Linfield College

Financial Report 2011-2012

MCMINNVILLE, OREGON

Linfield College

Vice President for Finance & Administration/CFO

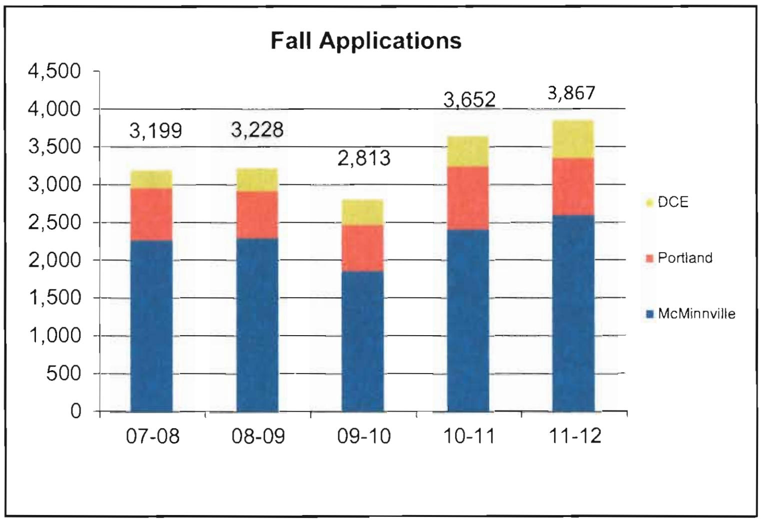
November 1, 2012

The Board of Trustees
Linfield College
McMinnville, OR 97128

Dear Ladies and Gentlemen:

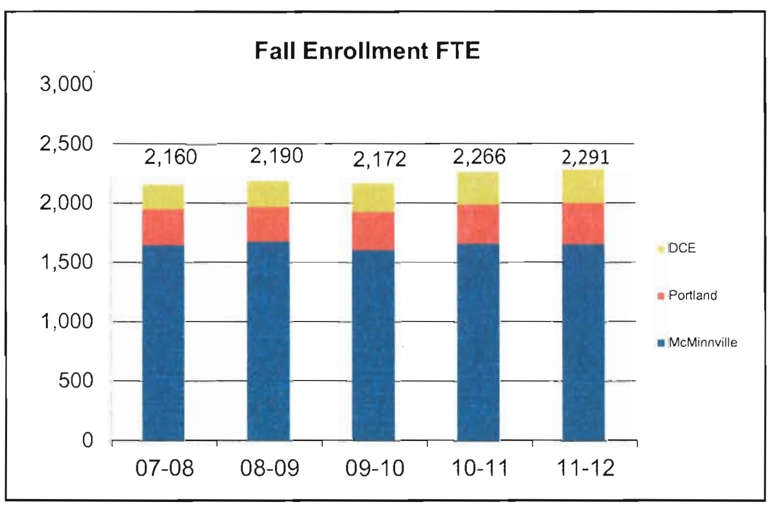
The following Linfield College Fiscal Year (FY) 2011-2012 financial statements, audited by KPMG LLP, provide significant detail for the year ended June 30, 2012. This cover letter is included to offer some historical context for a select list of key indicators. By focusing on the five-year trends, readers 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 215 from the Fall of 2010 to Fall 2011.

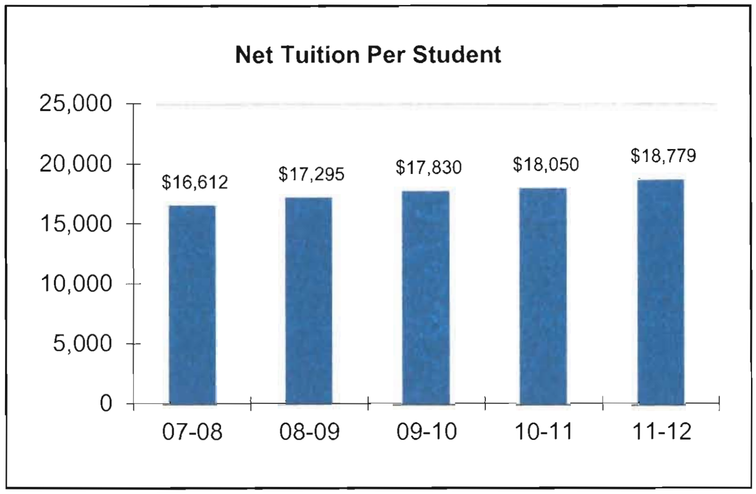
The most common enrollment benchmark for colleges and universities is to measure full-time equivalent (FTE) students at a fixed point, following the start of the fall semester. FTE is calculated by dividing the total number of credit hours being taken by 15, the standard load for a full-time student.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



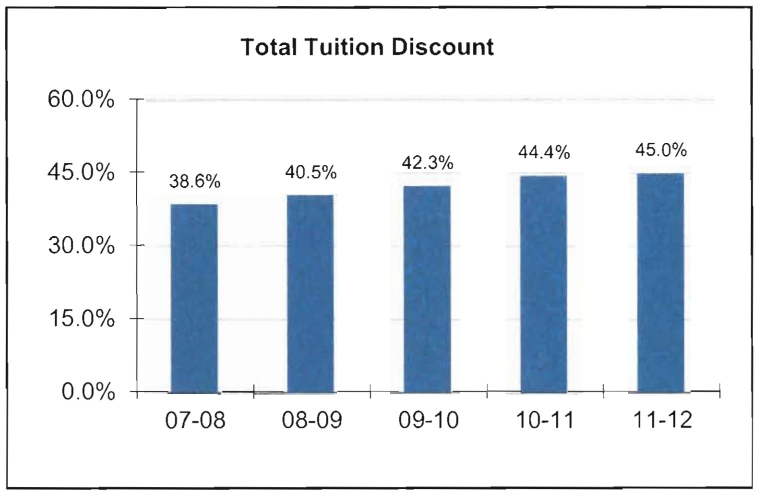
FTE enrollment is positively affected by the number of first-year students and transfers coming to campus and negatively impacted by withdrawals, transfers from campus, and graduations. The Fall 2011 FTE for all programs combined was up 25 from the Fall of 2010. New freshmen enrollment on the McMinnville Campus was 459. 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 revenue 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 FY2011-2012 net tuition per student climbed from $18,050 to $18,779. This represents a 4.0% increase from FY2010-2011.

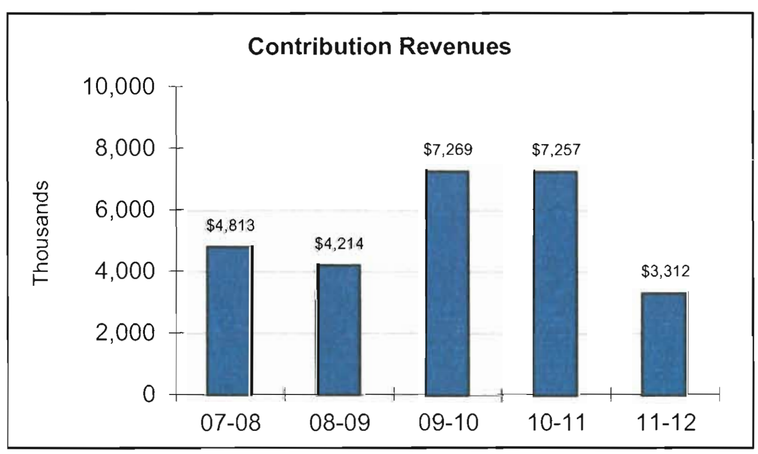


Total tuition discount reflects the amount of financial aid provided by the college (via the operating budget, endowment scholarships, etc.) divided by gross tuition. This increased by 0.6%; down from the past two years which were up 1.8% and 2.1%, respectively.



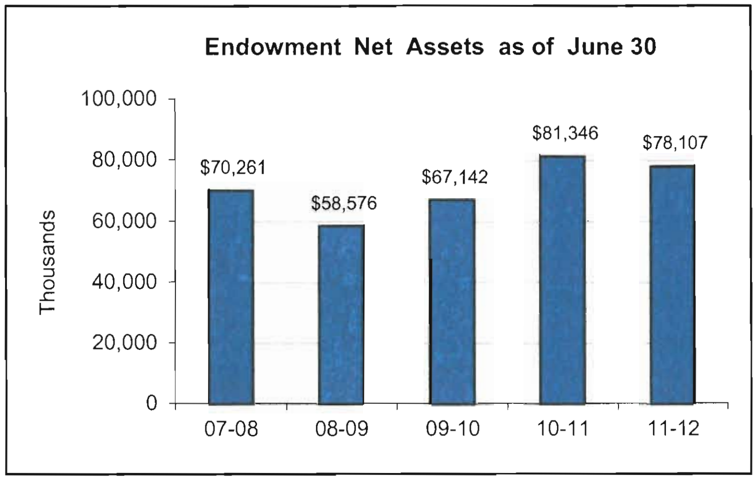
Contribution Revenues

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 FY2011-2012, Linfield received just over $3.3 million in gifts and pledges, reflecting significant decreases in realized bequests and completion of the T.J. Day Hall project.



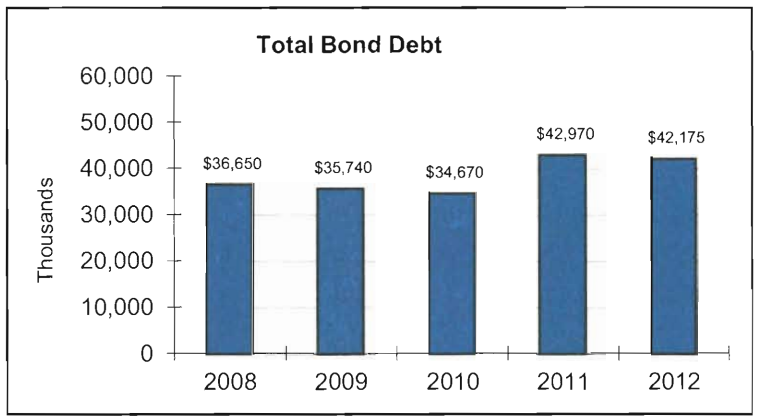
Total Endowment Net Assets

For the fiscal year ended June 30, 2012, Linfield's endowment portfolio had an overall net return of -2.59% (compared to our Custom Index of -0.86%). However, Linfield performed in the top 29% of endowments <$1 billion over the last 5 years, the top 10% over the past 7 years, and the top 17% over the past 10 years. At year end, the endowment net assets market value was $78.1 million. The more conservatively invested life income trusts were valued at an additional $10.1 million.

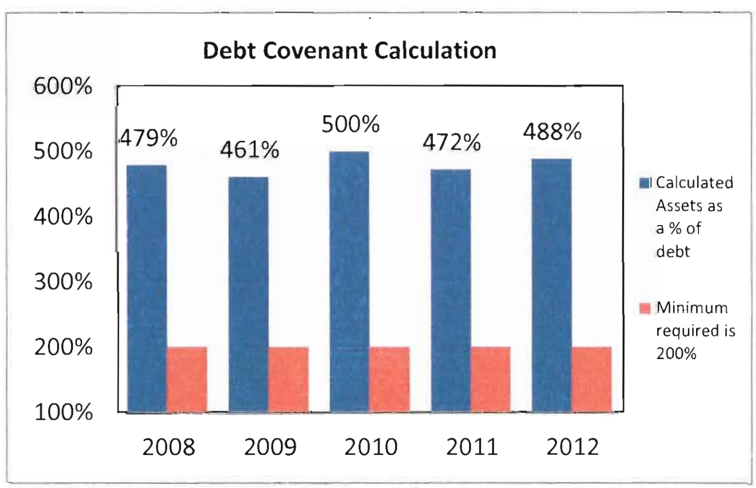


Total Bond Debt and Debt Covenant Calculation

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 Investors Service maintained the college's credit rating at Baa1 during FY2011-2012.

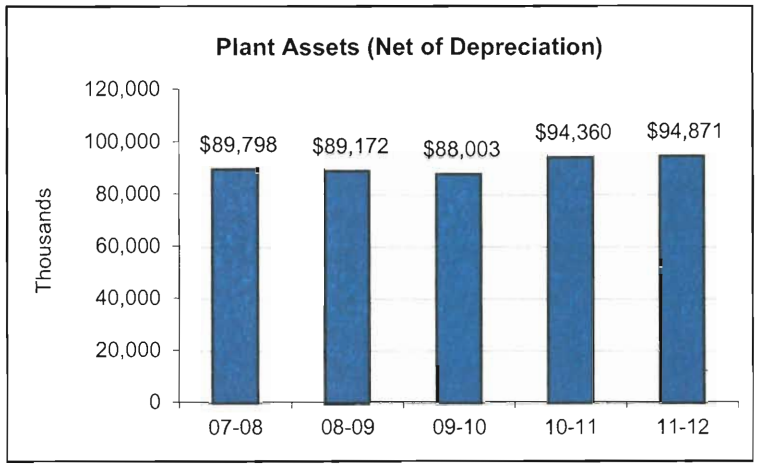


The 2010 bond issue reduced the annual debt service payments through 2024, but extended the debt payment timeline from 2031 to 2041. The new bond funds were earmarked for a portion of the T.J. Day Hall renovation costs and other capital projects. Issuing new bonds in August 2010 allowed the college to 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.



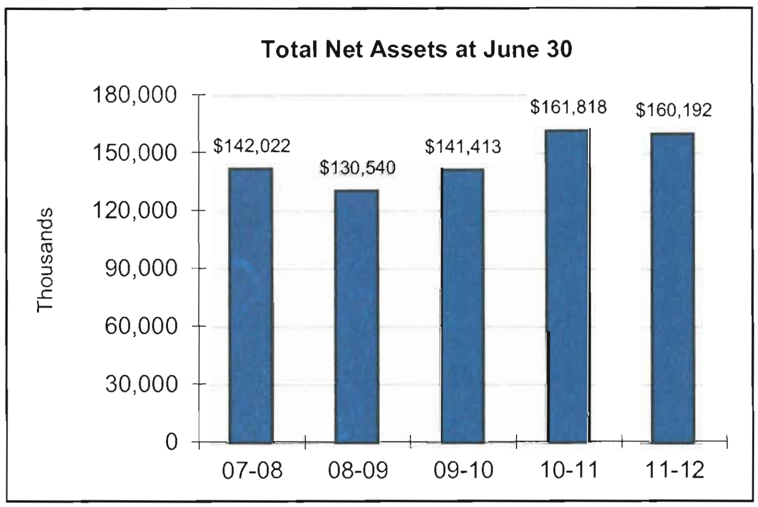
Plant Assets

Plant assets, net of depreciation, increased from $94.4 million to $94.9 million. This represents an increase of $0.5 million or approximately 0.5% from June 30, 2011 to June 30, 2012.



Total Net Assets

Total net assets decreased from $161.8 million in FY2010-2011 to $160.2 million in FY2011-2012, a 1.0% decrease. Negative returns in our long-term investments were the major reason for this decrease.



Summary

Linfield College finished FY2011-2012 with positive operating results for the 38th consecutive year. This allowed the College to allocate funds for reserves and endowment, academic support, student services and enrollment initiatives, external relations and marketing, and capital and infrastructure improvements 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 (previously Northup Hall) was completed on time and under budget and the departments of Business, English, Economics, and Philosophy, the Linfield Center for the Northwest, and the Linfield College Writing Lab moved into the state-of-the-art facility in August 2011. T.J. Day Hall received a LEED (Leadership in Energy and Environmental Design) Gold certification for sustainable building. The remodel of Taylor Hall allowed the Math Department to move into their new home in January 2012. The new 2012-2018 Linfield College Strategic Plan was approved by the Board of Trustees in May 2012, following a college-wide process. The goals identified in the Strategic Plan were the result of thoughtful dialogue by the entire Linfield community, and will help guide the optimal allocation of Linfield's resources for the next six years.

The 2012-2018 Strategic Plan established three main goals:

- Strengthen Academic Programs
- Enhance Linfield's Regional, National, and Global Connections
- Grow and Strategically Align Linfield's Resources

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) (an Oregon nonprofit corporation) as of June 30, 2012 and 2011, 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 audit 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, 2012 and 2011, 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 1, 2012 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 1, 2012

LINFIELD COLLEGE

Statements of Financial Position

June 30, 2012 and 2011

Assets		2012	2011
Assets:			
Cash and cash equivalents	$	7,595,412	11,024,311
Accounts and notes receivable, net		7,375,965	7,320,048
Interest receivable		295,681	286,579
Prepaid expenses and other assets		1,805,294	1,991,617
Contributions receivable, net		603,574	841,632
Inventory		21,285	1,158,549
Investments		95,304,402	97,274,954
Assets held in trust by others		7,561,624	7,600,408
Plant assets, net		94,871,087	94,360,396
Total assets	$	215,434,324	221,858,494
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	3,485,993	5,264,833
Deferred revenue		2,272,135	2,704,827
Bonds payable		42,666,637	43,487,513
U.S. government grants refundable		4,511,714	4,528,942
Obligations for split-interest agreements		2,305,462	4,054,717
Total liabilities		55,241,941	60,040,832
Net assets:			
Unrestricted:			
Operations and designated funds		7,700,939	4,287,749
Quasi-endowment		28,796,701	29,482,468
Net investment in plant		59,410,132	58,104,160
Total unrestricted		95,907,772	91,874,377
Temporarily restricted		22,341,441	25,366,695
Permanently restricted		41,943,170	44,576,590
Total net assets		160,192,383	161,817,662
Total liabilities and net assets	$	215,434,324	221,858,494

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 72,175,609	—	—	72,175,609
Less student financial aid	(28,874,442)	—	—	(28,874,442)
Tuition and fees, net	43,301,167	—	—	43,301,167
Contributions	901,065	1,873,147	537,781	3,311,993
Contracts and other exchange transactions	947,035	3,500	—	950,535
Investment income	795,603	1,267,271	2,545	2,065,419
Net realized/unrealized loss on investments	(1,571,030)	(1,996,478)	(5,512)	(3,573,020)
Other income	1,276,437	5,000	—	1,281,437
Sales and services of auxiliary enterprises	12,593,204	—	—	12,593,204
Total revenues and gains	58,243,481	1,152,440	534,814	59,930,735
Net assets released from restrictions	5,861,753	(5,861,753)		—
Total revenues, gains, and other support	64,105,234	(4,709,313)	534,814	59,930,735
Expenses:				
Education and general:				
Instruction	25,271,997	—	—	25,271,997
Academic support	3,676,954	—	—	3,676,954
Student services	8,901,228	—	—	8,901,228
Institutional support	8,137,534	—	—	8,137,534
Operation and maintenance of plant	3,453,850	—	—	3,453,850
Depreciation	3,117,385	—	—	3,117,385
Interest and amortization on indebtedness	1,948,810	—	—	1,948,810
Total education and general	54,507,758	—	—	54,507,758
Auxiliary enterprises	8,019,395	—	—	8,019,395
Total expenses	62,527,153	—	—	62,527,153
Other changes and transfers among funds	3,127,868	33,765	(3,161,633)	—
Change in value of split-interest agreements	(672,554)	1,650,294	(6,601)	971,139
Change in net assets	4,033,395	(3,025,254)	(2,633,420)	(1,625,279)
Net assets at beginning of year	91,874,377	25,366,695	44,576,590	161,817,662
Net assets at end of year	$ 95,907,772	22,341,441	41,943,170	160,192,383

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)
Tuition and fees, net	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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (1,625,279)	20,404,208
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	3,116,473	3,039,858
(Loss) gain on disposal of plant and equipment	(3,702)	2,779
Actuarial change in split-interest agreements	317,233	216,247
Net realized and unrealized loss (gain) on long-term investments	3,573,020	(16,244,748)
Contributions restricted for long-term investment	(993,292)	(1,931,663)
Noncash contributions	(394,024)	(364,012)
Changes in current assets/liabilities:		
(Increase) decrease in interest receivable	(9,102)	133,531
(Increase) decrease in accounts and notes receivable, net	(55,917)	149,901
Decrease in contributions receivable	238,058	331,690
Decrease (increase) in inventory	1,137,264	(39,285)
Decrease (increase) in prepaid expenses and other assets	161,359	(686,599)
Increase (decrease) in accounts payable and accrued liabilities	(1,778,840)	1,899,561
Increase (decrease) in deferred revenue	(432,692)	280,931
(Decrease) in U.S. government grants refundable	(17,228)	(63,720)
(Decrease) increase in obligations for split-interest agreements	(1,385,254)	436,770
Net cash provided by operating activities	1,848,077	8,054,117
Cash flows from investing activities:		
Proceeds from sale of plant and equipment	200	1,691
Purchase of plant and equipment	(3,489,574)	(9,388,386)
Deposits to funds held by trustee	—	(10,885,889)
Proceeds from sale of investments	20,922,797	26,481,730
Purchases of investments	(22,227,457)	(19,693,978)
Net cash used in investing activities	(4,794,034)	(13,484,832)
Cash flows from financing activities:		
Cash contributions restricted for:		
Endowment	353,797	1,931,663
Annuities and trusts	26,496	—
Plant	612,999	—
Principal payments on bonds payable	(795,000)	(1,275,000)
Proceeds from issuance of bonds	—	23,385,000
Advanced refunding of bonds payable	—	(13,810,000)
Payments on obligations for split-interest agreements	(681,234)	(870,951)
Net cash (used in) provided by financing activities	(482,942)	9,360,712
Net (decrease) increase in cash and cash equivalents	(3,428,899)	3,929,997
Cash and cash equivalents at beginning of year	11,024,311	7,094,314
Cash and cash equivalents at end of year	$ 7,595,412	11,024,311
Supplemental cash flow disclosures:		
Cash paid for interest	$ 2,138,150	2,086,903
Supplemental schedule of noncash investing and financing activities:		
Gifts of marketable assets for current use or long-term use	259,025	364,012

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 26 foreign countries and offers 47 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 Campus Mail Center postage and information technology (computer department) supplies as of June 30, 2012 and is recorded at the lower of cost (first-in, first-out) or market. As of June 30, 2011, inventory also included in-house bookstore inventory. The bookstore operations and inventory management was outsourced to a third party in April 2012, and the remaining inventory was sold or liquidated.

The College is leasing its bookstore to Barnes & Noble. Barnes & Noble is providing all bookstore services for the University under the terms of a lease agreement ending in June 2017. The College sold the bookstore inventory to Barnes & Noble and other third parties. During the term of the lease, Barnes & Noble will pay the College a guaranteed payment or a percentage of bookstore sales, whichever is greater.

(g) Bond Issuance Costs

Bond issuance costs (including bond issue costs, bond discounts, and bond premiums) represent amounts amortized by the College in connection with the issuance of the 2005 and 2010 Oregon Facilities Authority Bonds. See note 13 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 statements of financial position. Amortization is calculated using a method that approximates the effective yield over the life of the bonds.

(h) Deferred Revenue

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

(i) Split-Interest Agreements

The College uses an actuarial method to record certain split-interest arrangements. Under this method, the present value of the payments to beneficiaries is estimated based upon life expectancy tables when the gift is received. The present value of those payments is recorded as a liability and the remainder as temporarily restricted net assets. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. The discount rates used by the College in calculating present value of all split-interest agreements range from 2.0% to 8.4% at June 30, 2012.

(j) Fair Value of Financial Instruments

At June 30, 2012 and 2011, the carrying values of cash and cash equivalents, accounts and contributions receivable, accounts payable, accrued liabilities, and split-interest agreements, approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of June 30, 2012, the fair value of the College's bonds payable approximates $53,068,812 as compared to its carrying value of $42,666,637. At June 30, 2011, the estimated fair value of the College's bonds payable approximates $48,289,000 as compared to its carrying value of $43,487,513. The fair value of bonds as of June 30, 2012 and 2011 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, 2012, 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 2009.

(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.

(2) Cash and Cash Equivalents

The College considers all highly liquid debt instruments purchased with a maturity of three months or less (remaining at June 30) 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 $2,050,064 and $5,032,696 in cash equivalents at June 30, 2012 and 2011, 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, 2012 and 2011, bank balances of $5,533,602 and $5,978,155, respectively, were insured by the Federal Deposit Insurance Corporation.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are restricted for the following purposes:

	2012	2011
Term endowments and accumulated endowment return:		
Instruction and operations	$ 3,387,710	4,666,145
Student aid	4,589,351	6,372,607
Endowment distributions available for:		
Instruction and operations	1,959,895	1,877,500
Student aid	529,860	548,679
Funds from split-interest agreements	9,219,368	9,487,452
Plant	473,877	549,981
Designated student loan funds	369,531	363,794
Other designated funds	1,811,849	1,500,537
	$ 22,341,441	25,366,695

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2012 and 2011 are restricted for the following purposes:

	2012	2011
Endowments:		
Instruction and operations	$ 16,118,869	15,701,784
Student aid	25,087,410	25,051,094
Contribution receivables	126,551	71,634
	41,332,830	40,824,512
Other	—	3,161,633
Split-interest agreements (restricted for future endowments)	610,340	590,445
	$ 41,943,170	44,576,590

(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, 2012 and 2011 as follows:

		2012	2011
Purpose restrictions accomplished:			
Instruction and operations	$	796,290	847,105
Academic support		60,919	134,031
Student services		256,325	531,879
Institutional support		136,039	2,247
Scholarships		1,614,767	2,025,899
Operations and maintenance of plant		12,148	3,843
Purchase of plant assets		890,211	1,624,470
Annuity/trust/life income		2,095,054	852,886
	$	5,861,753	6,022,360

(6) Tuition and Fees

Student tuition and fee revenues for the years ended June 30, 2012 and 2011 consist of the following:

		2012	2011
Tuition and fees	$	72,175,609	67,926,887
Less:			
Unfunded financial aid (institutional tuition discount)		(26,636,249)	(24,543,045)
Funded financial aid (endowed or other designations)		(2,238,193)	(2,438,361)
Tuition and fees, net	$	43,301,167	40,945,481

(Continued)

(7) Liquidity

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2012 and 2011 is as follows:

	2012	2011
Total current assets	$ 12,525,171	18,549,001
Total long-term assets	202,909,153	203,309,493
Total assets	$ 215,434,324	221,858,494
Total current liabilities	$ 6,619,004	8,790,536
Total long-term liabilities	48,622,937	51,250,296
Total liabilities	55,241,941	60,040,832
Net assets	160,192,383	161,817,662
Total liabilities and net assets	$ 215,434,324	221,858,494

(8) Investments

Investments comprise the following at June 30, 2012 and 2011:

	2012	2011
Restricted cash equivalents	$ 2,186,252	2,190,847
Fixed income securities	21,952,243	18,964,436
Domestic equities	31,594,203	31,548,502
International equities	16,750,967	19,764,226
Preferred equities	94,845	96,987
Hedge fund	6,734,499	7,055,016
Real return assets	3,573,366	3,425,705
Life income assets with trustees:		
Cash and cash equivalents held for reinvestment	210,495	263,248
Equity funds	2,876,104	3,822,901
Fixed income funds	2,689,708	3,501,366
Subtotal	88,662,682	90,633,234
Real property held for investment	6,641,720	6,641,720
Total	$ 95,304,402	97,274,954

Net asset balances differ from investment balances presented below due to timing of transactions between funds. The values of total investments as allocated by designation or donor restriction at June 30, 2012 and 2011 are as follows:

		2012	2011
Quasi-endowment	$	30,221,226	30,868,977
Endowment (temporarily and permanently restricted)		49,825,300	51,181,979
Split-interest agreements		3,901,774	6,293,241
Other		11,356,102	8,930,757
	$	95,304,402	97,274,954

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 minimum future rental income associated with this lease is as follows:

Year ending June 30:		
2013	$	179,976
2014		188,976
2015		188,976
2016		188,976
2017		188,976
Thereafter		1,181,108
	$	2,116,988

Revenue from the lease 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, 2012 and 2011, the life income assets primarily consisted of equity and fixed income mutual funds.

As of June 30, 2012 and 2011, restricted cash equivalents include $1,686,352 and $2,190,847, respectively, consisting of bond funds related to the 2005 and 2010 Series A, Oregon Facilities Authority Bonds. These bonds are described in note 13.

(Continued)

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, 2012:

		Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:							
Assets held in trust by others	$	7,561,624	—	—	7,561,624	N/A	N/A
Investments:							
Restricted cash equivalents	$	1,686,252	1,686,252	—	—	Daily	1 day
Certificates of deposit		500,000	—	500,000	—	Daily	1 day
Domestic equities:							
Large cap mutual funds		23,112,756	23,112,756	—	—	Daily	1 day
Small cap mutual funds		8,481,447	8,481,447	—	—	Daily	1 day
Preferred equities		94,845	94,845	—	—	Daily	1 day
International equities:							
Large cap mutual funds		13,996,689	13,996,689	—	—	Daily	1 day
Small cap mutual funds		2,754,278	2,754,278	—	—	Daily	1 day
Fixed income securities and funds:							
Bonds funds		15,853,851	15,853,851	—	—	Daily	1 day
Agency funds		5,102,017	5,102,017	—	—	Daily	1 day
Commercial paper		996,375	996,375	—	—	Daily	1 day
Hedge fund		6,734,499	—	6,734,499	—	Monthly	30 – 45 days
Real return assets		3,573,366	3,573,366	—	—	Daily	1 day
Life income assets with trustees:							
Fixed income fund		2,681,347	507,330	2,174,017	—	Monthly	30 days
Equity fund		2,275,194	2,275,194	—	—	Monthly	30 days
Mutual funds:							
International growth fund		428,362	428,362	—	—	Daily	1 day
Real estate fund		172,187	172,187	—	—	Daily	1 day
Other mutual funds		361	361	—	—	Daily	1 day
Bond funds		8,361	8,361	—	—	Daily	1 day
Cash and cash equivalents held for investment		210,495	210,495	—	—	Daily	1 day
Subtotal investments		88,662,682	79,254,166	9,408,516	—		
Real property held for investment		6,641,720	N/A	N/A	N/A		
Total investments	$	95,304,402					

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
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 investments	$ 97,274,954					

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 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, government agency funds, as well as publicly traded bond funds.

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 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 with Trustees – Investment in life income assets are those that are associated with split-interest agreements, whose investments are classified as either Level 1 or 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.

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 table presents 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, 2012 and 2011:

Balances, June 30, 2010	$ 4,982,722
Net realized and unrealized gains included in change in net assets	2,617,686
Purchases	—
Sales	—
Settlements	—
Transfers out of Level 3	—
Balances, June 30, 2011	7,600,408
Net realized and unrealized losses included in change in net assets	(38,784)
Purchases	—
Sales	—
Settlements	—
Transfers out of Level 3	—
Balances, June 30, 2012	$ 7,561,624

(9) Accounts and Notes Receivable, Net

Accounts and notes receivable at June 30, 2012 and 2011 consist of the following:

	2012	2011
Student accounts receivable	$ 1,445,130	1,030,779
Perkins loans	3,628,473	3,893,281
Nursing student loans	1,614,994	1,524,186
Other student loans	953,023	977,414
Other receivables	685,449	799,041
	8,327,069	8,224,701
Less allowance for doubtful accounts	(951,104)	(904,653)
	$ 7,375,965	7,320,048

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 83.6% of the funds have been provided by the U.S. government). The Program provides for cancellation of the loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. government.

(10) Credit Quality of Financing Receivables

The College's financing receivables consist of revolving loan funds for Federal Perkins Loans and Federal Nursing Student Loans (NSL) for which the College acts as an agent for the federal government, and institutional loan funds created by the College to assist students in funding their education. Student loans represent 2.9% of total assets.

The availability of funds for loans under all three programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the Federal loan programs of $4,511,714 are ultimately refundable to the government and are classified as a liability in the statement of financial position.

Balances of financing receivables as of June 30, 2012 are presented as follows:

Perkins loans	$	3,628,473
NSL loans		1,614,994
Institutional loans		953,023
Allowance		(819,610)
Total (net)	$	5,376,880

For each class of financing receivables, the following table presents the performing and nonperforming portion of the financing receivables as of June 30, 2012.

		Performing	Nonperforming (defaulted)	Total
Perkins loans	$	2,919,878	708,595	3,628,473
NSL loans		1,432,031	182,963	1,614,994
Institutional loans		227,028	725,995	953,023
Total	$	4,578,937	1,617,553	6,196,490

The aging of financing receivables as of June 30, 2012 is presented as follows:

Aging		31-60	61-90	91+	Total past due	Total current	Total
Perkins loans	$	147,104	63,568	456,452	667,124	2,961,349	3,628,473
NSL loans		93,885	13,600	104,836	212,321	1,402,673	1,614,994
Institutional loans		21,980	39,320	845,968	907,268	45,755	953,023
Total	$	262,969	116,488	1,407,256	1,786,713	4,409,777	6,196,490

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 Federal Nursing Student Loans can be assigned to the government when no longer collectible, a Perkins Loan write off will reduce a portion of the amount refundable to the government. Changes in the allowance for estimated losses on financing receivables as of June 30, 2012 are presented as follows:

Allowances for uncollectible accounts:

		Perkins	NSL	Institutional	Total
June 30, 2011	$	434,815	141,652	204,218	780,685
Write-off		(A)	(A)	(66,493)	(66,493)
Recovery		(B)	(B)	—	—
Allowance adjustment		(3,146)	(14,677)	123,241	105,418
June 30, 2012	$	431,669	126,975	260,966	819,610

(A) None assigned to federal government in 2011/2012
(B) Government does not repay to College once principal is assigned.

(11) Contributions Receivable, Net

At June 30, 2012, the College has received unconditional promises to give of $628,366, 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 0.43% to 4.76% for the year ended June 30, 2012. Annual payments are scheduled to be received as follows:

		2012	2011
Amounts due in:			
Amounts receivable in less than one year	$	316,699	392,197
Amounts receivable in one to five years		311,667	489,000
		628,366	881,197
Less unamortized discount		(24,792)	(39,565)
Net unconditional promises to give	$	603,574	841,632

(12) Plant Assets, Net

Plant assets at June 30, 2012 and 2011 consist of the following:

		2012	2011
Land	$	8,640,922	8,470,922
Land improvements		5,815,259	5,787,409
Buildings and improvements		99,574,165	90,964,305
Furniture, equipment, library books, and artwork		27,104,854	25,639,392
Construction in progress		1,057,504	7,937,674
		142,192,704	138,799,702
Less accumulated depreciation		(47,321,617)	(44,439,306)
Net plant assets	$	94,871,087	94,360,396

(13) Bonds Payable

At June 30, 2012 and 2011, bonds payable consist of the following:

		2012	2011
Oregon Facilities Authority Bonds of 2005 Series A, 3.375% to 5.000%, due serially to 2030 (a)	$	18,790,000	19,585,000
Oregon Facilities Authority Bonds of 2010 Series A, 4.75% to 5.25%, due serially to 2040 (b)		23,385,000	23,385,000
		42,175,000	42,970,000
Add unamortized bond premium		491,637	517,513
	$	42,666,637	43,487,513

(a) 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, 2012 and 2011, the reserve fund had assets remaining of $1,717,881 and $1,725,101, respectively (at cost). 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.

(b) 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, 2012 and 2011, the reserve fund had assets remaining of $1,187,654 and $1,178,106, respectively (at cost).The College is responsible for bond principal and interest payments that vary from 4.75% to 5.25%. Principal reduction begins in October, 2028 with the final maturation occurring on October 1, 2040. Bonds maturing on or after October 1, 2020 will be subject to redemption at the option of the College, in whole or in part on any date on or after October 1, 2020, in such maturities as are selected by the College, at a price of par plus accrued and unpaid interest. Other mandatory redemption provisions are outlined in the bond prospectus for bonds maturing in 2028, 2031, 2034, and 2040. Each of these bonds is unsecured and is to be redeemed through annual budgeted revenues.

The above 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, 2012 and 2011, 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:				
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
2017		1,020,000	1,912,275	2,932,275
Thereafter		37,545,000	24,243,205	61,788,205
	$	42,175,000	34,278,830	76,453,830

(14) Pension Plan

The College has a defined contribution retirement plan for all eligible staff and faculty. The plan provides for employee deferrals and for contributions by the College for eligible employees amounting to 11.25% (staff) and 16.00% (faculty) of eligible earnings. The College's contributions totaled approximately $3,016,586 and $2,853,341 in 2012 and 2011, respectively.

(15) 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:

	2012					
	Bookstore	Food service	Main residence halls	Outside conferences and other	Auxiliary property pool	Total
Revenues	$ 1,372,481	3,681,543	6,159,504	804,681	574,995	12,593,204
Expenses:						
Operating	$ 2,134,197	2,156,457	2,445,793	837,304	445,644	8,019,395
Interest and amortization allocated	—	84,415	687,741	—	—	772,156
Depreciation	—	94,703	510,771	—	120,544	726,018
Retired maintenance	—	139,263	232,997	30,439	21,750	424,449
Total expenses	$ 2,134,197	2,474,838	3,877,302	867,743	587,938	9,942,018

	2011					
	Bookstore	Food service	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 and amortization allocated	—	94,206	914,149	—	—	1,008,355
Depreciation	—	94,703	492,252	—	105,947	692,902
Retired maintenance	—	151,193	256,582	32,799	26,918	467,492
Total expenses	$ 1,538,235	2,442,569	4,291,237	854,366	539,320	9,665,727

(16) Expenses by Function

Total expenses by functional classification, including indirect expenses, after allocating operations and maintenance of plant, depreciation, and interest on indebtedness are as follows for the years ended June 30, 2012 and 2011:

		2012	2011
Instruction	$	28,897,531	27,187,267
Academic support		4,204,452	4,088,697
Student services		10,178,203	9,932,257
Institutional support		9,304,949	9,224,107
Auxiliary enterprises		9,942,018	9,665,727
	$	62,527,153	60,098,055

Included in institutional support are costs of $1,843,100 and $1,883,013 associated with fundraising activities in 2012 and 2011, respectively.

(17) 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 $216,210 and $220,721 and are included in net realized/unrealized gain(loss) in the statements of activities for the years ended June 30, 2012 and 2011, respectively.

(18) 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, 2012, excluding annuity and trust funds:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:				
Instruction and operations	$ (103,883)	3,387,710	16,118,869	19,402,696
Student aid	(574,262)	4,589,352	25,087,410	29,102,500
Contributions receivable	—	—	126,551	126,551
Board-designated endowment funds	29,474,845	—	—	29,474,845
Total endowment net assets	$ 28,796,700	7,977,062	41,332,830	78,106,592

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

Changes in endowment net assets for the year ended June 30, 2012 are as follows, excluding balances associated with annuities and trusts:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2011	$ 29,482,468	11,038,752	40,824,512	81,345,732
Investment return:				
Investment income	1,033,023	475,019	1,069	1,509,111
Net appreciation	(2,128,807)	(1,421,695)	(4,035)	(3,554,537)
Total investment return	(1,095,784)	(946,676)	(2,966)	(2,045,426)
Contributions	69,348	—	511,284	580,632
Appropriation of endowment assets for expenditure	(1,391,354)	(2,115,014)	—	(3,506,368)
Transfer to create board-designated funds	1,732,022	—	—	1,732,022
Endowment net assets, June 30, 2012	$ 28,796,700	7,977,062	41,332,830	78,106,592

(Continued)

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

During the years ended June 30, 2012 and 2011, the College identified certain net asset balances that had been improperly reported or carried as restricted net assets in prior years, although all external restrictions had been met or the amount should not have been reported as restricted to begin with. 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, 2012 and 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. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to zero. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds, with a fair value of associated assets that is less than the original gift amount, at June 30, 2012 and 2011, were approximately $678,000 and $280,000, respectively. Gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

(c) Return Objectives and Risk Parameters

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

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom index composed of 25% S&P 500 index (Cap Wtd), 10% Russell 2500 index, 20% of the MSCI ACW Ex-U.S. index (Net), 5% MSCI World Ex-U.S. Small Cap index (Net), 20% Barclays Capital U.S. Aggregate bond index, 4% Barclays Capital U.S. 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, 2012 and 2011, 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.

(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 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 \$450,568. 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.

(20) Subsequent Events

The College has evaluated any subsequent events after the statement of financial position date of June 30, 2012 through November 1, 2012, which was the date the financial statements were issued.

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