borrowed against this unsecured line. Interest varies with the prime rate plus 0.25 percent and is payable monthly.

Note 15: 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 percent (staff) and 16.00 percent (faculty) of eligible earnings. The College's contributions totaled $3,399,893 in 2018.

Note 16: Auxiliary Enterprises

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

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 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.

The College has an ongoing contract with Sodexo Management, Inc. for the College's food service operations.

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.

Note 17: 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 Net Assets With Donor Restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) earnings from the endowments until those amounts per the endowment agreements are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act and (d) 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.

In accordance with the Act, the College permits spending from underwater endowment funds in accordance with the prudent measures required under the law.

Also, 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, 2018, excluding split-interest agreement funds:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Instruction and operations	$ -	$ 34,185,815	$ 34,185,815
Student aid	-	42,940,957	42,940,957
Contributions receivable	-	3,082,084	3,082,084
Board-designated endowment funds	44,329,042	-	44,329,042
Total endowment net assets	$ 44,329,042	$ 80,208,856	$ 124,537,898

Changes in endowment net assets for the year ended June 30, 2018, are as follows, excluding balances associated with annuities and trusts:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 42,640,337	$ 71,200,471	$ 113,840,808
Investment return			
Investment and other income	885,615	1,427,734	2,313,349
Net appreciation	2,354,066	3,902,848	6,256,914
Total investment return	3,239,681	5,330,582	8,570,263
Contributions	50,000	6,069,912	6,119,912
Appropriation of endowment assets for expenditure	(1,600,976)	(2,392,109)	(3,993,085)
Endowment net assets, end of year	$ 44,329,042	$ 80,208,856	$ 124,537,898

(b) 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 percent Russell 3000 index, 25 percent of the MSCI ACWI Ex U.S. IMI index, 20 percent Barclays U.S. Aggregate Bond index, 15 percent Custom Marketable Alternatives Index, and 5 percent 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.

(c) 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.

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

The College has a policy of appropriating for distribution each year 4.5 percent 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, 2018, the spending rate adopted by the College was 4.5 percent 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.

(e) Underwater Endowments – 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, it reduces total Net Assets with Donor Restrictions. 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, are listed below.

The College's policy regarding spending from Underwater Endowments is "For underwater endowments with market values less than the restricted gift book value, the College will continue to spend at the spending rate above, but will monitor the underwater endowments annually at June 30." There have been no changes to that policy during the current fiscal year and the College followed the policy:

	2018
Fair value of the endowments at June 30	$ 2,198,676
Original gift amount of level to be maintained by donor requirements or by law	2,207,380
Amount of deficiency	$ (8,704)

At June 30, 2018, most underwater endowments were from current year gifts where the market was lower at June 30 than when the gift was received during the year.

Note 18: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2018
Total assets	$ 261,526,044
Less plant assets and other non-financial assets	(104,840,973)
Financial assets, at year-end	156,685,071
Less those unavailable for general expenditures within one year, due to	
Contractual or donor-imposed restrictions	
Donor-restricted endowment	(80,208,856)
Split-interest agreements	(3,727,742)
Loan funds	(332,836)
Other donor-imposed restrictions	(4,698,284)
Board or internal designations	
Quasi-endowment fund, net of anticipated draw	(42,717,050)
Special annuities and institutional loan funds	(621,279)
Investments held in required bond reserves	(2,911,892)
Non-current assets:	
Accounts and notes receivable	(4,904,516)
Interest receivable	(30,098)
Contributions receivable	(125,224)
	$ 16,407,294

The College seeks to maintain financial assets consisting of cash and short-term investments on hand to meet 60 to 90 days of normal operating expenses, which are, on the average approximately $5.2 million per month (30 days). However, June 30 and December 31 are low points in the College's cash flow cycle due to the majority of tuition dollars coming in during August – September and January – February, so the liquidity reported above at June 30 is lower than at most other times during the year.

As part of its liquidity management, the College invests cash in excess of daily requirements in various short-term investments including multiple certificates of deposit up to $250,000 each and short-term treasury instruments. This is handled through a banking trust/custody arrangement and the funds have daily liquidity. Also the College's quasi endowment funds are invested mostly in institutional mutual funds that have daily liquidity. Although the College does not normally spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment have been and could be made available if necessary through Board action, but that would reduce future income to the College's operating budget and other programs.

In addition, the College maintains a $5 million line of credit that is available in the event of an unexpected liquidity event, but has not been used in over 10 years. The College has used a disciplined budget approach which has allowed accumulation of some reserves for unforeseen events or revenue declines, and these have been very useful.

Note 19: 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 had in the past 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 were 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. The College withdrew from PEHT on March 31, 2018, and has paid all of the subsequent known claims. There are still rulings pending with the DOL (Department of Labor) concerning how past deposits and refunds were handled administratively in the Trust, but the College expects to eventually receive a refund of some prior contributions to the Trust.

Contributions

Approximately 72 percent of contributions receivable were from two donors at June 30, 2018.

Approximately 57 percent of contribution revenue resulted from two donors in 2018.

Investments

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of financial position.

Note 20: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2017. The College is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2018, and any interim periods within those fiscal years. The College is evaluating the impact the standard will have on the financial statements.

Note 21: Subsequent Events

Subsequent events have been evaluated through November 1, 2018, which is the date the financial statements were issued.

Linfield

The Power of a Small College

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