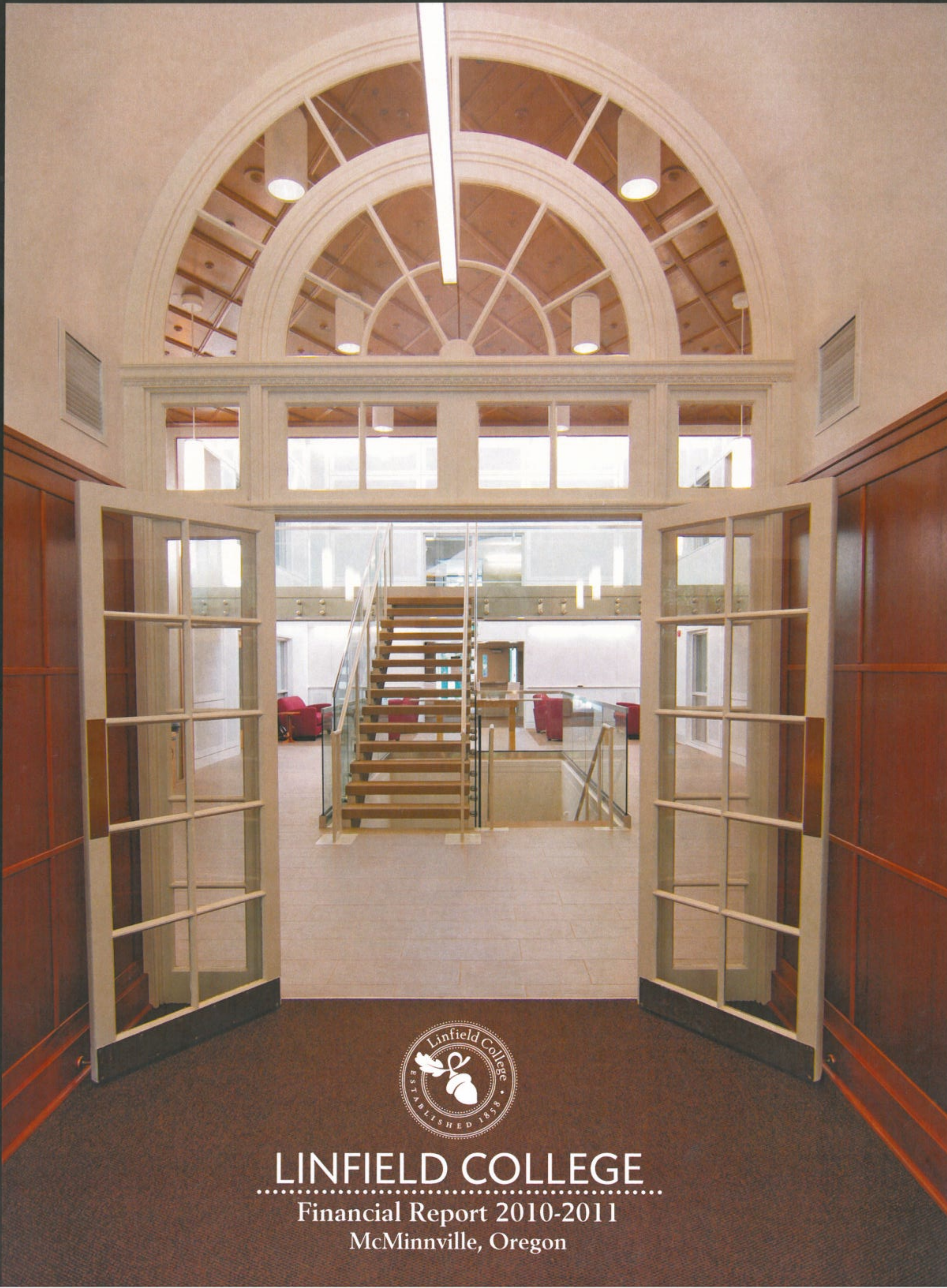


Linfield College
ESTABLISHED 1858

LINFIELD COLLEGE

Financial Report 2010-2011

McMinnville, Oregon

Linfield College

Vice President for Finance & Administration/CFO

November 3, 2011

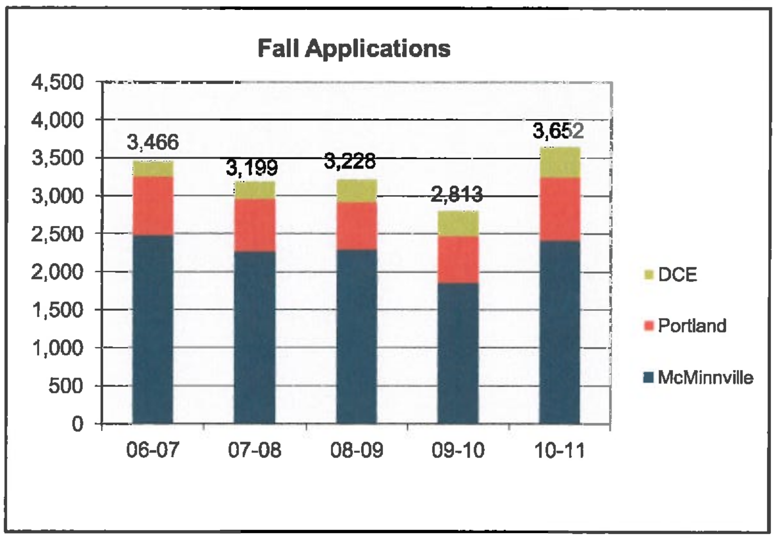
The Board of Trustees
Linfield College
McMinnville, OR 97128

Dear Ladies and Gentlemen:

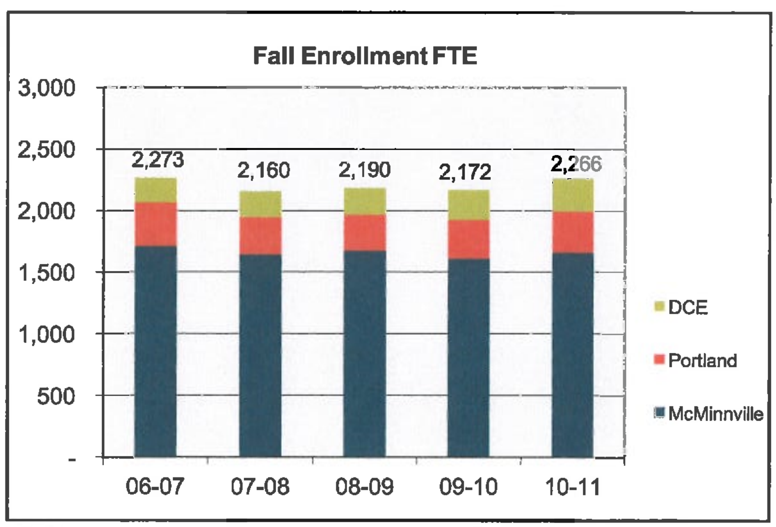
The following Linfield College Fiscal Year (FY) 2010-2011 financial statements, audited by KPMG LLP, provide significant detail for the year ended June 30, 2011. This cover letter is included to offer some historical context for a select list of key indicators. By focusing on the five-year trends, readers should improve their knowledge of Linfield's economic situation.

New Applications & Fall Enrollment

The fall application and enrollment graphs separately identify students in McMinnville, Portland, and the Division of Continuing Education (DCE). Applications were up by 839 from the Fall of 2009.



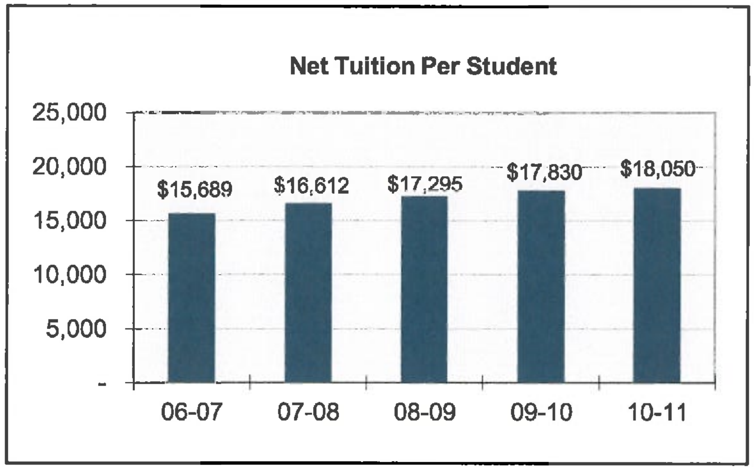
The most common enrollment benchmark for colleges and universities is to measure full-time equivalent (FTE) students at a fixed point, following the start of the fall semester. FTE is calculated by dividing the total number of credit hours being taken by 15, the standard load for a full-time student.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



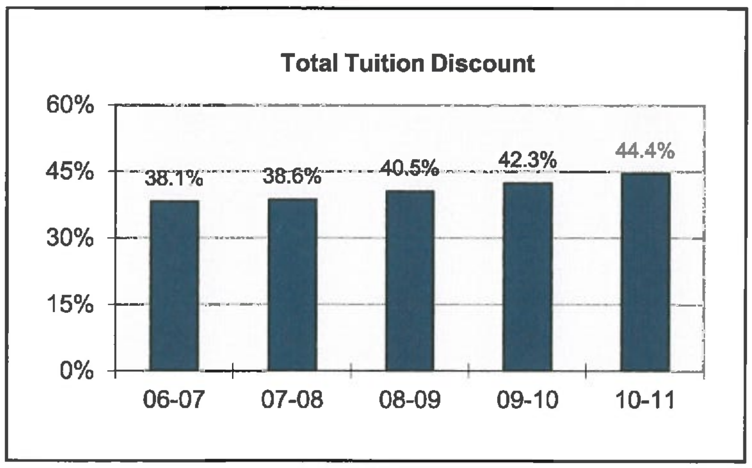
FTE enrollment is positively affected by the number of first-year students and transfers coming to campus and negatively impacted by withdrawals, transfers from campus, and graduations. The Fall 2010 FTE for all programs combined was up 94 from the Fall of 2009. New freshmen enrollment of 529 on the McMinnville Campus was the highest in the history of the college. The Portland Nursing program experienced high demand and DCE programs continued to grow.

Net Tuition per Student and Total Tuition Discount

Net tuition revenue is the single largest factor in determining the annual funding for the college. Net tuition reflects total tuition less financial aid discounts provided by the college, while net tuition per student is the division of net tuition revenue by the average annual financial FTE enrollment number. During FY2010-2011 net tuition per student climbed from $17,830 to $18,050. This represents a 1.2% increase from FY2009-2010.

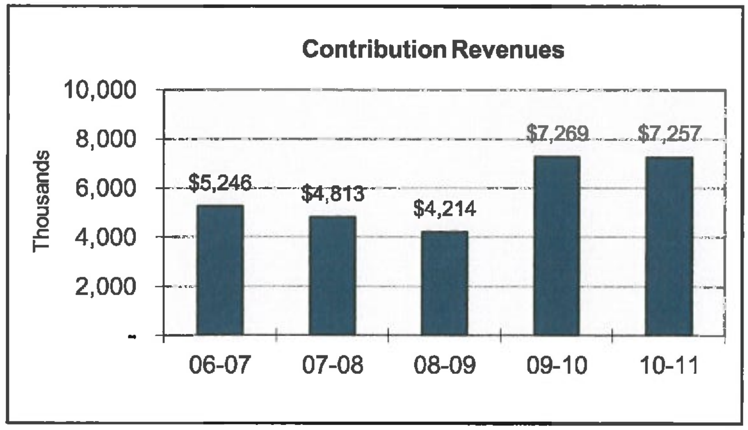


Total tuition discount reflects the amount of financial aid provided by the college (via the operating budget, endowment scholarships, etc.) divided by gross tuition. This increased by 2.1%, similar to the past two years which were up 1.8% and 1.9%, respectively.



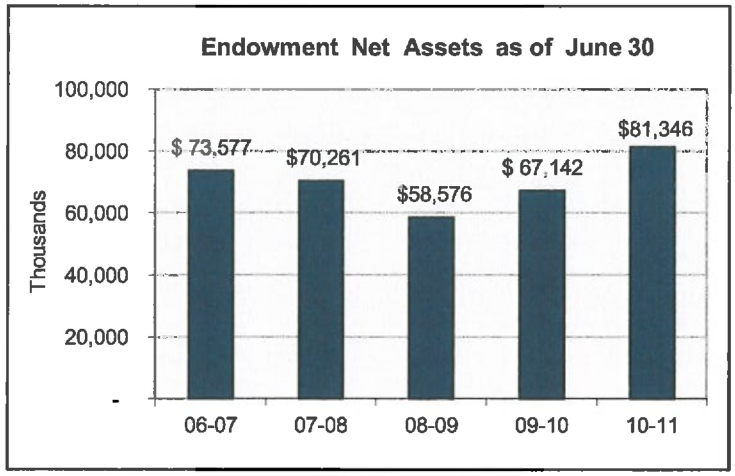
Contribution Revenues

Annual contributions are very important for the fiscal health of the college, but the total amount can vary widely from year to year. This variability is a function of factors such as general economic conditions, tax law changes, major gifts and capital project campaigns. During FY2010-2011, Linfield received nearly $7.3 million in gifts and pledges.



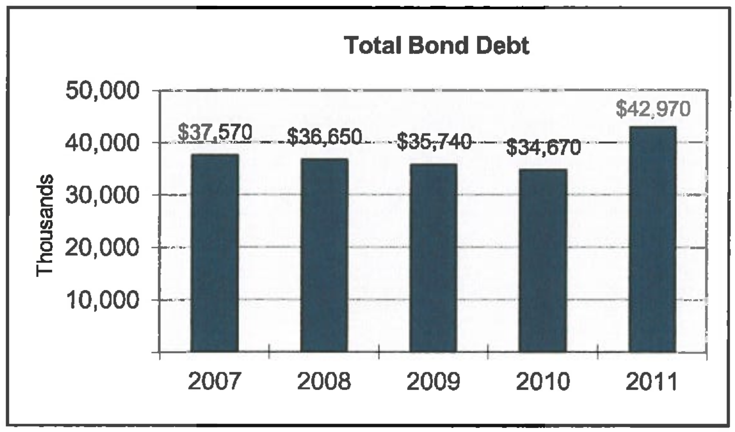
Total Endowment Net Assets

For the fiscal year ended June 30, 2011, Linfield's endowment portfolio had an overall net return of 21.86%, which is 1.10% higher than our Custom Index of 20.76%. At year end, the endowment net assets market value was $81.3 million, an historical high. This represents an increase of $14.2 million or 21.16%. The more conservatively invested life income trusts were valued at an additional $10.4 million.

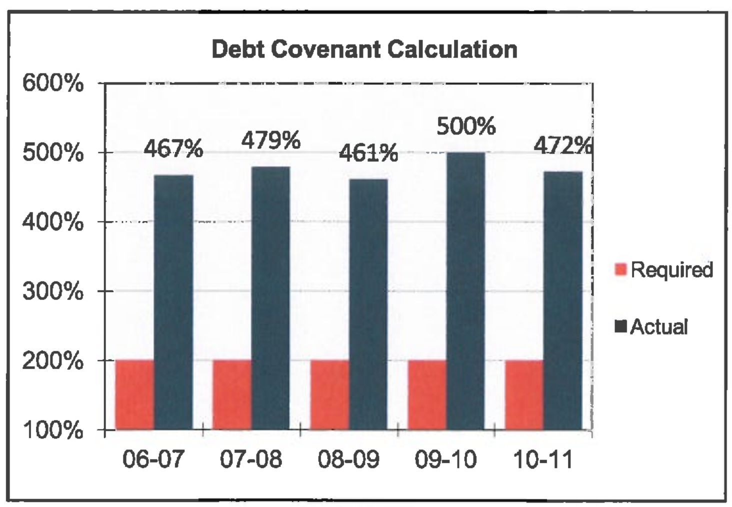


Total Bond Debt and Debt Covenant Calculation

Prior to June 30, 2010, no new debt had been issued since May 2005. Bonds in the amount of $23.385 million were issued in August 2010, but the net debt increase from June 2010 to June 2011 was $8.3 million after refunding of prior bonds (plus bond issuance and underwriter fees). Moody's Investor Services maintained the college's credit rating at Baa1 during FY2010-2011.

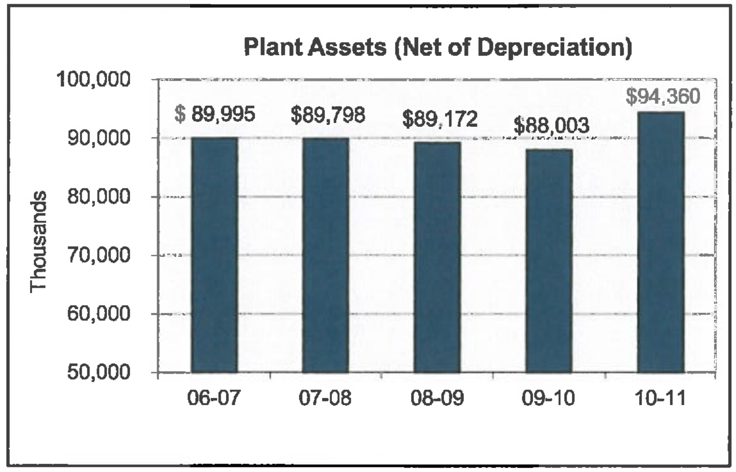


The 2010 bond issue reduced the annual debt service payments through 2024, but extended the debt payment timeline from 2031 to 2041. The new bond funds were earmarked for a portion of the T.J. Day Hall renovation costs and other capital projects. Issuing new bonds in August 2010 allowed the college to move forward with the T.J. Day Hall renovation and save nearly $2 million, relative to the initial project budget, due to a favorable construction environment.



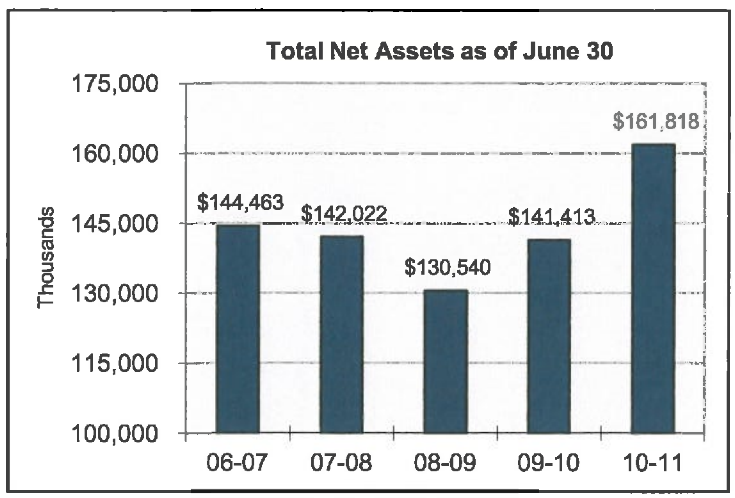
Plant Assets

Plant assets, net of depreciation, increased from $88.0 million to $94.4 million. This represents an increase of $6.4 million or 7.3% from June 30, 2010 to June 30, 2011.



Total Net Assets

Total net assets increased from $141.4 million in FY2009-2010 to $161.8 million in FY2010-2011, a 14.4% increase. Positive returns in our long-term investments plus gifts/contributions were the major reasons for this increase.



Summary

The economic downturn continued to create challenges for many colleges and universities in FY2010-2011. Given the economic challenges, however, Linfield College finished FY2010-2011 with positive operating results for the 37th consecutive year. This allowed the College to allocate funds for reserves and endowment, academic support, safety and risk management, student services and enrollment initiatives, capital improvements, and other critical needs. Our culture of fiscal integrity and responsibility at all levels and our student-centered approach continue to assist the college in maintaining a positive financial position. The historic renovation of T.J. Day Hall provided the college with a state-of-the-art facility that will house the departments of Business, English, Economics, and Philosophy, the Linfield Center for the Northwest, and the Linfield College Writing Lab. We will continually work to fulfill our mission and enhance the educational experiences of our outstanding students. Linfield College is a supportive community where everyone helps one another succeed. This unique, close-knit environment encourages students from different backgrounds and disciplines to learn, grow and explore – The Power of a Small College.

Respectfully Submitted,

W. Glenn Ford
Vice President for Finance and Administration/Chief Financial Officer

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

Independent Auditors' Report

The Board of Trustees
Linfield College:

We have audited the accompanying statements of financial position of Linfield College (the College) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011 on our consideration of the College's internal control 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

KPMG LLP

November 3, 2011

LINFIELD COLLEGE

Statements of Financial Position

June 30, 2011 and 2010

Assets		**2011**	**2010**
Assets:			
Cash and cash equivalents	$	11,024,311	7,094,314
Accounts and notes receivable, net		7,320,048	7,469,949
Interest receivable		286,579	420,110
Prepaid expenses and other assets		1,991,617	1,832,465
Contributions receivable, net		841,632	1,173,322
Inventory		1,158,549	1,119,264
Investments		97,274,954	79,185,743
Assets held in trust by others		7,600,408	4,982,722
Plant assets, net		94,360,396	88,003,435
Total assets	$	221,858,494	191,281,324
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,264,833	3,365,272
Deferred revenue		2,704,827	2,423,896
Bonds payable		43,487,513	35,213,389
U.S. government grants refundable		4,528,942	4,592,662
Obligations for split-interest agreements		4,054,717	4,272,651
Total liabilities		60,040,832	49,867,870
Net assets:			
Unrestricted:			
Designated funds		4,287,749	1,981,466
Quasi-endowment		29,482,468	18,588,297
Net investment in plant		58,104,160	56,933,829
Total unrestricted		91,874,377	77,503,592
Temporarily restricted		25,366,695	21,792,911
Permanently restricted		44,576,590	42,116,951
Total net assets		161,817,662	141,413,454
Total liabilities and net assets	$	221,858,494	191,281,324

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 67,926,887	—	—	67,926,887
Less student financial aid	(26,981,406)	—	—	(26,981,406)
Net tuition and fees	40,945,481	—	—	40,945,481
Contributions	3,739,718	1,235,963	2,281,701	7,257,382
Contracts and other exchange transactions	967,874	—	—	967,874
Investment income	1,052,742	1,437,226	2,351	2,492,319
Net realized/unrealized gain on investments	4,511,824	11,644,225	88,699	16,244,748
Other income	812,147	—	—	812,147
Sales and services of auxiliary enterprises	12,437,016	—	—	12,437,016
Total revenues and gains	64,466,802	14,317,414	2,372,751	81,156,967
Net assets released from restrictions	6,022,360	(6,022,360)	—	—
Total revenues, gains, and other support	70,489,162	8,295,054	2,372,751	81,156,967
Expenses:				
Education and general:				
Instruction	23,543,214	—	—	23,543,214
Academic support	3,540,668	—	—	3,540,668
Student services	8,600,984	—	—	8,600,984
Institutional support	7,987,751	—	—	7,987,751
Operation and maintenance of plant	3,406,311	—	—	3,406,311
Depreciation	3,026,955	—	—	3,026,955
Interest and amortization on indebtedness	2,495,194	—	—	2,495,194
Total education and general	52,601,077	—	—	52,601,077
Auxiliary enterprises	7,496,978	—	—	7,496,978
Total expenses	60,098,055	—	—	60,098,055
Other changes and transfers among funds	4,686,797	(4,686,797)	—	—
Change in value of split-interest agreements	(707,119)	(34,473)	86,888	(654,704)
Change in net assets	14,370,785	3,573,784	2,459,639	20,404,208
Net assets at beginning of year	77,503,592	21,792,911	42,116,951	141,413,454
Net assets at end of year	$ 91,874,377	25,366,695	44,576,590	161,817,662

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 61,936,639	—	—	61,936,639
Less student financial aid	(23,500,582)	—	—	(23,500,582)
Net tuition and fees	38,436,057	—	—	38,436,057
Contributions	783,463	3,158,404	4,050,610	7,992,477
Contracts and other exchange transactions	1,213,457	—	—	1,213,457
Investment income	779,745	1,480,957	—	2,260,702
Net realized/unrealized gain on investments	3,235,401	3,319,939	—	6,555,340
Other income	456,756	675,444	—	1,132,200
Sales and services of auxiliary enterprises	11,480,207	—	—	11,480,207
Total revenues and gains	56,385,086	8,634,744	4,050,610	69,070,440
Net assets released from restrictions	4,406,288	(4,406,288)	—	—
Total revenues, gains, and other support	60,791,374	4,228,456	4,050,610	69,070,440
Expenses:				
Education and general:				
Instruction	22,617,054	—	—	22,617,054
Academic support	3,706,687	—	—	3,706,687
Student services	7,840,664	—	—	7,840,664
Institutional support	7,690,317	—	—	7,690,317
Operation and maintenance of plant	3,561,887	—	—	3,561,887
Depreciation	3,013,885	—	—	3,013,885
Interest and amortization on indebtedness	1,813,553	—	—	1,813,553
Total education and general	50,244,047	—	—	50,244,047
Auxiliary enterprises	7,118,622	—	—	7,118,622
Total expenses	57,362,669	—	—	57,362,669
Change in value of split-interest agreements	(791,129)	(91,119)	47,929	(834,319)
Change in net assets	2,637,576	4,137,337	4,098,539	10,873,452
Net assets at beginning of year	74,866,016	17,655,574	38,018,412	130,540,002
Net assets at end of year	$ 77,503,592	21,792,911	42,116,951	141,413,454

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 20,404,208	10,873,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accelerated amortization expense due to advance refunding of bonds	289,818	—
Bond call premiums for advance refunding of bonds	198,850	—
Depreciation and amortization	3,039,858	3,021,736
Loss on disposal of plant and equipment	2,779	—
Actuarial change in split-interest agreements	216,247	110,637
Net realized and unrealized gain on long-term investments	(16,244,748)	(6,555,340)
Contributions restricted for long-term investment	(1,931,663)	(1,881,920)
Noncash contributions	(364,012)	(4,074,992)
Changes in current assets/liabilities:		
Decrease (increase) in interest receivable	133,531	(30,039)
Decrease (increase) in accounts and notes receivable, net	149,901	(59,550)
Decrease in contributions receivable	331,690	646,054
Increase in inventory	(39,285)	(123,762)
Increase in prepaid expenses and other assets	(686,599)	(15,042)
Increase in accounts payable and accrued liabilities	1,899,561	111,527
Increase in deferred revenue	280,931	228,469
Decrease in U.S. government grants refundable	(63,720)	(36,953)
Decrease (increase) in obligations for split-interest agreements	436,770	(168,337)
Net cash provided by operating activities	8,054,117	2,045,940
Cash flows from investing activities:		
Proceeds from sale of plant and equipment	1,691	—
Purchase of plant and equipment	(9,388,386)	(1,845,781)
Deposits to funds held by trustee	(10,885,889)	—
Proceeds from sale of investments	26,481,730	14,401,676
Purchases of investments	(19,693,978)	(11,869,959)
Net cash (used in) provided by investing activities	(13,484,832)	685,936
Cash flows from financing activities:		
Cash contributions restricted for:		
Endowment	1,931,663	83,652
Annuities and trusts	—	895,968
Plant	—	902,300
Principal payments on bonds payable	(1,275,000)	(1,070,000)
Proceeds from issuance of bonds	23,385,000	—
Advanced refunding of bonds payable	(13,810,000)	—
Payments on obligations for split-interest agreements	(870,951)	(1,000,000)
Net cash provided by (used in) financing activities	9,360,712	(188,080)
Net increase in cash and cash equivalents	3,929,997	2,543,796
Cash and cash equivalents at beginning of year	7,094,314	4,550,518
Cash and cash equivalents at end of year	$ 11,024,311	7,094,314
Supplemental cash flow disclosures:		
Cash paid for interest	$ 2,086,903	1,827,554
Gifts of marketable assets for current use or long-term use	364,012	4,074,992

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 2,600 students from 29 states and 24 foreign countries and offers 45 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, revenues, 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.

Revenues are 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 revenues 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. Amortization of discounts is recorded as additional contribution revenue and is subject to donor-imposed restrictions.

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	70 years
Building improvements	30 years
Library books	10 years
Land improvements	30 years
Furniture and equipment	10 years

(f) Inventory

Inventory consists primarily of books and supplies and is recorded at the lower of cost (first-in, first-out) or market.

(g) Bond Issuance Costs

Bond issuance cost (including bond issue costs, bond discounts, and bond premiums) represent amounts paid by the College in connection with the issuance of the 1998, 2000, 2001, 2005, and 2010 Oregon Facilities Authority Bonds. During the fiscal year ended June 30, 2011, the College refunded the remaining balances of the 1998, 2000, and 2001 bond series, and wrote off all remaining unamortized bond issuance costs, discounts, and premiums. This resulted in expense of $488,668, recorded as amortization on indebtedness in the statement of activities. See note 12 for further discussion.

The remaining unamortized portion of bond issuance costs are reported as a component of prepaid expenses and other assets in the accompanying statements of financial position and the remaining unamortized premiums are included in bonds payable on the statement 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 2.5% to 13.5% at June 30, 2011.

(j) Fair Value of Financial Instruments

At June 30, 2011 and 2010, the carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of June 30, 2011, the fair value of the College's bonds payable approximates $48,289,000 as compared to its carrying value of $43,487,513. At June 30, 2010, the fair value of the College's bonds payable approximates $38,122,000 as compared to its carrying value of $35,213,389. The fair value of bonds as of June 30, 2011 and 2010 reflects the difference between 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 and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (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, 2011 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 2008.

(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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Reclassifications

Certain reclassifications were made to prior year amounts to conform to current year presentation.

(2) Cash and Cash Equivalents

The College considers all highly liquid debt instruments purchased with original maturities of three months or less to represent cash equivalents. Cash equivalents are invested in money market accounts or other short-term fixed income and are stated at cost, which approximates fair value. The College held $5,032,696 and $5,739,681 in cash equivalents at June 30, 2011 and 2010, respectively.

Federal depository insurance provides a limited amount of protection for cash deposits, typically $250,000 per account; however, recent law changes provide for unlimited coverage on certain commercial checking accounts from December 31, 2010 through December 31, 2012. At June 30, 2011 and 2010, bank balances of $5,978,155 and $250,000, respectively, were insured by the Federal Deposit Insurance Corporation.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are restricted for the following:

		2011	2010
Term endowments and accumulated endowment return:			
Instruction and operations	$	4,666,145	3,435,645
Student aid		6,372,607	4,744,462
Endowment distributions available for:			
Instruction and operations		1,742,223	1,599,816
Student aid		683,956	622,203
Funds from split-interest agreements		9,487,452	6,839,881
Plant		549,981	1,951,506
Other designated funds		1,864,331	2,599,398
	$	25,366,695	21,792,911

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 and 2010 are restricted for the following purposes:

		2011	2010
Endowments:			
Instruction and operations	$	15,701,784	12,529,644
Student aid		25,051,094	25,698,050
Contribution receivables		71,634	73,557
		40,824,512	38,301,251
Other		3,161,633	3,161,633
Split-interest agreements (restricted for future endowments)		590,445	654,067
	$	44,576,590	42,116,951

(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, 2011 and 2010 as follows:

		2011	2010
Purpose restrictions accomplished:			
Instruction and operations	$	847,105	953,570
Academic support		134,031	29,550
Student services		531,879	556,887
Institutional support		2,247	15,751
Scholarships		2,025,899	1,920,946
Operations and maintenance of plant		3,843	44,585
Purchase of plant assets		1,624,470	161,317
Annuity/trust/life income		852,886	723,682
	$	6,022,360	4,406,288

(6) Tuition and Fees

Student tuition and fee revenues for the years ended June 30, 2011 and 2010 consist of the following:

		2011	2010
Tuition and fees	$	67,926,887	61,936,639
Less:			
Unfunded financial aid (institutional tuition discount)		(24,543,045)	(21,090,995)
Funded financial aid (endowed or other designations)		(2,438,361)	(2,409,587)
Tuition and fees, net	$	40,945,481	38,436,057

(7) Liquidity

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2011 and 2010 is as follows:

		2011	2010
Total current assets	$	18,549,001	13,420,702
Total long-term assets		203,309,493	177,860,622
Total assets	$	221,858,494	191,281,324
Total current liabilities	$	8,790,536	7,064,168
Total long-term liabilities		51,250,296	42,803,702
Total liabilities		60,040,832	49,867,870
Net assets		161,817,662	141,413,454
Total liabilities and net assets	$	221,858,494	191,281,324

(8) Investments

Investments comprise the following at June 30, 2011 and 2010:

		2011	2010
Restricted cash equivalents	$	2,190,847	2,892,055
Fixed income securities		18,964,436	13,951,706
Domestic equities		31,548,502	23,574,658
International equities		19,764,226	14,959,918
Preferred equities		96,987	89,902
Publicly traded hedge fund		7,055,016	6,637,078
Real return assets		3,425,705	3,018,234
Life income assets with trustees:			
Cash and cash equivalents held for reinvestment		263,248	229,719
Equity funds		3,822,901	3,679,649
Fixed income funds		3,501,366	3,511,104
Subtotal		90,633,234	72,544,023
Real property held for investment		6,641,720	6,641,720
Total	$	97,274,954	79,185,743

The values of total investments as allocated by designation or donor restriction at June 30, 2011 and 2010 are as follows:

		2011	2010
Quasi-endowment	$	30,868,977	24,410,714
Endowment (temporarily and permanently restricted)		51,181,979	42,841,954
Split-interest agreements		6,293,241	6,522,988
Other		8,930,757	5,410,087
	$	97,274,954	79,185,743

The College signed a forty-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 future cash receipts associated with this lease are as follows:

Year ending June 30:		
2012	$	179,976
2013		179,976
2014		188,976
2015		188,976
2016		188,976
Thereafter		1,370,102
	$	2,296,982

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

All endowed and quasi-endowed investments are carried in the investment pool unless special considerations or donor stipulations require that they be held separately. Pooled investments are 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, 2011 and 2010, the life income assets primarily consisted of equity and fixed income mutual funds.

As of June 30, 2011 and 2010, restricted cash equivalents include $2,190,847 and $2,892,055, respectively, consisting of bond funds related to the 2005 and 2010 Series A, Oregon Facilities Authority Bonds. These bonds are described in note 12.

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, 2011:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 7,600,408	—	—	7,600,408	N/A	N/A
Investments:						
Restricted cash equivalents	$ 2,190,847	2,190,847	—	—	Daily	1 day
Certificates of deposit	500,000	—	500,000	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	22,948,530	22,948,530	—	—	Daily	1 day
Small cap mutual funds	8,599,972	8,599,972	—	—	Daily	1 day
Preferred equities	96,987	96,987	—	—	Daily	1 day
International equities:						
Large cap mutual funds	15,301,376	15,301,376	—	—	Daily	1 day
Small cap mutual funds	4,462,850	4,462,850	—	—	Daily	1 day
Fixed income securities and funds:						
Bonds funds	14,879,807	14,879,807	—	—	Daily	1 day
Agency funds	3,584,629	3,584,629	—	—	Daily	1 day
Publicly traded hedge fund	7,055,016	—	7,055,016	—	Monthly	30 – 45 days
Real return assets	3,425,705	3,425,705	—	—	Daily	1 day
Life income assets with Trustees:						
Fixed income fund	3,491,891	919,801	2,572,090	—	Monthly	30 days
Equity fund	3,017,803	3,017,803	—	—	Monthly	30 days
Mutual funds:						
International growth fund	592,439	592,439	—	—	Daily	1 day
Real estate fund	198,319	198,319	—	—	Daily	1 day
Other mutual funds	14,340	14,340	—	—	Daily	1 day
Bond funds	9,475	9,475	—	—	Daily	1 day
Cash and cash equivalents held for investment	263,248	263,248	—	—	Daily	1 day
Subtotal investments	90,633,234	$ 80,506,128	10,127,106	—		
Real property held for investment	6,641,720	N/A	N/A	N/A		
Total	$ 97,274,954					

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, 2010:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 4,982,722	—	—	4,982,722	N/A	N/A
Investments:						
Restricted cash equivalents	$ 2,892,055	2,892,055	—	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	17,423,694	17,423,694	—	—	Daily	1 day
Mid cap mutual funds	6,140,284	6,140,284	—	—	Daily	1 day
Small cap mutual funds	10,680	10,680	—	—	Daily	1 day
Preferred equities	89,902	89,902	—	—	Daily	1 day
International equities:						
Large cap mutual funds	11,699,292	11,699,292	—	—	Daily	1 day
Small cap mutual funds	3,260,626	3,260,626	—	—	Daily	1 day
Fixed income securities and funds:				—		
Bond funds	13,711,668	13,711,668	—	—	Daily	1 day
US treasury bond	240,038	—	240,038	—	Daily	1 day
Publicly traded hedge fund	6,637,078	—	6,637,078	—	Monthly	30 – 45 days
Real return assets	3,018,234	3,018,234	—	—	Daily	1 day
Life income assets:						
Fixed income partnership	3,510,561	—	3,510,561	—	Monthly	30 days
Equity partnership	2,823,972	—	2,823,972	—	Monthly	30 days
Mutual funds:						
International growth fund	570,566	570,566	—	—	Daily	1 day
Real estate fund	259,844	259,844	—	—	Daily	1 day
Other mutual funds	25,267	25,267	—	—	Daily	1 day
Bond funds	543	—	543	—	Daily	1 day
Cash and cash equivalents held for investment	229,719	229,719	—	—	Daily	1 day
Subtotal investments	72,544,023	$ 59,331,831	13,212,192	—		
Real property held for investment	6,641,720	N/A	N/A	N/A		
Total	$ 79,185,743					

Real property held for investment is recorded at cost. As such, these assets are not included in the above Level 1, 2 or 3 categories.

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

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 the College's 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.

Restricted Cash Equivalents – The short-term investments of the College consist of actively traded, observable inputs (money market accounts and Federated Treasury Obligations) classified as Level 1.

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, mid – and small cap funds located in the domestic United States.

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.

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 domestic United States.

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). This category includes both U.S. Treasury bond funds as well as publicly traded bond funds.

Publicly Traded Hedge Fund – Investment in the hedge fund is measured at fair value using quoted market prices. It is classified as Level 2 as it is traded in active foreign markets, but may be infrequently traded.

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 multistrategy fund that invests in several fixed income and equities categories and funds.

Life Income Assets – Investment in life income assets are those that are associated with split-interest agreements, whose investments are classified as either Level 1 or 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 (with both an international and real estate industry focus), and cash equivalents. The investments that are classified as Level 2 as of June 30, 2010 are those assets whose value is directly observable such as the bond funds.

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.

The following tables present a reconciliation of the statement 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, 2011 and 2010:

		Balances, June 30, 2010	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances, and settlements, net	Net transfer into (out) of Level 3	Balances, June 30, 2011
Assets held in trusts by others	$	4,982,722	2,617,686	—	—	7,600,408

		Balances, June 30, 2009	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances, and settlements, net	Net transfer into (out) of Level 3	Balances, June 30, 2010
Assets held in trusts by others	$	4,974,941	7,781	—	—	4,982,722

(9) Accounts and Notes Receivable, Net

Accounts and notes receivable at June 30, 2011 and 2010 consist of the following:

		2011	2010
Student accounts receivable	$	1,030,779	1,054,200
Perkins loans		3,893,281	4,261,882
Nursing Student Loans and other student loans		2,501,600	2,217,625
Other receivables		799,041	833,194
		8,224,701	8,366,901
Less allowance for doubtful accounts		(904,653)	(896,952)
	$	7,320,048	7,469,949

It is the College’s obligation to collect loans made under the Perkins Loan Program (the Program). The loans are payable, including interest at 3% – 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% 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) Contributions Receivable, Net

At June 30, 2011, the College has received unconditional promises to give of $881,197, 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 0.92% to 4.76% for the year ended June 30, 2011. Annual payments are scheduled to be received as follows:

		2011	2010
Amounts due in:			
Amounts receivable in less than one year	$	392,197	786,272
Amounts receivable in one to five years		489,000	502,430
		881,197	1,288,702
Less allowance for doubtful pledges		—	(75,000)
Less unamortized discount		(39,565)	(40,380)
Net unconditional promises to give	$	841,632	1,173,322

(11) Plant Assets, Net

Plant assets at June 30, 2011 and 2010 consist of the following:

		2011	2010
Land	$	8,470,922	8,470,922
Land improvements		5,787,409	5,743,789
Buildings and improvements		90,964,305	90,491,199
Furniture, equipment, library books, and artworks		25,639,392	23,980,751
Construction in progress		7,937,674	733,595
		138,799,702	129,420,256
Less accumulated depreciation		(44,439,306)	(41,416,821)
Net plant assets	$	94,360,396	88,003,435

(12) Bonds Payable

At June 30, 2011 and 2010, bonds payable consist of the following:

		2011	2010
Oregon Facilities Authority Bonds of 1998 Series A, 3.85% to 5.50%, due serially to 2023 (a)	$	—	12,390,000
Oregon Facilities Authority Bonds of 2000 Series A, 5.13% to 6.50%, due serially to 2012 (b)		—	450,000
Oregon Facilities Authority Bonds of 2001 Series A, 5.75%, due serially to 2025 (c)		—	2,000,000
Oregon Facilities Authority Bonds of 2005 Series A, 3.375% to 5.000%, due serially to 2030 (d)		19,585,000	19,830,000
Oregon Facilities Authority Bonds of 2010 Series A, 4.75% to 5.25%, due serially to 2040 (e)		23,385,000	—
		42,970,000	34,670,000
Add unamortized bond premium		517,513	543,389
	$	43,487,513	35,213,389

(a) During 1998, the State of Oregon Health, Housing, Educational, and Cultural Facilities Authority, on behalf of the College, issued tax-exempt Series A Revenue Bonds in the amount of $14,900,000. Bond proceeds were restricted to: (1) pay a portion of the purchase price of seventeen acres of land and buildings obtained from Hewlett Packard Corporation; (2) fund deferred maintenance projects on the McMinnville campus; (3) fund a reserve fund; and (4) pay a portion of the costs of issuance of the bonds. On August 31, 2010, the College refunded the remaining outstanding bonds; thus as of June 30, 2011 and 2010, the reserve fund had assets remaining of $0 and $1,308,507, respectively. The College was responsible for bond principal and interest payments, which varied from 3.85% to 5.50%. Principal reduction began in 2001 with the final maturation to have occurred on October 1, 2023. Bonds maturing on or after October 1, 2008 were subject to redemption prior to maturity at the option of the College with a redemption price of 101% of the face value if redeemed from October 1, 2008 to September 30, 2009; then at 100.5%; if redeemed from October 1, 2009 to September 30, 2010, and at 100% if redeemed October 1, 2010 or thereafter.

(b) During 2000, the State of Oregon Health, Housing, Educational, and Cultural Facilities Authority, on behalf of the College, issued tax-exempt Series A Revenue Bonds in the amount of $14,490,000. Bond proceeds were restricted to: (1) finance the construction of a new student housing apartment complex; (2) finance the renovation of the College’s existing dining hall and food service facility; (3) finance the extension of an existing steam line to serve the College’s new apartments and also the Keck campus; (4) pay architectural and engineering costs for various capital improvements to the McMinnville campus; (5) fund a reserve fund; and (6) pay a portion of the costs of issuance of the bonds. On October 1, 2010, the College refunded the remaining outstanding bonds; thus as of June 30, 2011 and 2010, the reserve fund had assets remaining of $0 and $1,234,542, respectively. The College was responsible for bond principal and interest payments that varied from 5.13% to 6.75%. Principal reduction began in 2001, with the final maturation to have occurred on June 30,

2012. Bonds maturing on or after October 1, 2011 were subject to redemption at the option of the College with a redemption price 101.00% of face value if redeemed from October 1, 2010 to September 30, 2011, and 100.50% if redeemed from October 1, 2011 to September 30, 2012. Previously, the 2000 bonds were partially refunded with funds received from the Oregon Facility Authority 2005 Bond issuance. See further discussion in part (d) below.

(c) During 2001, the State of Oregon Health, Housing, Educational, and Cultural Facilities Authority, on behalf of the College, issued tax-exempt Series A Revenue Bonds in the amount of $2,000,000. Bond proceeds were restricted to: (1) finance the construction of a new student housing apartment building; (2) pay architectural and engineering costs for various capital improvements to the McMinnville Campus; (3) finance a variety of other capital improvements to the McMinnville Campus; (4) fund a reserve fund; and (5) pay a portion of the costs of issuance of the 2001 bonds. On October 1, 2010, the College refunded the remaining outstanding bonds; thus as of June 30, 2011 and 2010, the reserve fund had assets remaining of $0 and $240,038, respectively. The College was responsible for bond principal and interest payments at 5.75%. Principal reduction was to begin in 2011 with the final maturation occurring on October 1, 2025. Bonds maturing on or after October 1, 2010 were subject to redemption prior to maturity at the option of the College with a redemption price at 101% of face value if redeemed from October 1, 2010 to September 30, 2011, at 100.50% if redeemed from October 1, 2011 to September 30, 2012, and at 100% if redeemed October 1, 2012 or thereafter.

(d) In May 2005, the Oregon Facility Authority, on behalf of the College, issued tax-exempt Series A Revenue Bonds in the amount of $19,930,000. Bond proceeds were restricted to: (1) finance the construction of two new residence halls; (2) finance a variety of other capital improvements, including but not limited to, the remodel, retrofit, and/or conversion of College buildings; (3) finance the construction of four additional parking lots; (4) fund the addition to the Reserve Fund; (5) refund a portion of the Issuer's outstanding 2000 Series A Revenue Bonds; and (6) pay a portion of the costs of issuance of the 2005 bonds.

Proceeds from the May 2005 bond issuance were used to refund a portion of the Oregon Facilities Authority Series 2000 bonds with interest rates ranging from 6.50% to 6.75%.

As of June 30, 2011 and 2010, the reserve fund had assets remaining of $1,725,102 and $348,992, respectively. The College is responsible for bond principal and interest payments that vary from 3.50% to 5.00%. Principal reduction began in 2009 with the final maturation occurring on October 1, 2030. 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, 2015, in such maturities as are selected by the College, at a price of par plus accrued interest.

(e) 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).

(Continued)

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.

Each of these bonds is unsecured and is to be redeemed through annual budgeted revenues.

The above 1998, 2000, 2001, 2005, and 2010 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, 2011 and 2010, the College was in compliance with these covenants.

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

		Principal	Interest	Total payments
Year ending June 30:				
2012	$	795,000	2,138,150	2,933,150
2013		835,000	2,097,400	2,932,400
2014		880,000	2,054,525	2,934,525
2015		925,000	2,009,400	2,934,400
2016		970,000	1,962,025	2,932,025
Thereafter		38,565,000	26,155,480	64,720,480
	$	42,970,000	36,416,980	79,386,980

(13) 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 approximately $2,853,341 and $2,921,216 in 2011 and 2010, respectively.

(14) Auxiliary Enterprises

Auxiliary enterprises consist of food service, residence life and bookstore operations, and hosting of outside 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 revenues and allocated and direct expenses are as follows:

	2011					
	Bookstore	Foodservice	Main residence halls	Outside conferences and other	Auxiliary property pool	Total
Revenues	$ 1,563,737	3,516,553	5,967,778	762,868	626,080	12,437,016
Expenses:						
Operating	$ 1,538,235	2,102,467	2,628,254	821,567	406,455	7,496,978
Interest allocated	—	23,967	373,725	—	—	397,692
Depreciation	—	35,718	271,938	—	105,947	413,603
Total expenses	$ 1,538,235	2,162,152	3,273,917	821,567	512,402	8,308,273

	2010					
	Bookstore	Foodservice	Main residence halls	Outside conferences and other	Auxiliary property pool	Total
Revenues	$ 1,432,215	3,276,841	5,528,915	771,273	470,963	11,480,207
Expenses:						
Operating	$ 1,444,053	1,998,477	2,428,955	880,261	366,876	7,118,622
Interest allocated	—	93,511	730,349	—	—	823,860
Depreciation	—	34,728	271,938	—	99,531	406,197
Total expenses	$ 1,444,053	2,126,716	3,431,242	880,261	466,407	8,348,679

(15) 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, 2011 and 2010:

	2011	2010
Instruction	$ 27,381,107	26,058,007
Academic support	4,117,849	4,270,621
Student services	10,003,072	9,033,540
Institutional support	9,289,873	8,860,320
Auxiliary enterprises	9,306,154	9,140,181
	$ 60,098,055	57,362,669

Included in institutional support are costs of $1,883,013 and $1,885,433 associated with fund-raising activities in 2011 and 2010, respectively.

(Continued)

(16) Assets Held in Trust by Others

The College has been designated the beneficiary of the income of a portion of a certain trust fund. 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 from this trust were $220,721 and $259,187 and are included in net realized/unrealized gain in the statements of activities for the years ended June 30, 2011 and 2010, respectively.

(17) Endowment and Quasi-Endowment Funds

The College's endowment consists of approximately 350 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 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, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:					
Instruction and operations	$	(29,492)	4,666,145	15,701,784	20,338,437
Student aid		(250,375)	6,372,607	25,051,094	31,173,326
Contributions receivable		—	—	71,634	71,634
Board-designated endowment funds		29,762,335	—	—	29,762,335
Total endowment net assets	$	29,482,468	11,038,752	40,824,512	81,345,732

Endowment net assets consist of the following at June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:					
Instruction and operations	$	(197,776)	4,201,090	14,190,663	18,193,977
Student aid		(1,158,935)	6,051,591	24,110,588	29,003,244
Board-designated endowment funds		19,945,008	—	—	19,945,008
Total endowment net assets	$	18,588,297	10,252,681	38,301,251	67,142,229

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$ 18,588,297	10,252,681	38,301,251	67,142,229
Other changes and transfers among funds	3,844,788	(6,902,198)	—	(3,057,410)
Investment return:				
Investment income	1,681,970	3,624,604	2,351	5,308,925
Net appreciation	3,362,226	6,018,578	88,699	9,469,503
Total investment return	5,044,196	9,643,182	91,050	14,778,428
Contributions	2,924,950	66,779	2,432,211	5,423,940
Appropriation of endowment assets for expenditure	(1,119,763)	(2,021,692)	—	(3,141,455)
Transfer to create board-designated funds	200,000	—	—	200,000
Endowment net assets, June 30, 2011	$ 29,482,468	11,038,752	40,824,512	81,345,732

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2009	$ 15,791,006	8,522,099	34,262,958	58,576,063
Investment return:				
Investment income	604,773	1,012,678	—	1,617,451
Net appreciation	3,225,551	2,751,869	—	5,977,420
Total investment return	3,830,324	3,764,547	—	7,594,871
Contributions	—	—	4,038,293	4,038,293
Appropriation of endowment assets for expenditure	(1,139,990)	(2,033,965)	—	(3,173,955)
Transfer to create board-designated funds	106,957	—	—	106,957
Endowment net assets, June 30, 2010	$ 18,588,297	10,252,681	38,301,251	67,142,229

(Continued)

During the year ended June 30, 2011, the College identified certain net asset balances that had been improperly reported as restricted net assets, although all external restrictions had been met. Accordingly, the College reclassified amounts as shown as other changes and transfers among funds on the Statement of Activities for the year ended June 30, 2011.

(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. Deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2011 and 2010 were approximately $280,000 and $1,357,000, respectively. These deficiencies resulted from unfavorable market fluctuation that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in 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 25% S&P 500 index (Cap Wtd), 10% Russell 2500 index, 20% of the MSCI ACW Ex US index (Net), 5% MSCI World ex US Small Cap index (Net), 20% Barclays Capital US Aggregate bond index, 4% Carclays Capital US Treasury Inflation Notes (1 – 10 year index), 10% HFN FOF Multi-Strat index (Net), and 6% of Linfield’s Real Estate actual return, while assuming a moderate level of investment risk. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount.

(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.

(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 twenty 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. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 4.0% annually. 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, 2011 and 2010, the spending rate adopted by the College was 4.5% of a twenty-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 coverage's, the maximum contingent liability exposure to the College is approximately $691,277. 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.

(19) Subsequent Events

The College has evaluated any subsequent events after the statement of financial position date of June 30, 2011 through November 3, 2011, which was the date the financial statements were issued.