

MOSSES ADAMS

LEWIS & CLARK COLLEGE
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
(with supplemental information)

MAY 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lewis & Clark College

We have audited the accompanying statement of financial position of Lewis & Clark College (the College) as of May 31, 2010, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the College's 2009 financial statements and, in our report dated November 16, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the College as of May 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of financial position by fund as of May 31, 2010, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Portland, Oregon
September 20, 2010

LEWIS & CLARK COLLEGE
STATEMENTS OF FINANCIAL POSITION

	May 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 29,537,416	\$ 23,066,558
Student accounts receivable, net	472,199	590,315
Other receivables	1,254,728	1,625,170
Real estate held for sale	3,200,000	3,480,000
Prepaid expenses and other assets	750,462	534,892
Student loans receivable, net	8,356,360	8,229,562
Investments	178,230,255	163,358,909
Contributions receivable	6,297,082	2,395,904
Bond issuance costs, net	879,923	919,919
Property, plant, and equipment, net	160,360,100	163,738,135
TOTAL ASSETS	\$ 389,338,525	\$ 367,939,364
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,558,273	\$ 1,725,971
Accrued and other liabilities	11,038,246	9,824,936
Deferred revenues	2,768,457	1,992,870
Liability for split interest agreements	669,940	828,578
Bonds payable	103,365,000	104,400,000
Interest rate swaps liability	12,177,009	11,601,645
U.S. government grants refundable	6,447,872	6,447,433
Total liabilities	139,024,797	136,821,433
NET ASSETS		
Unrestricted	79,825,013	71,751,358
Temporarily restricted	68,704,610	59,749,879
Permanently restricted	101,784,105	99,616,694
Total net assets	250,313,728	231,117,931
TOTAL LIABILITIES AND NET ASSETS	\$ 389,338,525	\$ 367,939,364

LEWIS & CLARK COLLEGE

STATEMENTS OF ACTIVITIES

	Year Ended May 31, 2010				
	(With Summarized Financial Information for the Year Ended May 31, 2009)				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
OPERATING ACTIVITIES					
Revenues and gains:					
Tuition and fees, net of scholarships and fellowships of \$28,796,748 and \$25,333,144 in 2010 and 2009, respectively	\$ 75,980,193	\$ -	\$ -	\$ 75,980,193	\$ 74,204,374
Contributions	1,829,043	-	-	1,829,043	1,527,685
Contracts and other exchange transactions	2,800,317	-	-	2,800,317	2,241,246
Investment earnings from endowment, distributed	11,144,264	-	-	11,144,264	11,222,870
Other investment income	70,565	-	-	70,565	381,289
Other revenue	1,946,036	-	-	1,946,036	1,979,014
Sales and services of auxiliary enterprises	12,899,725	-	-	12,899,725	12,226,360
Total revenues and gains	106,670,143	-	-	106,670,143	103,782,838
Net assets released from restrictions	7,063,007	(8,009,859)	946,852	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	113,733,150	(8,009,859)	946,852	106,670,143	103,782,838
Expenses:					
Educational and general:					
Instruction	49,281,930	-	-	49,281,930	49,355,944
Research	2,700,960	-	-	2,700,960	2,468,314
Public service	1,108,407	-	-	1,108,407	1,536,914
Academic support	13,045,580	-	-	13,045,580	14,318,345
Student services	10,855,037	-	-	10,855,037	10,100,437
Institutional support	18,019,420	-	-	18,019,420	18,769,273
Total educational and general	95,011,334	-	-	95,011,334	96,549,227
Auxiliary enterprises	12,505,287	-	-	12,505,287	13,293,823
TOTAL EXPENSES	107,516,621	-	-	107,516,621	109,843,050
INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES	6,216,529	(8,009,859)	946,852	(846,478)	(6,060,212)
NON-OPERATING ACTIVITIES					
Contributions	552,257	8,406,624	930,410	9,889,291	4,501,338
Contracts & exchange transactions	-	205,245	-	205,245	252,530
Endowment earnings, net of amounts distributed	4,266,156	8,323,428	-	12,589,584	(69,772,804)
Change in value of split interest agreements	-	31,856	388,438	420,294	(1,535,202)
Unrealized loss on interest rate swaps related to bonds	(575,364)	-	-	(575,364)	(7,456,717)
Loss from college housing program	(79,102)	-	-	(79,102)	(57,206)
Loss on disposal of assets	(2,306,821)	(2,563)	(98,289)	(2,407,673)	-
INCREASE (DECREASE) IN NET ASSETS FROM NON-OPERATING ACTIVITIES	1,857,126	16,964,590	1,220,559	20,042,275	(74,068,061)
INCREASE (DECREASE) IN NET ASSETS	8,073,655	8,954,731	2,167,411	19,195,797	(80,128,273)
NET ASSETS AT BEGINNING OF YEAR	71,751,358	59,749,879	99,616,694	231,117,931	311,246,204
NET ASSETS AT END OF YEAR	\$ 79,825,013	\$ 68,704,610	\$ 101,784,105	\$ 250,313,728	\$ 231,117,931

LEWIS & CLARK COLLEGE
STATEMENTS OF CASH FLOWS

	Year Ended May 31,	
	2010	2009
OPERATING ACTIVITIES		
Change in net assets	\$ 19,195,797	\$ (80,128,273)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution of marketable securities	(949,579)	(234,681)
Depreciation and amortization	6,222,055	6,493,896
Loss on write-off of contributions receivable	98,289	-
Loss on disposal of property, plant and equipment	2,407,673	7,940
Loss on write-down of real estate held for sale	280,000	390,000
Loss on write-off of bond issuance costs	-	3,801,017
Unrealized loss on interest rate swaps related to bonds	575,364	7,456,717
Actuarial adjustments of liabilities under split-interest agreements	(34,748)	(76,768)
Change in contributions receivable discount	79,875	(20,516)
Contributions restricted for endowment, trust and capital projects	(1,676,610)	(2,209,105)
Interest and dividends restricted for long-term investment	(328,060)	(405,595)
Net realized and unrealized (gains) losses	(22,228,005)	63,502,326
Bond issuance costs	-	(959,915)
Cash provided by changes in operating assets and liabilities:		
Decrease in accounts and other receivables	488,559	97,200
(Increase) decrease in pledges receivable	(4,079,342)	1,960,642
(Increase) decrease in prepaid expense and other assets	(215,570)	129,827
Increase (decrease) in accounts payable	832,302	(632,961)
Increase in accrued liabilities	1,213,311	880,735
New split-interest agreement obligations	5,467	-
Increase (decrease) in deferred revenues	775,588	(12,352)
	2,662,366	40,134
INVESTING ACTIVITIES		
Increase in student loans receivable	(126,799)	(604,282)
Increase in U.S. government grants refundable	439	91,187
Purchases of land, property, plant, and equipment	(5,754,391)	(6,351,685)
Proceeds from sale of property and equipment	542,693	247,060
Proceeds from sales of investments	29,852,550	68,885,542
Purchase of investments	(21,546,312)	(50,826,253)
	2,968,180	11,441,569

LEWIS & CLARK COLLEGE
STATEMENTS OF CASH FLOWS

	Year Ended May 31,	
	2010	2009
FINANCING ACTIVITIES		
Contributions restricted for endowment, trust and capital projects	\$ 1,676,610	\$ 2,209,105
Interest and dividends restricted for long-term investment	328,060	405,595
Proceeds from issuance of bonds payable	-	106,400,000
Bonds refunded	-	(105,425,000)
Principal payments on bonds payable	(1,035,000)	(2,000,000)
Maturities and terminations of split interest obligations	(129,358)	(375,000)
	<u>840,312</u>	<u>1,214,700</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,470,858	12,696,403
CASH AND CASH EQUIVALENTS, beginning of year	<u>23,066,558</u>	<u>10,370,155</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 29,537,416</u>	<u>\$ 23,066,558</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 4,526,684</u>	<u>\$ 4,614,372</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Lewis & Clark College is a private, nonprofit institution of higher education based in Portland, Oregon. The College provides education and training services for undergraduate students through the College of Arts and Sciences, for graduate students through the Graduate School of Education and Counseling, and to law students through the Lewis & Clark Law School. The College performs research, training, and other services under grants and contracts with sponsoring organizations, primarily departments and agencies of the United States government.

Basis of accounting – The financial statements of the College have been prepared on the accrual basis of accounting.

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 classify and report net assets are as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed restrictions 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 restrictions that are permanently maintained by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenue recognition – Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions.

Tuition and fees – Student tuition and fees are recorded as revenue in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Collectability of student accounts and notes receivable is reviewed both individually and in the aggregate.

Contributions – Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Unconditional promises to give are initially recorded at fair value using the present value of future cash flows, discounted using a risk adjusted rate. Subsequent measurements of unconditional promises to give do not represent fair value. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortized discounts are recorded as additional contribution revenue and are subject to donor-imposed restrictions.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Grants and contracts – Revenues from grants and contracts are reported as increases in unrestricted net assets, as allowable expenditures under such agreements are incurred.

Investment return – Investment income and realized and unrealized gains and losses are recorded and reported as increases or decreases to the appropriate net asset category. Income and net gains on investments of endowment and similar funds are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or the College's interpretation of relevant state law require they be added to the principal of a permanently restricted net asset.
- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the timing or the use of the income.
- Increases in unrestricted net assets in all other cases.

Cash and cash equivalents – The College considers all highly-liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents are invested in money market accounts or commercial paper and are stated at cost which approximates market value.

Student accounts and loans receivable – Student accounts receivable are recorded at the invoiced amount and do not bear interest. At May 31, 2010, student accounts receivable totaled \$472,199, net of allowance for doubtful accounts of \$240,000. Student loans receivable totaled \$8,356,360 net of allowance for doubtful accounts of \$485,200. At May 31, 2009, student accounts receivable totaled \$590,315, net of allowance for doubtful accounts of \$240,000. Student loans receivable totaled \$8,229,562, net of allowance for doubtful accounts of \$485,200. The allowance for doubtful accounts represents the College's best estimate of the amount of probable credit losses in the College's existing accounts receivable and student loans receivable. The College determines the allowance by performing on-going evaluations of its students and their ability to make payments. The College determines the adequacy of the allowance based on length of time past due, historical experience, and judgment of economic conditions. Account and loan balances are charged off against the allowance after all means of collection have been exhausted and the potential recovery is considered remote. The College follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

Real estate held for sale – Real estate held for sale consists of 59.50 acres of land in Yamhill County. Ninety percent of the property is held in a trust and the other ten percent is held by the College directly as an endowment. The trust and the College are actively seeking a buyer for the property. At May 31, 2010, the property was valued at \$3,200,000 based on an independently obtained appraisal. As of May 31, 2010, the College has recorded a cumulative amount of \$2,702,200 as a write-down of real estate held for sale, \$291,018 of which was recorded during the year ended May 31, 2010.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Inventories – Inventories consist primarily of books and supplies and are recorded at the lower of cost (first-in, first-out) or market and are included in other assets in the statement of financial position.

Investments – Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The value of real estate investments is determined from valuations prepared by independent appraisers at the time of gift. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

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

Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. The College's investments in these auction rate securities are recorded at cost, which approximates fair market value because of their variable interest rates, which typically reset every 7 to 35 days. All income generated from these investments was recorded as interest income. During the year ended May 31, 2009, the College liquidated its investment in these securities.

Contributions receivable – An allowance for uncollectible receivables is provided based upon management's judgment, including such factors as prior collection history and type of receivable. Accounts are charged off when all collection efforts have been exhausted.

Bond issuance costs – Bond issuance costs include amounts paid by the College in connection with the bond issuances. Amortization is calculated using the straight-line method, which approximates the effective interest method, over the life of the bond.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Split-interest agreements – The College uses the actuarial method of recording certain split-interest agreements. Under this method, the present value of the payments to beneficiaries is determined based upon life expectancy tables when the gift is received. The present value of those payments is recorded as a liability and the remainder as net assets. Discount rates ranging from 3.20% to 10.00% were used to calculate the present value of the liability based on the estimated life expectancies of the beneficiaries. This rate approximates a risk-free rate plus premium at May 31, 2010. The discount rates represent the Federal Applicable Rates that were effective when the gift agreements were established. At May 31, 2009, discount rates ranging 3.80% to 10.00% were used to calculate the liability. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. There was one new agreement during the year ended May 31, 2010.

The College is named as beneficiary of various trust funds where the College's ultimate receipt of the funds is uncertain because of stipulations in the trust agreement. These trust funds are comprised of agreements which name third parties as co-beneficiaries and agreements where the named beneficiary can be revoked by the donor. The College has reflected appropriate liabilities for such trusts in the accompanying statements of financial position. For the years ended May 31, 2010 and 2009, the College distributed \$422,147 and \$469,981 respectively, in split-interest beneficiary payments.

Fair value of financial instruments – A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources, estimates using present value or other valuation techniques. Determination of the fair value of loan fund receivables, which are primarily federally sponsored student loans with U.S. governmental mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

At May 31, 2010 and 2009, the carrying values of cash, accounts and notes receivable, and accounts payable approximate fair value due to the short-term nature of these instruments. The difference between the carrying value of debt obligations and the fair value is immaterial to these financial statements.

Income taxes – The College is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the College qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

The College recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended May 31, 2010 and 2009, the College recognized no interest and penalties.

The College had no unrecognized tax benefits which would require an adjustment to the June 1, 2009 beginning balance of net assets and had no unrecognized tax benefits at May 31, 2010. The College files an exempt organization income tax return and an unrelated business income tax return in the U.S. federal jurisdiction and a copy with the state charities division and state department of revenue. With few exceptions, the College is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2006.

Use of estimates – The preparation of financial statements, in conformity with 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.

Prior year financial presentation – The financial statements include certain prior year summarized information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in information with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended May 31, 2009, for which the summarized information was derived.

Redesignation of net assets – Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations.

Reclassifications – Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Related party transactions – Members of the College’s Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. For senior management, the College requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the College. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the College. The College has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm’s length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the College, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

Subsequent events – Subsequent events are events or transactions that occur after the date of the statement of financial position but before financial statements are issued. The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The College’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the date of the statement of financial position and before financial statements are available to be issued.

The College has evaluated subsequent events through September 20, 2010, which is the date the financial statements are issued.

NOTE 2 – STUDENT LOANS RECEIVABLE

Student loans receivable represents loans from the Perkins loan fund that are generally payable with interest between 3.00% and 5.00% over approximately 11 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. The program provides for cancellation of loans if the student is employed in certain occupations following graduation. Losses from employment cancellations are absorbed in full by the U.S. government.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROMISES TO GIVE

Conditional promises – At May 31, 2010 and 2009, the College had received conditional promises to give of approximately \$2,825,389 and \$2,844,350, respectively. These conditional promises are not recognized as assets and, if they are received, will generally be restricted for specific purposes stipulated by the donors primarily for endowment, general operational support, or plant facilities.

Unconditional promises – At May 31, 2010 and 2009, the College had uncollected unconditional promises to give of \$6,532,675 and \$2,553,493, which are shown as contributions receivable, net of unamortized discounts of \$235,593 and \$157,589, respectively. Pledges receivable after one year were discounted using an adjusted risk free interest rate commensurate with the period over which the contribution will be received for the year ended May 31, 2010 and 2009. The weighted average rate was 2.54%.

Amounts due are as follows:

Amounts receivable in less than one year	\$ 1,705,833
Amounts receivable in one to five years	4,826,842
Amounts receivable in more than five years	<u>-</u>
	6,532,675
Unamortized discount	<u>(235,593)</u>
	<u>\$ 6,297,082</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INVESTMENTS

At May 31, the values of investments by type are as follows:

	<u>2010</u>	<u>2009</u>
Pooled investments		
Marketable domestic debt securities	\$ 6,256,001	\$ 3,063,636
Marketable international debt securities	3,908,151	3,587,575
Marketable commodities	4,317,521	3,299,169
Marketable domestic equity securities	31,768,266	39,818,904
Marketable international equity securities	16,012,573	19,051,705
Commingled trusts	60,587,469	46,353,693
Alternative investments		
Hedge funds	41,817,850	36,847,040
Private equity and venture capital	4,837,576	4,693,804
Natural resources funds	1,319,311	524,164
Real estate funds	570,463	367,857
Real estate and others (reported at cost)	<u>166,204</u>	<u>-</u>
Total pooled investments	171,561,385	157,607,547
Separate investments		
Beneficial interest in trust assets	5,206,791	4,786,244
Marketable balanced funds	1,002,984	965,118
Real estate and others (reported at cost)	<u>459,095</u>	<u>-</u>
Total separate investments	<u>6,668,870</u>	<u>5,751,362</u>
Total investments	<u><u>\$ 178,230,255</u></u>	<u><u>\$ 163,358,909</u></u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INVESTMENTS – (continued)

At May 31, the values of investments by category are as follows:

	<u>2010</u>	<u>2009</u>
Endowment		
Pooled investments	\$ 171,561,385	\$ 157,607,547
Separately invested	<u>1,363,935</u>	<u>965,118</u>
Total endowment	<u>172,925,320</u>	<u>158,572,665</u>
Annuity and life income contracts		
Separately invested	<u>5,206,791</u>	<u>4,786,244</u>
Total annuity and life income contracts	<u>5,206,791</u>	<u>4,786,244</u>
Other		
Separately invested	<u>98,144</u>	<u>-</u>
Total by category	<u>\$ 178,230,255</u>	<u>\$ 163,358,909</u>

NOTE 5 – SPLIT-INTEREST AGREEMENTS

As of May 31, 2010, the College had six gift annuity contracts issued and outstanding. The College maintains a reserve adequate to meet the actuarially determined future payments of these contracts. As of May 31, 2010, the fair value of the total assets held was \$258,024. The reserve was \$197,993, leaving \$60,031 of net assets in excess. During the fiscal year ended May 31, 2010, distributions to annuitants totaled \$36,925.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – SPLIT-INTEREST AGREEMENTS – (continued)

The College acts as trustee for a variety of split-interest agreements, mainly in the form of charitable remainder trusts, including both annuity trusts and unitrusts. At May 31, 2010 and 2009, the College's actuarially determined future payments and other obligations were:

	<u>2010</u>	<u>2009</u>
Gift annuity reserve	\$ 197,994	\$ 235,989
Present value of future payments – annuity trusts	269,383	385,943
Present value of future payments – fixed rate unitrusts	<u>202,563</u>	<u>206,646</u>
Total liability for split-interest agreements	<u>\$ 669,940</u>	<u>\$ 828,578</u>

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES

Accounting literature 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. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the College's market assumptions. These two types of inputs create the following fair value hierarchy:

Level I Inputs are unadjusted, and represent quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level I fair value generally include equities listed in active markets, listed options and money market funds.

Level II Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date. The types of assets and liabilities carried at Level II fair value generally include individual debt securities, interest rate swaps, comingled trusts, certain fund of funds and limited partnerships with audited data and underlying marketable securities.

Level III Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and/or the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain private investments.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)

The College used the following methods and significant assumptions to estimate fair value for its assets and liabilities measured and carried at fair value in the financial statements:

Investments – Investments are comprised of marketable securities, commingled trusts and alternative investments. Marketable security fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Commingled trusts are valued using net asset value. Alternative investments are valued at fair value using significant unobservable inputs. The College believes that alternative investments include only those investments whose underlying investments are not marketable securities. The value of these investments are determined by fund managers and valuation experts, using relevant market data.

Beneficial interest in trust assets – Beneficial interest in trust assets are comprised of marketable securities and real property. Marketable security fair values are based on quoted market prices and discounted, when appropriate. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The real estate fair values are held at cost.

Interest rate swap agreements – The fair values of interest rate swap agreements are the estimated amount the College would receive or pay to terminate the agreement at the reporting date, taking into consideration the current interest rates and creditworthiness of counter parties.

The following is a summary categorization as of May 31, 2010 and 2009 of the College’s assets and liabilities based on the level of inputs utilized in determining the value of such investments:

	Level I	Level II	Level III	Total
Marketable domestic debt securities	\$ 6,256,001	\$ -	\$ -	\$ 6,256,001
Marketable international debt securities	3,908,151	-	-	3,908,151
Marketable commodities	4,317,521	-	-	4,317,521
Marketable domestic equity securities	31,768,266	-	-	31,768,266
Marketable international equity securities	16,012,573	-	-	16,012,573
Marketable balanced funds	1,002,984	-	-	1,002,984
Commingled trusts	-	60,587,469	-	60,587,469
Alternative investments				
Hedge funds	-	-	41,817,850	41,817,850
Private equity and venture capital	-	-	4,837,576	4,837,576
Natural resources funds	-	-	1,319,311	1,319,311
Real estate funds	-	-	570,463	570,463
Beneficial interest in trust assets	-	-	5,206,791	5,206,791
Interest rate swap liability	-	(12,177,009)	-	(12,177,009)
Totals	<u>\$ 63,265,496</u>	<u>\$ 48,410,460</u>	<u>\$ 53,751,991</u>	<u>\$ 165,427,947</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments	\$ 72,463,459	\$ 47,295,875	\$ 43,599,575	\$ 163,358,909
Interest rate swap liability	-	11,601,645	-	11,601,645
Total	<u>\$ 72,463,459</u>	<u>\$ 58,897,520</u>	<u>\$ 43,599,575</u>	<u>\$ 174,960,554</u>

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level III) on a recurring basis during the year ended May 31, 2010:

	<u>Level III Instruments</u>					<u>Total</u>
	<u>Private Equity & Venture Capital</u>	<u>Natural Resources Funds</u>	<u>Real Estate Funds</u>	<u>Hedge Funds</u>	<u>Beneficial Interest in Trusts</u>	
Beginning balances, May 31, 2009	\$ 4,693,804	\$ 524,164	\$ 367,857	\$ 36,847,040	\$ 1,166,710	\$ 43,599,575
Gains & losses (realized/unrealized)	1,051,220	181,427	(96,894)	4,970,810	516,906	6,623,469
Purchases, issuances, sales, and settlements, net	(907,448)	613,720	299,500	-	(96,359)	(90,587)
Transfer into Level III (a)	-	-	-	-	3,619,534	3,619,534
Ending balances, May 31, 2010	<u>\$ 4,837,576</u>	<u>\$ 1,319,311</u>	<u>\$ 570,463</u>	<u>\$ 41,817,850</u>	<u>\$ 5,206,791</u>	<u>\$ 53,751,991</u>

(a) Transferred from Level I to Level III because of lack of observable market data due to inactive market for these instruments.

The total amount of gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at May 31, 2010

\$ 949,214	\$ 181,427	\$ (96,894)	\$ 4,970,810	\$ 516,906	\$ 6,521,463
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Investment return for the year ended May 31, 2010 is summarized as follows:

Interest and dividend income	\$ 2,317,722
Net realized and unrealized gains on investments carried at fair value	<u>21,486,691</u>
Total investment return	23,804,413
Less: Operating investment return	<u>11,214,829</u>
Nonoperating investment return	<u>\$ 12,589,584</u>

Interest, dividend, realized and unrealized income on the College's unrestricted endowment funds is included in operating activities in the Statement of Activities as those investment types are used for the College's daily cash management activities. All other investment return is considered non-operating.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)

The College uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category:

	Fair Value May 31, 2010	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Commingled trusts (a)	\$ 60,587,469	\$ -	Range from daily to quarterly	2 – 60 days notice	Funds delivered between 5 and 15 days after valuation date
Hedge funds (b)	41,817,850	-	Range from quarterly to annually	60 – 108 days notice	90 % – balance upon independent audit
Private equity and venture capital (c)	4,837,576	11,642,627	N/A *	N/A *	N/A *
Natural resources funds (d)	1,319,311	2,697,000	N/A *	N/A *	N/A *
Real estate funds (e)	<u>570,463</u>	<u>1,550,750</u>	N/A *	N/A *	N/A *
	<u>\$ 109,132,669</u>	<u>\$ 15,890,377</u>			

* These funds are in private equity structure, with no ability to be redeemed.

(a) These are directional investments, invested in domestic and international debt and equity securities. These funds invest mostly in long-term securities, and some invest both long and short-term. The investments are public securities, and the funds are held in partnership or trust format.

(b) Fund-of-funds invest in 20 to 50 hedge funds pursuing a variety of investment strategies. Hedge fund strategies and allocations include 2% arbitrage, 35% distressed opportunities, 42% long/short and 21% macro funds.

(c) This category includes investments in both dedicated private equity or venture capital funds and in fund-of-funds, which invest in 15-30 private equity or venture capital funds. Private Equity funds, through negotiation or tender offer, attempt to take over a majority percentage of a company's equity, with the purpose of acquiring its assets and operations. Venture Capital funds invest in non-marketable securities of new companies or companies considered to be in the early stages of growth.

(d) This category invests in fund-of-funds, which invest in 15-30 natural resource funds created to invest in the exploration or development of energy-related reserves.

(e) This category includes investments in fund-of-funds, which invest in 15-30 private real estate funds. Private Real Estate funds take ownership positions in land and buildings, equity-like investments in mortgages or land leases that include substantial participation in revenues, capital appreciation, and private operating companies.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)

Funds noted above held at year end have remaining lives ranging from 1 to 11 years with commitments due as follows:

<u>Year Ending</u>	<u>Amount</u>
2011	\$ 4,989,931
2012	8,083,251
2013	2,276,813
2014	540,382
2015	-
Thereafter	-
	<u>\$ 15,890,377</u>

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost at the date of acquisition or fair market value on the date contributed. New equipment and expenditures for major repairs and improvements exceeding \$10,000 for equipment and \$10,000 for buildings are capitalized; conversely, maintenance, repairs, and routine replacements are charged to expense as incurred. All plant assets except land are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives of land improvements and buildings are 50 to 100 years; building improvements are 20 years; and furniture and equipment are 5 to 7 years.

	<u>May 31, 2010</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 17,746,871	\$ -	\$ 17,746,871
Land improvements	11,799,430	5,730,099	6,069,331
Buildings and improvements	170,980,587	45,695,179	125,285,408
Art collection	817,633	-	817,633
Furniture and equipment	37,772,856	29,190,309	8,582,547
Construction in progress	1,858,310	-	1,858,310
	<u>\$ 240,975,687</u>	<u>\$ 80,615,587</u>	<u>\$ 160,360,100</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT – (continued)

	May 31, 2009		
Cost	Accumulated Depreciation	Net Book Value	
Land	\$ 17,857,244	\$ -	\$ 17,857,244
Land improvements	13,662,554	5,266,590	8,395,964
Buildings and improvements	168,286,053	42,092,249	126,193,804
Art collection	648,032	-	648,032
Furniture and equipment	36,576,106	27,081,432	9,494,674
Construction in progress	1,148,417	-	1,148,417
	\$ 238,178,406	\$ 74,440,271	\$ 163,738,135

NOTE 8 – BONDS PAYABLE

At May 31, bonds payable consist of the following:

	2010	2009
State of Oregon Revenue Bonds, 2008 Series A, interest rate of 0.20% to 0.41%, secured by a junior lien on the unrestricted assets of the College, payable in annual installments beginning October 2009 with maturity in 2032	\$ 103,365,000	\$ 104,400,000
Total bonds payable	\$ 103,365,000	\$ 104,400,000

On June 18, 2008, the College entered into a loan agreement and trust indenture with the State of Oregon Facilities Authority that provided for the issuance of \$106,400,000 2008 Series A Revenue Bonds with mandatory final redemption on October 1, 2032. The bonds were issued to refund all of the College's 2004 and 2003 Series A and B Bonds.

The 2003 and 2004 bonds were issued to finance construction and expansion of classrooms, library and office facilities, student housing, landscaping, road and street improvements, acquisition of the Franciscan Renewal Center, the Bicentennial Project, which included the renovation and expansion of Albany Hall, and to advance refund of all of the outstanding prior bond issues. The bonds were payable from the College's unrestricted revenues.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – (continued)

Interest expense for all bonds payable was \$4,530,401 and \$4,797,659 for the years ended May 31, 2010 and 2009, respectively.

Under the terms of the trust indenture, the Series 2008 bonds are subject to a mandatory redemption schedule at a price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest thereon to the date fixed for redemption.

Dates fixed for redemption occur annually on October 1, and continue through 2032. Total amounts subject to mandatory redemption began at \$1,035,000 on October 1, 2009, increasing annually to \$9,530,000 on October 1, 2032. The agreement contains certain restrictive covenants as to unrestricted revenues and additional indebtedness, as defined in the agreement.

		2008 Bonds Repayment Requirements	
		Principal	Interest
Years ended May 31,	2011	\$ 1,215,000	\$ 4,615,000
	2012	1,415,000	4,554,000
	2013	1,615,000	4,485,000
	2014	1,835,000	4,405,000
	2015	2,070,000	4,316,000
	Thereafter	<u>95,215,000</u>	<u>46,233,000</u>
		<u>\$ 103,365,000</u>	<u>\$ 68,608,000</u>

Wells Fargo Bank, National Association, has provided a direct pay letter of credit for the issue. The letter of credit contains certain restrictive covenants as to unrestricted revenues and unrestricted cash and investments, as defined in the agreement. As of May 31, 2010, the College was in compliance with all its bond covenants.

NOTE 9 – INTEREST RATE SWAPS

The College has used variable-rate debt to finance the acquisition of property, plant, and equipment as indicated in Note 8. These debt obligations expose the College to variability in interest payments due to changes in interest rates.

The College has swapped 100% of its variable-rate cash flow exposure on these debt obligations for fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the College receives variable-rate interest payments and makes fixed interest rate payments, thereby creating substantially fixed interest rate payments on the related debt obligations.

In September 2003, the College executed a 30-year swap with an investment bank (UBS AG) at a fixed rate of 3.762% on \$20,000,000 of its outstanding variable-rate debt. In October 2004, coincident with its issuance of \$35,800,000 2004 Series A Bonds, it executed a 20-year swap with UBS AG at a fixed rate of 3.713%. In November 2004, the College executed a 25-year swap with UBS AG, at a fixed rate of 3.881% on \$15,000,000 of the outstanding variable-rate debt. The notional amount at May 31, 2010 and 2009 was equal to \$64,150,000 and \$65,700,000, respectively. In January 2007, the College executed a 25-year swap with The Bank of New York at a fixed rate of 3.422% on \$38,350,000 of its remaining outstanding variable-rate debt. The notional amount at May 31, 2010 and 2009 was equal to \$38,075,000 and \$38,275,000, respectively. The interest rate swap agreements associated with the Series 2004 and 2003 Series A and B bonds were transferred to the Series 2008 bonds.

In each of these swaps, the College's variable-rate receipts are tied to a percentage of One-Month LIBOR. There was no cash exchanged at the time of acquisition due to the relationship between the variable rates and the swap rate at that time.

Changes in the fair market value of the interest rate swaps are reported as unrealized gains or losses on interest rate swaps in unrestricted other revenue or expense in the statements of activities. As of May 31, 2010 and 2009, the valuation of the swap resulted in unrealized losses of \$575,364 and \$7,456,717, respectively. Providing the College holds the swaps to maturity, the value of the derivatives will be zero. These swapping transactions can be terminated at market rates at anytime during the term of the swap.

The College does not enter into derivative instruments for any purpose other than cash flow hedging purposes and does not speculate for investment purposes using derivative instruments.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Without purpose restrictions	\$ 5,935,894	\$ 3,732,389
With purpose restrictions:		
Scholarships	30,768,161	28,266,920
Research, chairs	8,676,733	7,239,607
Facilities	10,521,013	8,965,905
Other	<u>41,260</u>	<u>131,980</u>
 Total temporarily restricted endowment net assets	 55,943,061	 48,336,801
 Split interest agreements	 675,517	 532,968
Student loans	1,746,889	1,755,751
Restricted for specific projects	<u>10,339,143</u>	<u>9,124,359</u>
 Total temporarily restricted net assets	 <u>\$ 68,704,610</u>	 <u>\$ 59,749,879</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of:

	<u>2010</u>	<u>2009</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 87,712,393</u>	<u>\$ 86,609,224</u>
Total endowments	87,712,393	86,609,224
Trusts held for endowment	6,876,351	6,700,154
Property held for College use in perpetuity	<u>7,195,361</u>	<u>6,307,316</u>
Total permanently restricted net assets	<u><u>\$ 101,784,105</u></u>	<u><u>\$ 99,616,694</u></u>

The income from these investments together with the income on net endowment investment gains is spendable for instruction, scholarships, distribution to trust beneficiaries and operations.

NOTE 12 – ENDOWMENTS

The College's endowment consists of approximately 500 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), 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.

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 Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,101,800 and \$4,322,072 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – ENDOWMENTS – (continued)

The College invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation of investments earned during the year is provided for program support. The College has adopted an endowment spending policy designed specifically to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. The spending policy attempts to achieve these two objectives by using a long-term targeted spending rate combined with a smoothing rule, which adjusts spending gradually to changes in the endowment market value.

The College uses a spending rate of 4.50% of the four year rolling average endowment market value in addition to an amount equal to the bond interest expense payments relating to the 2003 bond issuances but not to exceed 1.50%. In total, the 4.50% plus the amount expended relating to the 2003 bond interest costs cannot exceed 6.00% of the four year rolling average endowment market value. Actual spending rate, including debt service, in 2010 and 2009 was 6.00% of the four-year moving average endowment balance.

In May, 2009, the Board of Trustees approved a revised spending formula that will, over time, reduce annual spending to 5.00% of the sixteen-quarter moving average. The new policy is effective for spending in the 2010-11 fiscal year.

Effective January 1, 2008, the State of Oregon enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The Board of Trustees of the College has interpreted 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.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – ENDOWMENTS – (continued)

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 May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (3,101,800)	\$ 55,943,061	\$ 87,712,393	\$ 140,553,654
Board-designated endowment funds	38,756,015	-	-	38,756,015
Total funds	<u>\$ 35,654,215</u>	<u>\$ 55,943,061</u>	<u>\$ 87,712,393</u>	<u>\$ 179,309,669</u>

Endowment net assets consist of the following at May 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (4,322,072)	\$ 48,336,801	\$ 86,609,224	\$ 130,623,953
Board-designated endowment funds	34,976,691	-	-	34,976,691
Total funds	<u>\$ 30,654,619</u>	<u>\$ 48,336,801</u>	<u>\$ 86,609,224</u>	<u>\$ 165,600,644</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – ENDOWMENTS – (continued)

Changes in the endowment net assets for the year ended May 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 1, 2009	\$ 30,654,619	\$ 48,336,801	\$ 86,609,224	\$ 165,600,644
Investment return				
Investment income	365,259	1,462,682	-	1,827,941
Net appreciation (realized and unrealized)	4,409,867	17,669,929	-	22,079,796
Loss on real estate appraisal	(38,575)	-	-	(38,575)
Total investment return	4,736,551	19,132,611	-	23,869,162
Contributions	552,257	-	930,410	1,482,667
Matured trusts and other transfers	649,470	(388,045)	172,759	434,184
Appropriation of endowment assets for expenditure	(2,158,954)	(9,918,034)	-	(12,076,988)
Change in underwater endowments	1,220,272	(1,220,272)	-	-
Endowment net assets, end of year May 31, 2010	<u>\$ 35,654,215</u>	<u>\$ 55,943,061</u>	<u>\$ 87,712,393</u>	<u>\$ 179,309,669</u>

Changes in the endowment net assets for the year ended May 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 1, 2008	\$ 46,623,568	\$ 101,417,124	\$ 84,078,655	\$ 232,119,347
Investment return				
Investment income	578,570	2,342,851	-	2,921,421
Net depreciation (realized and unrealized)	(16,611,680)	(45,831,302)	-	(62,442,982)
Loss on real estate appraisal	(50,324)	-	-	(50,324)
Total investment return	(16,083,434)	(43,488,451)	-	(59,571,885)
Contributions	248,158	213,575	1,693,995	2,155,728
Matured trusts and other transfers	-	180,089	836,574	1,016,663
Appropriation of endowment assets for expenditure	(2,182,949)	(9,985,536)	-	(12,168,485)
Board-designated endowment funds	2,049,276	-	-	2,049,276
Endowment net assets, end of year May 31, 2009	<u>\$ 30,654,619</u>	<u>\$ 48,336,801</u>	<u>\$ 86,609,224</u>	<u>\$ 165,600,644</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – PENSION PLAN

The College participates in a contributory retirement plan covering substantially all full-time personnel. The plan is funded with College and employee contributions through Teachers' Insurance and Annuity Association and College Retirement Equities Fund.

Employee contributions to the plan are matched monthly by the College at the rate of up to 10.00% of the participating employees' monthly compensation. Aggregate pension expense for the years ended May 31, 2010 and 2009, was approximately \$3,464,964 and \$3,679,540, respectively.

NOTE 14 – POST-RETIREMENT HEALTHCARE BENEFITS

In addition to providing pension benefits, the College provides certain health care benefits for retired employees. Employees who retire with at least five years of full-time service may purchase a Medicare supplement through the Retiree Medical Insurance Program. The College pays a portion of the premium.

The College recognizes the funded status of defined benefit postretirement plans be recognized as either an asset or liability on the statement of financial position. The benefit plan is not funded in separate accounts and costs are paid from the College's general cash accounts on a pay-as-you-go basis.

Obligations and funded status at May 31 are as follows:

	<u>2010</u>	<u>2009</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 1,468,398	\$ 1,466,537
Service cost	93,330	90,833
Interest cost	84,541	86,599
Actuarial gain	(38,863)	(125,411)
Benefits paid	<u>(46,860)</u>	<u>(50,160)</u>
Benefit obligation, end of year	<u>\$ 1,560,546</u>	<u>\$ 1,468,398</u>
Reconciliation of funded status:		
End of year	\$ 1,560,546	\$ 1,468,398
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ 1,560,546</u>	<u>\$ 1,468,398</u>

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – POST-RETIREMENT BENEFITS – (continued)

	<u>2010</u>	<u>2009</u>
Amounts recognized in the statements of financial position:		
Accrued postretirement healthcare benefits liability	<u>\$ 1,560,546</u>	<u>\$ 1,468,398</u>
Amounts recognized in the accompanying statements of activities:		
Transition obligation	\$ 169,848	\$ 203,818
Net gain	<u>(482,750)</u>	<u>(479,324)</u>
Total	<u>\$ (312,902)</u>	<u>\$ (275,506)</u>

The net periodic benefit costs for the year ended May 31 included the following components:

	<u>2010</u>	<u>2009</u>
Net periodic benefit cost:		
Service cost	\$ 93,330	\$ 90,833
Interest cost	84,541	86,599
Expected return on plan assets	-	-
Amortization of prior service cost	33,970	33,970
Amortization of actuarial loss	<u>(34,755)</u>	<u>(34,998)</u>
Net periodic benefit cost	<u>\$ 177,086</u>	<u>\$ 176,404</u>

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.00% at May 31, 2010 and 2009. To determine the accumulated post-retirement benefit obligation at May 31, 2010 and 2009, the College's portion of each eligible employee's total premium was assumed to remain at \$55 per month (\$660 per year). During the years ended May 31, 2010 and 2009, the College made healthcare insurance premium payments for the participants of approximately \$46,860 and \$50,160, respectively. As of May 31, 2010, the College's postretirement healthcare benefit obligation is not funded, and management intends on funding such costs on a pay-as-you-go basis.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – POST-RETIREMENT BENEFITS – (continued)

The healthcare insurance premium payments for the participants are expected to be paid as follows:

Years ending May 31, 2011	\$ 46,860
2012	46,860
2013	46,860
2014	46,860
2015	46,860
2016 through 2020 in the aggregate	<u>234,300</u>
	<u>\$ 468,600</u>

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The College has placed its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC), established by eight similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a \$2,000,000 standby letter of credit of which the College is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverage, the maximum contingent liability exposure to the College is approximately \$271,520. As of May 31, 2010 and 2009, no amounts were outstanding against the standby letter of credit.

The College has placed certain of its medical insurance coverage with Pioneer Educators Health Trust (formerly Oregon Independent Colleges Employee Benefits Trust), 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 losses of the Trust exceed its capital and secondary coverage, the maximum contingent liability exposure to the College is \$469,453. 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.

The College has an operating line of credit totaling \$10,000,000 at a bank for the purpose of financing short-term operating cash flow requirements. As of May 31, 2010 and 2009, no amounts were outstanding on the line of credit.

LEWIS & CLARK COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 15 – COMMITMENTS AND CONTINGENCIES – (continued)

The College receives and expends monies under federal grant programs and is subject to audits by governmental agencies. Management believes that any liabilities resulting from such audits will not have a material impact on the College.

The College is involved in legal proceedings, claims, and litigation arising in the ordinary course of operations. In the opinion of management, these matters will not materially affect the College's financial position.

NOTE 16 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and other investments, and accounts and loans receivable. The College places substantially all of its cash and liquid investments with financial institutions; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by an investment manager. Other receivables are due from a variety of sources.

SUPPLEMENTAL INFORMATION

LEWIS & CLARK COLLEGE
STATEMENT OF FINANCIAL POSITION BY FUND
MAY 31, 2010

ASSETS	Operations	Long Term Investments	Plant	2010 Total	2009 Total
ASSETS					
Cash and cash equivalents	\$ 25,019,748	\$ 1,447,516	\$ 3,070,152	\$ 29,537,416	\$ 23,066,558
Student accounts receivable, net	472,199	-	-	472,199	590,315
Other receivables	1,153,046	101,682	-	1,254,728	1,625,170
Inventories and prepaid expenses	750,462	-	-	750,462	534,892
Student loans receivable, net	-	8,356,360	-	8,356,360	8,229,562
Real estate held-for-sale	-	3,200,000	-	3,200,000	3,480,000
Investments	118,594	178,111,661	-	178,230,255	163,358,909
Pledges receivable	5,044,245	1,252,837	-	6,297,082	2,395,904
Bond issuance costs, net	879,923	-	-	879,923	919,919
Property, plant and equipment, net	157,096,091	3,264,009	-	160,360,100	163,738,135
TOTAL ASSETS	\$ 190,534,308	\$ 195,734,065	\$ 3,070,152	\$ 389,338,525	\$ 367,939,364
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 2,463,042	\$ 7,827	\$ 87,404	\$ 2,558,273	\$ 1,725,971
Accrued and other liabilities	13,331,712	-	(2,293,466)	11,038,246	9,824,936
Deferred revenues	2,768,457	-	-	2,768,457	1,992,870
Liability for split interest agreements	-	669,940	-	669,940	828,578
Bonds payable	103,365,000	-	-	103,365,000	104,400,000
Interest rate swaps liability	12,177,009	-	-	12,177,009	11,601,645
U.S. government grants refundable	-	6,447,872	-	6,447,872	6,447,433
Total liabilities	134,105,220	7,125,639	(2,206,062)	139,024,797	136,821,433
Unrestricted	38,894,582	35,654,217	5,276,214	79,825,013	71,751,358
Temporarily restricted	10,339,145	58,365,465	-	68,704,610	59,749,879
Permanently restricted	7,195,361	94,588,744	-	101,784,105	99,616,694
Total net assets	56,429,088	188,608,426	5,276,214	250,313,728	231,117,931
TOTAL NET ASSETS AND LIABILITIES	\$ 190,534,308	\$ 195,734,065	\$ 3,070,152	\$ 389,338,525	\$ 367,939,364

Note: The College uses fund accounting for its internally generated financial statements. Its assets, liabilities, and net assets are classified as operations, long-term investments, and plant. Items classified as long-term investments include accounts and transactions related to split-interest arrangements, endowment funds, and student loan funds. Items classified as plant include the accounts and transactions related to plant facilities and debt service. All other accounts and transactions are classified as operations.