Linfield College

Financial Report 2008-2009

McMinnville, Oregon

LINFIELD COLLEGE

Vice President for Finance and Administration

November 5, 2009

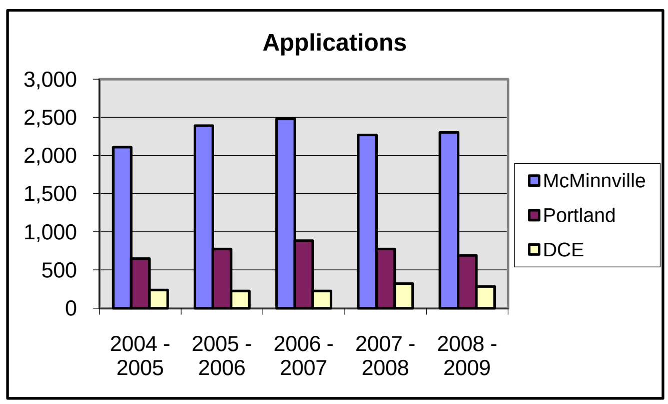
The Board of Trustees
Linfield College
McMinnville, OR 97128

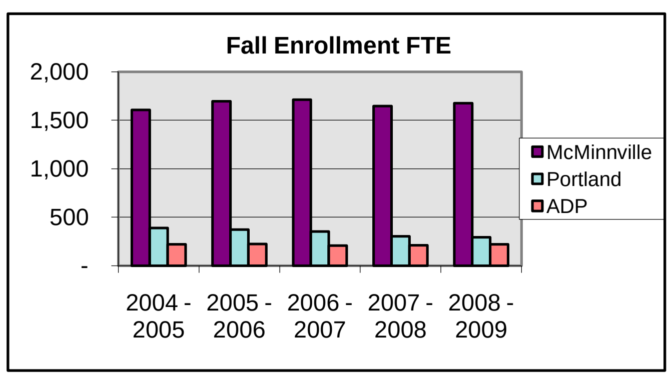
Dear Ladies and Gentlemen:

The following Linfield College FY2008-2009 financial statements, audited by KPMG LLP, provide significant detail for the year ended June 30, 2009. This cover letter is included to offer some historical context for a select list of key indicators. By focusing on the five-year trends for a limited number of key statistics readers should improve their knowledge of Linfield's economic situation.

New Applications & Fall Enrollment

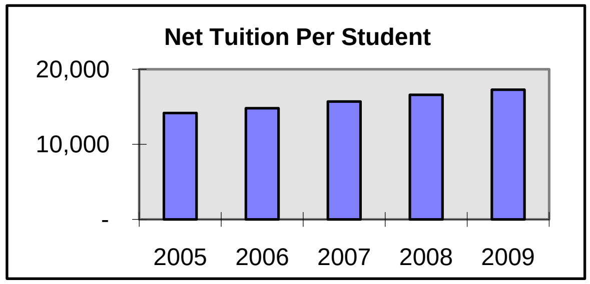
The most common enrollment benchmark for colleges and universities is to measure full-time equivalent (FTE) students at a fixed point following the start of the fall semester. FTE is calculated by dividing the total number of credit hours being taken by 15, the standard load for a full-time student. 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 application and enrollment numbers in this report separately identify students in McMinnville, Portland, and the Division of Continuing Education (DCE).

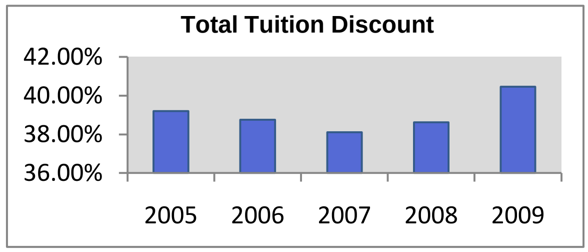




During the past five years new applications have reached all time highs. FY2008-2009 applications totaled 3,204, a decrease of 78 which is a modest decline from FY2007-2008.

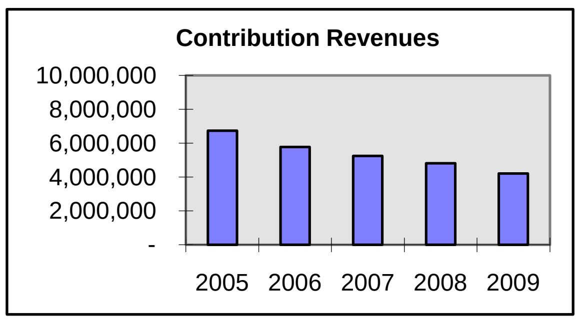
Net Tuition Per Student and Total Tuition Discount





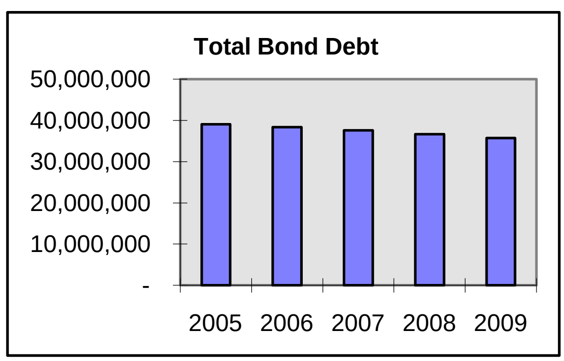
Net tuition revenue is the single largest factor in determining the annual funding for the college. Net tuition reflects the total tuition less financial aid discounts provided by the college, while net tuition per student is simply the division of net tuition revenue by the FTE enrollment number. During FY2008-2009 net tuition per student climbed from $16,600 to $17,300. This represents a 4.2% increase from FY2007-2008. Increases in the annual tuition rate offset by increases in student aid were key reasons for the net tuition per student growth.

Contribution Revenues



While annual contributions are important for the fiscal health of the college, the total amount varies widely from year to year. This variability is a function of general economic conditions, tax law changes and major gifts. During FY 2008-2009 Linfield received $4.2 million in gifts and irrevocable future commitments.

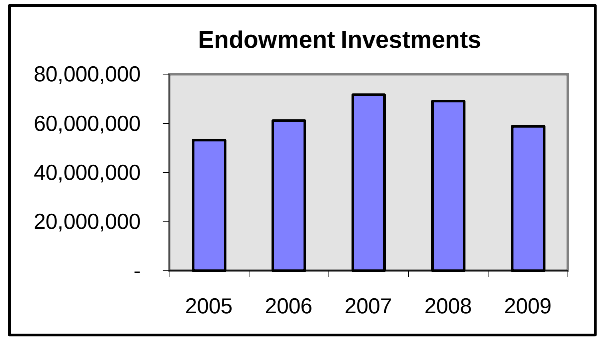
Total Bond Debt



In May 2005 the college issued new debt in order to construct two new residence halls containing 128 beds, which opened in the fall of 2006. At the same time the Series 2000 bonds were refinanced at lower interest rates. No new debt has been issued since the May 2005 issue. Moody's Investor Services has continued the college's credit rating at Baa1 during FY 2008-2009.

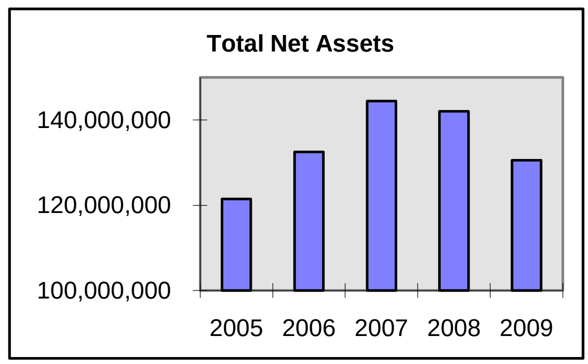
Total Endowment

For the fiscal year ended June 30, 2009 Linfield's endowment portfolio had a total return of (14.96) % compared to our Custom Index of (17.04) %. It was a difficult year in the financial markets but overall Linfield exceeded its Custom Index by 2.08%. At year end the market value of endowment assets was $58,741,000. The more conservatively invested life income trusts were valued at an additional $6,925,000.



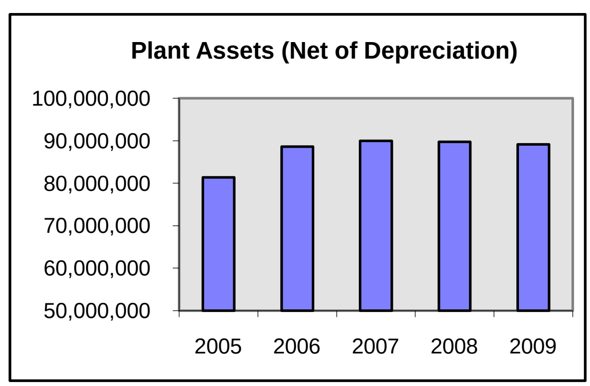
Total Net Assets

Total net assets decreased from $142.0 million in 2008 to $130.5 million in 2009, a reduction of 8.08%. Negative returns in our long-term investments were the major reason for this decline.



Net Plant Assets

At fiscal year-end there was a decrease in Net Plant Assets from $89.8 million to $89.2 million due to the annual recording of depreciation.



Summary

Linfield College continues to focus on a team approach to fiscal integrity and responsibility and finished Fiscal Year 2008-2009 with positive operating budget results for the 35th consecutive year. This allowed the college to continue to increase enrollment reserves, and allocate funds for operating reserves, financial aid reserves, academic program and learning technologies, capital improvements, and other critical needs. Linfield College's financial position continues to remain strong.

Respectfully Submitted,

W. Glenn Ford
Vice President for Finance and Administration

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, 2009 and 2008, 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. 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, 2009 and 2008, 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.

KPMG LLP

November 6, 2009

LINFIELD COLLEGE

Statements of Financial Position

June 30, 2009 and 2008

Assets		**2009**	**2008**
Assets:			
Cash and cash equivalents (note 2)	$	4,550,518	3,941,304
Accounts and notes receivable, net (note 9)		7,410,399	6,652,436
Interest receivable		390,071	406,805
Prepaid expenses and other assets		1,851,149	2,103,891
Contributions receivable (note 10)		1,819,376	2,404,773
Inventory		995,502	946,178
Investments (note 8)		71,094,910	83,266,159
Assets held in trust by others (note 16)		4,974,941	5,364,702
Plant assets, net (note 11)		89,171,538	89,797,664
Total assets	$	182,258,404	194,883,912
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	3,253,745	3,212,999
Deferred revenue		2,195,427	1,570,887
Bonds payable (note 12)		36,309,264	37,245,140
Mortgages, notes, and contracts payable		—	15,264
U.S. government grants refundable		4,629,615	4,627,940
Obligations for split-interest agreements		5,330,351	6,189,216
Total liabilities		51,718,402	52,861,446
Net assets:			
Unrestricted:			
Designated funds		2,407,280	1,052,329
Quasi-endowment		15,791,006	22,915,204
Net investment in plant		56,667,730	56,457,281
Total unrestricted		74,866,016	80,424,814
Temporarily restricted (note 3)		17,655,574	25,173,633
Permanently restricted (note 4)		38,018,412	36,424,019
Total net assets		130,540,002	142,022,466
Total liabilities and net assets	$	182,258,404	194,883,912

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Activities

Year ended June 30, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 58,777,139	—	—	58,777,139
Less student financial aid	(21,427,230)	—	—	(21,427,230)
Net tuition and fees (note 6)	37,349,909	—	—	37,349,909
Contributions	1,168,979	1,723,833	1,321,686	4,214,498
Contracts and other exchange transactions	1,233,908	—	—	1,233,908
Investment income	945,211	1,342,427	—	2,287,638
Net realized/unrealized loss on investments	(6,857,682)	(6,628,397)	—	(13,486,079)
Income on rental properties, net	154,529	—	—	154,529
Other income	438,794	443,024	—	881,818
Sales and services of auxiliary enterprises (note 14)	11,241,122	—	—	11,241,122
Total revenues and gains	45,674,770	(3,119,113)	1,321,686	43,877,343
Net assets released from restrictions (note 5)	3,915,212	(3,915,212)	—	—
Total revenues, gains, and other support	49,589,982	(7,034,325)	1,321,686	43,877,343
Expenses and losses (note 15):				
Education and general:				
Instruction	21,921,419	—	—	21,921,419
Academic support	3,396,827	—	—	3,396,827
Student services	7,593,222	—	—	7,593,222
Institutional support	7,267,118	—	—	7,267,118
Operation and maintenance of plant	3,505,245	—	—	3,505,245
Depreciation	2,805,907	—	—	2,805,907
Interest and amortization on indebtedness	1,867,941	—	—	1,867,941
Total education and general	48,357,679	—	—	48,357,679
Auxiliary enterprises (note 14)	6,872,076	—	—	6,872,076
Total expenses	55,229,755	—	—	55,229,755
Actuarial change in value of split-interest agreements	(80,975)	483,734	(272,707)	130,052
Change in net assets	(5,558,798)	(7,518,059)	1,594,393	(11,482,464)
Net assets at beginning of year	80,424,814	25,173,633	36,424,019	142,022,466
Net assets at end of year	$ 74,866,016	17,655,574	38,018,412	130,540,002

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Activities

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 53,777,212	—	—	53,777,212
Less student financial aid	(18,731,844)	—	—	(18,731,844)
Net tuition and fees (note 6)	35,045,368	—	—	35,045,368
Contributions	1,195,678	2,568,333	1,048,739	4,812,750
Contracts and other exchange transactions	1,263,003	—	—	1,263,003
Investment income	1,204,055	1,396,302	—	2,600,357
Net realized/unrealized loss on investments	(1,397,686)	(3,149,887)	—	(4,547,573)
Income on rental properties, net	120,772	—	—	120,772
Other income	995,441	332,085	—	1,327,526
Sales and services of auxiliary enterprises (note 14)	10,741,804	—	—	10,741,804
Total revenues and gains	49,168,435	1,146,833	1,048,739	51,364,007
Net assets released from restrictions (note 5)	3,519,334	(3,519,334)	—	—
Total revenues, gains, and other support	52,687,769	(2,372,501)	1,048,739	51,364,007
Expenses and losses (note 15):				
Education and general:				
Instruction	20,652,548	—	—	20,652,548
Academic support	3,213,272	—	—	3,213,272
Student services	7,411,385	—	—	7,411,385
Institutional support	7,376,503	—	—	7,376,503
Operation and maintenance of plant	3,237,128	—	—	3,237,128
Depreciation	2,736,526	—	—	2,736,526
Interest and amortization on indebtedness	1,915,059	—	—	1,915,059
Total education and general	46,542,421	—	—	46,542,421
Auxiliary enterprises (note 14)	6,862,555	—	—	6,862,555
Total expenses	53,404,976	—	—	53,404,976
Actuarial change in value of split-interest agreements	(15,023)	630,742	(215,715)	400,004
Change in net assets	(702,184)	(3,003,243)	1,264,454	(2,440,973)
Net assets at beginning of year	81,126,998	28,176,876	35,159,565	144,463,439
Net assets at end of year	$ 80,424,814	25,173,633	36,424,019	142,022,466

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(11,482,464)	(2,440,973)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization of bond issuance costs		2,911,839	2,744,377
Actuarial change in split-interest agreements		130,052	400,004
Net realized and unrealized gain on long-term investments		13,486,079	4,547,573
Contributions restricted for long-term investment		(1,934,278)	(2,097,780)
Noncash contributions		(293,088)	(169,165)
Decrease (increase) in interest receivable		16,734	(9,168)
Increase in accounts and notes receivable, net		(757,963)	(411,001)
Decrease (increase) in contributions receivable		585,397	(906,036)
(Increase) decrease in inventory		(49,324)	33,786
Decrease (increase) in prepaid expenses and other assets		219,016	(252,045)
Increase in accounts payable and accrued liabilities		40,746	89,740
Increase (decrease) in deferred revenue		624,540	(97,423)
Increase (decrease) in U.S. government grants refundable		1,675	(42,470)
(Decrease) increase in obligations for split-interest agreements		(44,596)	24,500
Net cash provided by operating activities		3,454,365	1,413,919
Cash flows from investing activities:			
Purchase of plant and equipment		(2,277,862)	(2,636,555)
Proceeds from sale of investments		15,998,626	60,187,752
Purchases of investments		(16,630,608)	(56,114,674)
Net cash (used in) provided by investing activities		(2,909,844)	1,436,523
Cash flows from financing activities:			
Cash contributions restricted for:			
Endowment		1,073,577	1,094,893
Annuities and trusts		671,650	542,993
Plant		189,051	459,894
Principal payments on mortgages, notes, and bonds payable		(925,264)	(934,819)
Payments on obligations for split-interest agreements		(944,321)	(951,660)
Net cash provided by financing activities		64,693	211,301
Net increase in cash and cash equivalents		609,214	3,061,743
Cash and cash equivalents at beginning of year		3,941,304	879,561
Cash and cash equivalents at end of year	$	4,550,518	3,941,304
Supplemental cash flow disclosures:			
Cash paid for interest	$	1,879,344	1,926,250
Gifts of marketable assets for current use or long-term use		293,088	181,557

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 2,500 students from 30 states and 21 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 actuarial 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 are recorded as additional contribution revenue and are subject to donor-imposed restrictions.

(Continued)

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. Currently, the College does not have any endowment gifts that fit into this category.
- 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.

Effective July 1, 2008, the College adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS 157), 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. SFAS 157 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. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements.

Subsequent to the issuance of SFAS 157, the FASB issued additional Financial Staff Positions (FSP), which provide implementation guidance related to fair value measurements. The College has adopted the applicable FSPs as appropriate during fiscal year 2009.

As noted above, SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an 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 Facilities

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 costs include amounts paid by the College in connection with the issuance of the 1998, 2000, 2001, and 2005 Series A, Oregon Facilities Authority Bonds. Bond issuance costs are reported as a component of prepaid expenses and other assets in the accompanying statements of financial position. Amortization is calculated using a method that approximates 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 terms.

(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 rate used by the College in calculating present value of all split-interest agreements ranges from 2.5% – 13.5% at June 30, 2009.

(j) Fair Value of Financial Instruments

At June 30, 2009, the carrying values of cash, 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, 2009, the fair value of the College's bonds payable approximates $37,677,000 as compared to its carrying value of $36,309,264. Fair value of bonds as of June 30, 2009 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, if any, is immaterial, and therefore, no tax provision has been made.

The College has adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the more-likely than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, FIN 48 provides guidance on the recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 had no impact on the financial position, change in net assets, or the cash flows of the College.

(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 commercial paper and are stated at cost, which approximates fair value. The College held $3,830,841 and $3,007,905 in cash equivalents at June 30, 2009 and 2008, respectively.

Federal depository insurance provides a limited amount of protection for cash deposits, typically $250,000 per account. At June 30, 2009 and 2008, bank balances of $250,000 were insured by the Federal Deposit Insurance Corporation (FDIC).

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for:

	2009	2008
Instruction and operations	$ 9,350,040	12,231,125
Student aid	7,008,790	10,208,266
Funds from split-interest agreements	1,296,744	2,734,242
	$ 17,655,574	25,173,633

(4) Permanently Restricted Net Assets

Income from permanently restricted net assets at June 30, 2009 and 2008 is restricted to:

	2009	2008
General college support	$ 1,864,401	1,819,899
Departmental support	9,782,102	9,551,921
Student aid	26,371,909	25,052,199
	$ 38,018,412	36,424,019

(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, 2009 and 2008 as follows:

	2009	2008
Purpose restrictions accomplished:		
Instruction and operations	$ 727,173	596,784
Academic support	17,170	29,244
Student services	490,062	610,145
Scholarships	1,749,449	1,495,081
Operations and maintenance of plant	47,339	3,323
Institutional support	10,191	4,971
Purchase of plant assets	873,828	779,786
	$ 3,915,212	3,519,334

(Continued)

(6) Tuition and Fees

Student tuition and fee revenues for the years ended June 30, 2009 and 2008 consist of the following:

		2009	2008
Tuition and fees	$	58,777,139	53,777,212
Less:			
Unfunded financial aid		(19,224,828)	(16,768,918)
Funded financial aid		(2,202,402)	(1,962,926)
Tuition and fees, net	$	37,349,909	35,045,368

(7) Liquidity

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2009 and 2008 is as follows:

		2009	2008
Total current assets	$	10,838,557	10,460,380
Total long-term assets		171,419,847	184,423,532
Total assets	$	182,258,404	194,883,912
Total current liabilities	$	6,519,172	5,709,150
Total long-term liabilities		45,199,230	47,152,296
Total liabilities		51,718,402	52,861,446
Net assets		130,540,002	142,022,466
Total liabilities and net assets	$	182,258,404	194,883,912

(8) Investments

Investments are comprised of the following at June 30, 2009 and 2008:

	2009	2008
Restricted cash equivalents	$ 2,931,809	2,926,673
Fixed income securities	14,741,166	17,122,694
Domestic equities	19,706,652	24,395,918
International equities	12,642,191	14,049,606
Preferred equities	75,140	78,416
Publicly traded hedge fund	4,304,955	7,317,007
Real return assets	2,562,953	2,757,068
Life income assets:		
Cash and cash equivalents held for reinvestment	224,650	135,247
Equities	3,893,928	3,869,678
Bonds	3,369,746	3,972,132
Real property held for investment	6,641,720	6,641,720
	$ 71,094,910	83,266,159

The values of total investments as allocated by designation or donor restriction at June 30, 2009 and 2008 are as follows:

	2009	2008
Quasi-endowment	$ 18,078,331	22,915,204
Endowment	40,662,916	46,118,748
Split-interest agreements	6,924,814	8,807,902
Other	5,428,849	5,424,305
	$ 71,094,910	83,266,159

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 rental revenue to be recorded associated with this lease is as follows:

Year ending June 30:	
2010	$ 179,976
2011	179,976
2012	179,976
2013	179,976
2014	188,976
Thereafter	1,748,054
	$ 2,656,934

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, 2009, the life income assets primarily consisted of equity and fixed income mutual funds.

As of June 30, 2009 and 2008, restricted cash equivalents includes $2,925,184 and $2,926,673, respectively, of remaining proceeds for bond reserve funds obtained from the issuance of the 1998, 2000, 2001, and 2005 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 SFAS 157 hierarchy as of June 30, 2009:

	Total	Level 1	Level 2	Level 3
Assets:				
Assets held in trust by others	$ 4,974,941	—	—	4,974,941
Investments:				
Restricted cash equivalents	2,931,809	2,931,809	—	—
Domestic equities	19,706,652	19,706,652	—	—
Preferred equities	75,140	75,140	—	—
International equities	12,642,191	12,642,191	—	—
Fixed income securities and funds	14,741,166	14,464,508	276,658	—
Publicly traded hedge fund	4,304,955	—	4,304,955	—
Real return assets	2,562,953	2,562,953	—	—
Life income assets:				
Fixed income partnership	3,313,987	94,892	3,219,095	—
Equity partnership	2,938,920	2,938,920	—	—
Mutual funds	982,945	982,945	—	—
Bond funds	38,115	—	38,115	—
Cash equivalents	214,357	214,357	—	—
Total	$ 69,428,131	56,614,367	7,838,823	4,974,941

Real property held for investment is recorded at cost. As such, these assets are not included in the above schedule. The cost value of the real property included in investments is $6,641,720 at June 30, 2009.

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 split-interest agreements held or controlled by a third party is classified as Level 3. The underlying investments in the College's trusts include marketable securities. However, 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.

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.

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 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

Publicly Traded Hedge Fund – Investment in 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, which represent significant observable inputs but are infrequently traded.

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 stock funds, mutual funds, and cash equivalents. Level 2, those assets whose value is directly observable such as bond funds, government related investments, and mortgage and asset backed securities.

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 year ended June 30, 2009:

	Balances, June 30, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances, and settlements, net	Net transfer in (out) of Level 3	Balances, June 30, 2009
Assets held in trusts by others	$ 5,364,702	(389,761)	—	—	4,974,941

(9) Accounts and Notes Receivable

Accounts and notes receivable at June 30, 2009 and 2008 consist of the following:

		2009	2008
Student accounts receivable	$	1,020,221	577,224
Perkins loans		4,480,708	4,276,884
Other student loans		2,148,540	2,020,129
Other receivables		570,129	497,938
		8,219,598	7,372,175
Less allowance for doubtful accounts		(809,199)	(719,739)
	$	7,410,399	6,652,436

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 86% 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

At June 30, 2009, the College has unconditional promises to give of $1,937,538, which are shown net of unamortized discount of $118,162. Pledges receivable after one year were discounted using an interest rate commensurate with the risks involved. Contributions receivable due in excess of one year are discounted at rates ranging from 1.76% to 4.76% for the year ended June 30, 2009. Annual payments are scheduled to be received as follows:

		2009	2008
Amounts due in:			
Amounts receivable in less than one year	$	1,157,465	1,781,038
Amounts receivable in one to five years		780,073	740,000
		1,937,538	2,521,038
Less unamortized discount		(118,162)	(116,265)
Net unconditional promises to give	$	1,819,376	2,404,773

(11) Plant Assets

Plant assets at June 30, 2009 and 2008 consist of the following:

	2009	2008
Land	$ 8,470,923	8,470,923
Land improvements	5,712,224	5,712,224
Buildings and improvements	89,765,819	88,323,498
Furniture, equipment, library books, and artworks	23,009,732	21,931,983
Construction-in-progress	615,778	857,986
	127,574,476	125,296,614
Less accumulated depreciation	(38,402,938)	(35,498,950)
Net plant assets	$ 89,171,538	89,797,664

(12) Bonds Payable

At June 30, 2009 and 2008, bonds payable consist of the following:

	2009	2008
Oregon Facilities Authority Bonds of 1998 Series A, 3.85% to 5.50%, due serially to 2023 (a)	$ 12,945,000	13,470,000
Oregon Facilities Authority Bonds of 2000 Series A, 5.13% to 6.50%, due serially to 2012 (b)	865,000	1,250,000
Oregon Facilities Authority Bonds of 2001 Series A, 5.75%, due serially to 2025 (c)	2,000,000	2,000,000
Oregon Facilities Authority Bonds of 2005 Series A, 3.375% to 5.00%, due serially to 2030 (d)	19,930,000	19,930,000
	35,740,000	36,650,000
Add unamortized bond premium	569,264	595,140
	$ 36,309,264	37,245,140

(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 are 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. As of June 30, 2009 and 2008, the reserve fund had assets remaining of $1,341,193 and $1,342,946, respectively. The College is responsible for bond principal and interest payments, which vary from 3.85% to 5.50%. Principal reduction began in 2001 with the final maturation occurring on October 1, 2023. Bonds maturing on or after October 1, 2008 are subject to redemption prior to maturity at the option of the College with a redemption price 101% of face value if redeemed from

October 1, 2008 to September 30, 2009, at 100.5% if redeemed from October 1, 2009 to September 30, 2010, and at 100% if redeemed October 1, 2010 or thereafter.

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

(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 are 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. As of June 30, 2009 and 2008, the reserve fund had assets remaining of $1,234,985 and $1,234,513, respectively. The College is responsible for bond principal and interest payments that vary from 5.13% to 6.50%. Principal reduction began in 2001, with the final maturation occurring on June 30, 2012. Bonds maturing on or after October 1, 2011 will be subject to redemption at the option of the College with a redemption price 101% of face value if redeemed from October 1, 2010 to September 30, 2011, and 100.5% if redeemed from October 1, 2011 to September 30, 2012. The 2000 bonds were partially refunded with funds received from the Oregon Facility Authority 2005 Bond issuance. See further discussion in part (e) below.

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

(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 are 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. As of June 30, 2009 and 2008, the reserve fund had assets remaining of $226,658 and $220,575, respectively. The College is responsible for bond principal and interest payments at 5.75%. Principal reduction will begin in 2011 with the final maturation occurring on October 1, 2025. Bonds maturing on or after October 1, 2010 are 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 100.5% 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 are 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 6.5% to 6.75%. Refunding proceeds of approximately $13,414,000 were issued to purchase securities deposited into an irrevocable trust with an escrow agent to provide for the redemption of the Oregon Facilities Authority Series 2000 bonds.

As of June 30, 2009 and 2008, the reserve fund had assets remaining of $348,994 and $349,013, respectively. The College is responsible for bond principal and interest payments that vary from 3.375% to 5.00%. Principal reduction will begin 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.

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

The above 1998, 2000, 2001, and 2005 Oregon Facilities Authority bonds contain certain covenants, which include the maintenance of certain financial ratios, as defined in the agreements.

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

	Principal	Interest	Total payments
Year ended June 30:			
2010	$ 1,070,000	1,827,554	2,897,554
2011	1,275,000	1,764,638	3,039,638
2012	1,440,000	1,692,156	3,132,156
2013	1,530,000	1,614,481	3,144,481
2014	1,630,000	1,531,763	3,161,763
Thereafter	28,795,000	10,257,624	39,052,624
	$ 35,740,000	18,688,216	54,428,216

(13) Pension Plan

The College has a defined contribution pension plan for all eligible staff and faculty in the form of retirement annuity contracts and life insurance. The plan provides for annual contributions by the College for eligible employees amounting to 11.25% (staff) and 16.00% (faculty) of annual salary in both 2009 and 2008. The College’s contributions totaled approximately $2,769,846 and $2,518,092 in 2009 and 2008, respectively.

(14) Auxiliary Enterprises

Auxiliary enterprises consist of food service, residence life and bookstore operations, and 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:

	2009		2008	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Bookstore	$ 1,541,545	1,376,637	1,701,260	1,718,250
Foodservice	3,310,206	2,153,077	3,088,472	2,018,775
Residence life	5,489,246	3,283,677	5,116,804	3,133,520
Outside conferences and other	900,125	902,436	835,268	851,029
	$ 11,241,122	7,715,827	10,741,804	7,721,574

(15) Expenses by Function

Total expenses by functional classification after allocating operations and maintenance of plant, depreciation, and interest on indebtedness are as follows for the years ended June 30, 2009 and 2008:

	2009	**2008**
Instruction	$ 25,339,036	23,842,202
Academic support	3,926,403	3,709,541
Student services	8,777,029	8,556,026
Institutional support	8,400,082	8,515,757
Auxiliary enterprises	8,787,205	8,781,450
	$ 55,229,755	53,404,976

Included in institutional support are costs of $1,832,948 and $1,728,115 associated with fund-raising activities in 2009 and 2008, respectively.

(16) Assets Held in Trust by Others

The College has been designated the cobeneficiary of the income 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 $266,975 and $219,035 and are included in net realized/unrealized gain on other investments in the statements of activities for the years ended June 30, 2009 and 2008, respectively.

(17) Endowment and Quasi-Endowment Funds

Effective July 1, 2008, the College adopted the provisions of the FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the

Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designed 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.

Interpretation of Relevant Law

The Board of Trustees of the College have 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, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:					
Instruction and operations	$	(320,162)	3,037,249	13,428,235	16,145,322
Student aid		(1,967,163)	5,484,850	20,834,723	24,352,410
Board-designated endowment funds		18,078,331	—	—	18,078,331
Total endowment net assets	$	15,791,006	8,522,099	34,262,958	58,576,063

Endowment net assets consist of the following at June 30, 2008:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:					
Instruction and operations	$	—	6,420,061	13,265,983	19,686,044
Student aid		—	7,984,630	19,675,186	27,659,816
Board-designated endowment funds		22,915,204	—	—	22,915,204
Total endowment net assets	$	22,915,204	14,404,691	32,941,169	70,261,064

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$	22,915,204	14,404,691	32,941,169	70,261,064
Investment return:					
Investment income		675,146	1,070,973	—	1,746,119
Net depreciation		(6,900,412)	(5,088,159)	—	(11,988,571)
Total investment return		(6,225,266)	(4,017,186)	—	(10,242,452)
Contributions		—	20,614	1,321,789	1,342,403
Appropriation of endowment assets for expenditure		(1,119,705)	(1,886,020)	—	(3,005,725)
Transfer to create board-designated funds		220,773	—	—	220,773
Endowment net assets, June 30, 2009	$	15,791,006	8,522,099	34,262,958	58,576,063

(Continued)

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$	24,556,423	17,124,426	31,896,557	73,577,406
Investment return:					
Investment income		655,754	1,063,782	—	1,719,536
Net depreciation		(1,496,798)	(2,051,150)	—	(3,547,948)
Total investment return		(841,044)	(987,368)	—	(1,828,412)
Contributions		—	—	1,044,612	1,044,612
Appropriation of endowment assets for expenditure		(1,039,692)	(1,732,367)	—	(2,772,059)
Transfer to create board-designated funds		239,517	—	—	239,517
Endowment net assets, June 30, 2008	$	22,915,204	14,404,691	32,941,169	70,261,064

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 were $2,287,325 as of June 30, 2009. 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. There were no such deficiencies as of June 30, 2008.

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% of the S&P 500 index, 20% of the BC U.S. Aggregate bond index, 20% of the MSCI ACW index, 5% of the MSCI EAFE Small Cap index, 10% of the Russell 2500 index, 10% HFRI

(Continued)

index, and 10% of a fixed return of 6.4% 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.

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.

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 12 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, 2009 and 2008, the spending rates adopted by the College were 4.5% and 4.6%, respectively, of a twelve-quarter moving average market value of pooled net assets with the allocation of earned income made annually. Total spending applied to operations was approximately $3,005,725 and $2,772,059 in 2009 and 2008, respectively.

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 monies 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, pay the administrative expenses of the Plan, which are not otherwise paid by the College directly, and to establish and maintain a minimum reserve as determined by the Trustee. In the event that losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the College is approximately $263,663. 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 Event

In connection with the preparation of the financial statements and in accordance with the recently issued Statement of Financial Accounting Standards No. 165, *Subsequent Events*, the College has evaluated any subsequent events after the Statement of Financial Position date of June 30, 2009 through November 6, 2009, which was the date the financial statements were issued.

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