LEWIS & CLARK COLLEGE

Portland, Oregon

Audit Report on Financial Statements
and Federal Awards

As of and for the Year Ended May 31, 2017

LEWIS & CLARK COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lewis & Clark College
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Lewis & Clark College (the "College"), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lewis & Clark College as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of the College for the year ended May 31, 2016 were audited by other auditors whose report dated September 14, 2016 expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

The College's 2016 financial statements were previously audited, and an unmodified opinion was expressed on those audited financial statements in the report dated September 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of Lewis & Clark College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 26, 2017

LEWIS & CLARK COLLEGE

STATEMENT OF FINANCIAL POSITION
As of May 31, 2017
(with comparative totals as of May 31, 2016)

ASSETS

	2017	2016
Cash and cash equivalents	$ 14,195,633	$ 10,761,664
Student accounts receivable, net	116,468	289,441
Other receivables	1,753,871	2,401,267
Real estate held for sale	-	427,090
Prepaid expenses and other assets	886,053	1,420,325
Contributions receivable, net	2,181,720	1,803,380
Student loans receivable, net	6,235,018	6,693,786
Cash restricted for long-term investment	7,083,676	627,766
Investments	232,678,632	222,514,249
Property, plant, and equipment, net	174,259,987	176,983,082
TOTAL ASSETS	$ 439,391,058	$ 423,922,050

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable	$ 2,528,505	$ 2,493,245
Accrued and other liabilities	13,523,863	13,597,985
Deferred revenues	4,996,920	4,838,207
Liability for split interest agreements	944,098	692,713
Bonds and capital lease payable	106,759,504	107,578,010
Interest rate swaps liability	9,159,959	11,607,304
U.S. government grants refundable	5,489,737	6,174,165
Total liabilities	143,402,586	146,981,629
NET ASSETS		
Unrestricted	99,552,283	93,422,510
Temporarily restricted	76,087,736	66,461,628
Permanently restricted	120,348,453	117,056,283
Total net assets	295,988,472	276,940,421
TOTAL LIABILITIES AND NET ASSETS	$ 439,391,058	$ 423,922,050

See accompanying ntoes to financial statements.

LEWIS & CLARK COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2017
(with comparative totals for the year ended May 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 136,391,580	$ -	$ -	$ 136,391,580	$ 133,942,407
Less: Scholarships and fellowships	54,174,998	-	-	54,174,998	51,747,675
Net tution and fees	82,216,582	-	-	82,216,582	82,194,732
Contributions	1,868,549	3,353,205	-	5,221,754	4,179,312
Contracts and other exchange transactions	2,266,686	-	-	2,266,686	2,241,396
Endowment earnings allocated for operations	2,824,354	8,108,239	-	10,932,593	11,786,308
Other investment income	396,487	-	-	396,487	(8,627)
Other revenue	2,951,355	-	-	2,951,355	3,131,423
Sales and services of auxiliary enterprises	19,272,870	-	-	19,272,870	19,291,820
	111,796,883	11,461,444	-	123,258,327	122,816,364
Net assets released from restrictions	11,145,925	(11,145,925)	-	-	-
Total Operating Revenues, Gains and Other Support	122,942,808	315,519	-	123,258,327	122,816,364
EXPENSES					
Program expenses					
Instruction	51,958,515	-	-	51,958,515	52,671,469
Research	3,086,364	-	-	3,086,364	3,383,408
Public service	1,127,936	-	-	1,127,936	979,999
Academic support	12,038,434	-	-	12,038,434	11,935,553
Student services	14,133,666	-	-	14,133,666	13,554,090
Institutional support	24,052,075	-	-	24,052,075	23,085,429
Auxiliary enterprises	16,173,027	-	-	16,173,027	16,494,234
TOTAL EXPENSES	122,570,017	-	-	122,570,017	122,104,182
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	372,791	315,519	-	688,310	712,182
NON-OPERATING ACTIVITIES					
Long-term investment returns	8,566,136	16,946,811	1,247,027	26,759,974	(10,500,881)
Less: Endowment earnings allocated for operations	(2,824,354)	(8,108,239)	-	(10,932,593)	(11,786,308)
Long-term investment returns, net of allocation	5,741,782	8,838,572	1,247,027	15,827,381	(22,287,189)
Contributions	15,200	386,145	1,958,854	2,360,199	1,434,577
Contracts and exchange transactions	-	88,538	-	88,538	193,227
Change in value of split interest agreements	-	(2,666)	86,289	83,623	(780,089)
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	5,756,982	9,310,589	3,292,170	18,359,741	(21,439,474)
CHANGE IN NET ASSETS	6,129,773	9,626,108	3,292,170	19,048,051	(20,727,292)
NET ASSETS - Beginning of Year	93,422,510	66,461,628	117,056,283	276,940,421	297,667,713
NET ASSETS AT END OF YEAR	$ 99,552,283	$ 76,087,736	$ 120,348,453	$ 295,988,472	$ 276,940,421

LEWIS & CLARK COLLEGE

STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2017
(with comparative totals for the year ended May 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 19,048,051	$ (20,727,292)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contribution of marketable securities	(634,457)	(769,119)
Depreciation and amortization	7,570,212	7,418,848
Write-off of contributions receivable	40	60,000
Loss (gain) on disposal of property, plant, and equipment	-	946,999
Loss (gain) in market value and disposals of real estate held for sale	(1,082,910)	788,445
Unrealized (gain) loss on interest rate swaps related to bonds	(2,447,345)	894,258
Actuarial (gain) loss on split interest agreement obligations	8,079	(6,042)
Change in contributions receivable discount	18,474	(4,791)
Contributions restricted for endowment, trust, and capital projects	(2,360,199)	(1,434,577)
Interest and dividends restricted for long-term investment	(72,210)	(142,701)
Net realized and unrealized (gain) loss	(25,316,281)	8,260,407
Change in assets and liabilities		
Accounts and other receivables	820,369	(12,300)
Prepaid expense and other assets	534,272	(419,506)
Contributions receivable	(195,038)	315,000
Accounts payable	35,260	927,580
Accrued and other liabilities	(74,122)	(90,371)
New split interest agreement obligations	262,292	16,639
Deferred revenues	158,713	526,148
Net cash from operating activities	(3,726,800)	(3,452,375)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on student loans receivable, net	458,768	731,994
Change in U.S. government grants refundable	(684,428)	3,984
Purchases of land, property, plant and equipment	(4,791,673)	(5,846,805)
Proceeds from sale of real estate held for sale	1,510,000	-
Proceeds from sales of investments	62,796,843	70,142,841
Purchases of investments	(47,010,487)	(57,152,671)
Net cash from investing activities	12,279,023	7,879,343
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment, trust, and capital projects	2,158,383	1,463,287
Interest and dividends restricted for long-term reinvestment	72,210	142,701
Principal payments on capital leases	(273,950)	(284,567)
Principal payments on bonds payable	(600,000)	(580,000)
Maturities of split interest obligations	(18,987)	(103,865)
Net cash from financing activities	1,337,656	637,556
Net Change in Cash and Cash Equivalents	9,889,879	5,064,524
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of Year	11,389,430	6,324,906
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 21,279,309	$ 11,389,430
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash and cash equivalents at end of year	14,195,633	10,761,664
Cash and cash equivalents restricted for long-term investment at end of year	7,083,676	627,766
Total Cash and cash equivalents at end of year	$ 21,279,309	$ 11,389,430
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 7,583,669	$ 7,769,164
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of equipment through capital lease financing	$ -	$ 344,747

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

General – Lewis & Clark College (the 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 for law students through the Lewis & Clark Law School. The College performs research, training, and other services under grants and contracts with sponsoring organizations, which are 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 in accordance with accounting principles generally accepted in the United States of America.

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 term that the last day of classes occur. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The majority of the College’s students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (ED). Disbursements under each program are subject to disallowance by the ED and repayment by the College. In addition, as an educational institution, the College is subject to licensure from various accrediting and state authorities and other regulatory requirements of the ED.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Auxiliary enterprises – Auxiliary enterprises include income primarily from student housing, the bookstore, food services, transportation services, and conventions / conferences. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing those services.

The College's measure of operations presented in the Statement of Activities includes revenues from tuition and fees, grants and contracts, unrestricted contributions, investment income from unrestricted investments except those gains and losses earned by unrestricted funds functioning as endowments that have not been appropriated for expenditure in the current year, amounts appropriated for expenditure from restricted endowments in the current year, and revenues from auxiliary enterprises and other sources, as well as net assets released from restriction based upon the satisfaction of those restrictions. Operating expenses are reported by functional categories, after allocating costs for plant maintenance, interest on long term indebtedness and depreciation.

Non-operating activities presented in the Statement of Activities include gifts for buildings and other depreciable assets, unconditional promises to give, investment gains and losses on loan funds and permanently restricted endowments, gains and losses earned by unrestricted funds functioning as endowments that have not been appropriated for expenditure in the current year, changes in the value of split-interest agreements, and gains and losses from changes in the value of assets due to the fluctuation of exchange rates.

Cash and cash equivalents – The College considers all highly-liquid debt instruments, except those held for long-term investment, 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Student accounts and loans receivable – Student accounts receivable are recorded at the invoiced amount and do not bear interest. At May 31, 2017 and 2016, student accounts receivable totaled $116,468 and $289,441, net of allowance for doubtful accounts of $295,052 and $349,120 for each year. 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.

Real estate held for sale – At May 31, 2016, real estate held for sale consisted of 3,877.72 acres of undeveloped land in Umatilla County, Oregon. During the year ended May 31, 2017, the land was sold for $1.51 million resulting in a gain of $1.08 million.

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 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 value of real estate investments is determined from valuations prepared by independent appraisers at the time of gift and these investments are carried at cost. Management will assess these investments for impairment when circumstances indicate a decline in value is other than temporary.

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.

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. At May 31, 2017 and 2016, no allowance for uncollectible receivables was recorded.

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 1.00% to 8.60% were used to calculate the present value of the liability based on the estimated life expectancies of the beneficiaries. The discount rates represent the Federal Applicable Rates that were effective when the gift agreements were established. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The College has reflected appropriate liabilities for such trusts in the accompanying statements of financial position. For the years ended May 31, 2017 and 2016, the College distributed $138,104 and $153,454, respectively, in split-interest beneficiary payments.

Change in accounting principle – The College adopted ASU 2015-03 *Interest- Imputation of interest (Subtopic 835-30): Simplifying the presentation of debt issuance costs* during the year ended May 31, 2017. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. As required by the new guidance, the amendments were applied retrospectively to the year ended May 31, 2016.

Costs of debt issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization expense of $38,883 was recorded for each of the years ended May 31, 2017 and 2016. The amount of accumulated amortization was $239,780 and $200,897 as of May 31, 2017 and 2016, respectively. The unamortized balance is included as a reduction to long-term debt on the statement of financial position.

In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows (Topic 230): Restricted Cash.* The amendments in this update require that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts described as restricted cash and restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. The College elected to adopt this standard in 2017.

New accounting pronouncements not yet effective – The following Accounting Standards Updates have been issued, but are not, yet, effective:

- ASU 2014-09, *Revenue from Contracts with Customers* - ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early application permitted for fiscal years beginning after December 15, 2016.

- ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. One provision in this standard was allowed to be adopted immediately eliminating certain fair value disclosures about financial instruments carried at amortized cost. That provision was adopted by the College fin fiscal 2017.

- ASU 2016-02, *Leases* - ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted.

- ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

The College is assessing the impact these standards will have on its financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements – 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 1 – Inputs are unadjusted, and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date.

Level 3 – 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. Securities classified within level 3 investments are based on valuations provided by the external investment managers. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. The Investment Committee, in conjunction with management and external investment advisors, reviews the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Trustees.

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. Most financial assets and liabilities for which the carrying amount approximates fair value are considered by the College to be level 1 measurements in the fair value hierarchy.

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.

The College recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended May 31, 2017 and 2016, the College recognized no interest and penalties.

The College had no unrecognized tax benefits at May 31, 2017 and 2016. The College files an exempt organization income tax return and an unrelated business income tax return in the U.S. federal jurisdiction and unrelated business income tax returns in various state jurisdictions.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amounts appearing in the 2016 financial statements have been reclassified to conform with the 2017 presentation. Reclassifications have no effect on the reported amounts of total net assets or change in total net assets.

Prior year information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended May 31, 2016, from which the summarized information was derived.

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 financially significant at May 31, 2017. Contributions made by members of the College's Board of Trustees totaled $1.29 million for the year ending May 31, 2017.

Subsequent events – Subsequent events are events or transactions that occur after the date of the statements 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 statements of financial position, including the estimates inherent in the process of preparing the financial statements. The College has evaluated subsequent events through September 26, 2017, which is the date the financial statements were issued.

NOTE 2 - STUDENT LOANS RECEIVABLE

Student loans receivable represents loans from the Perkins loan funds 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. At May 31, 2017 and 2016, student loans funded through the Perkins loan program were $6,235,018 and $6,672,821, respectively.

The availability of funds for loans under the Perkins program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $5,489,737 and $6,174,165 at May 31, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. Amounts due under the Perkins loan program are guaranteed by the government; however, a reserve in the amount of $485,200 was recorded at May 31, 2017 and 2016 to account for those amounts advanced by the College.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Conditional promises – At May 31, 2017 and 2016, the College had received conditional promises to give of approximately $3,003,350 and $2,972,350. 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 – Payments due beyond one year were discounted using an adjusted risk free interest rate commensurate with the period over which the contribution will be received. The weighted average rate was 0.48% and 2.81% for the years ended May 31, 2017 and 2016, respectively.

Amounts due are as follows:

	2017	2016
Amounts receivable in less than one year	$ 1,529,500	$ 587,000
Amounts receivable in one to five years	682,660	1,362,995
	2,212,160	1,949,995
Unamortized discount	(30,440)	(146,615)
Total contributions receivable	$ 2,181,720	$ 1,803,380

NOTE 4 – INVESTMENTS

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

	2017	2016
Pooled investments		
Equity securities		
International mutual funds	$ 7,611,069	$ 9,267,224
Domestic mutual funds	14,522,843	4,570,299
Marketable domestic equity securities	3,565	-
Real estate investment trust	2,086,369	4,736,008
Debt securities		
Domestic fixed income mutual funds	6,052,680	5,908,362
Marketable domestic fixed income securities	3,515,390	-
U.S. Treasury securities	1,256,572	-
Commingled trusts		
Marketable international equity securities	62,767,525	52,043,745
Marketable domestic equity securities	32,535,356	27,681,739
U.S. Treasury securities	13,901,944	15,425,679
Marketable international fixed income securities	-	6,793,049
Alternative investments		
Hedge funds		
Long/short equity	17,929,819	18,742,107
Multi strategy	7,767,551	17,714,239
Credit opportunities	4,146,547	10,936,265
Global macro	2,502,176	3,040,798
Domestic private equity funds	5,964,009	4,737,515
International private equity funds	6,060,280	5,434,780
Venture capital funds	20,250,071	15,757,447
Natural resources funds	7,874,156	5,711,897
Real estate funds	3,751,069	3,588,819
Total pooled investments	220,498,991	212,089,972
Separate investments		
Assets held in charitable remainder trusts		
Fixed income mutual funds	954,700	670,133
Equity mutual funds	1,205,022	900,043
Marketable fixed income securities	728,239	756,349
Equity securities		
Marketable domestic equity securities	26,852	15,269
Domestic mutual funds	21,155	-
Balanced mutual funds	1,893,245	1,666,000
Debt securities		
U.S. Treasury securities	3,048	6,123
Domestic fixed income mutual funds	7,248,235	6,310,991
Collateralized debt securities	5,008	5,051
Real estate and others (reported at cost)	94,137	94,318
Total separate investments	12,179,641	10,424,277
Total investments	$ 232,678,632	$ 222,514,249

NOTE 4 – INVESTMENTS (Continued)

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

	2017	2016
Endowment		
Pooled investments	$ 220,498,991	$ 212,089,972
Separately invested	1,902,323	1,675,077
Total endowment	222,401,314	213,765,049
Annuity and life income contracts		
Separately invested	2,887,961	2,326,526
Total annuity and life income contracts	2,887,961	2,326,526
Separately invested		
Operations	7,269,390	6,314,249
Other	119,967	108,425
Total separately invested	7,389,357	6,422,674
Total investments by category	$ 232,678,632	$ 222,514,249

NOTE 5 – SPLIT INTEREST AGREEMENTS

As of May 31, 2017 and 2016, the College had 25 and 21 gift annuity contracts issued and outstanding, respectively. The College maintains a reserve adequate to meet the actuarially determined future payments of these contracts. As of May 31, 2017 and 2016, the fair value of the total assets held was $1,251,777 and $711,439, respectively. The reserve was $793,140 and $520,715, respectively, leaving $458,637 and $190,724 of net assets in excess, respectively. During the fiscal years ended May 31, 2017 and 2016, distributions to annuitants totaled $60,029 and $68,774, respectively.

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 uni-trusts. At May 31, 2017 and 2016, the College's actuarially determined future payments and other obligations were as follows:

	2017	2016
Gift annuity reserve	$ 793,140	$ 520,715
Present value of future payments - annuity trusts	64,332	67,546
Present value of future payments - fixed rate unitrust	86,626	104,452
Total liability for split-interest agreements	$ 944,098	$ 692,713

NOTE 6 – FAIR VALUE OF ASSETS AND LIABILITIES

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, hedge funds, 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 and hedge funds are valued using net asset value. Alternative investments are valued at fair value using significant unobservable inputs. The value of these investments is determined by fund managers and valuation experts, using relevant market data. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of similar investments, and other pertinent information. The private investments have a high concentration of pre-initial public offering securities, subjecting these investments to market value volatility. The valuation methods utilized by the fund managers and valuation experts are subject to regular review by management.

Assets held in charitable remainder trusts – Assets held in charitable remainder trusts 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 investments are held at cost and management assesses these investments for impairment when circumstances indicate a decline in value is other than temporary.

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.

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

There were no changes in fair value methods or assumptions during the years ended May 31, 2017 or 2016. The following is a summary categorization of the College's assets and liabilities based on the level of inputs utilized in determining the value of such investments:

	At May 31, 2017				2016
	Level 1	Level 2	Level 3	Total	Total
Investments					
Equity securities					
International mutual funds	$ 7,611,069	$ -	$ -	$ 7,611,069	$ 9,267,224
Domestic mutual funds	14,543,998	-	-	14,543,998	4,570,299
Balanced mutual funds	1,893,245	-	-	1,893,245	1,666,000
Domestic equity securities	30,417	-	-	30,417	-
Real estate investment trust	2,086,369	-	-	2,086,369	4,751,277
Debt securities					
U.S. Treasury securities	-	1,259,621	-	1,259,621	6,123
Domestic fixed income mutual funds	13,300,915	-	-	13,300,915	12,219,353
Domestic fixed income securities	-	3,515,390	-	3,515,390	-
Collateralized debt securities	-	5,008	-	5,008	5,051
Assets held in charitable remainder trusts					
Fixed income mutual funds	954,700	-	-	954,700	670,133
Equity mutual funds	1,205,022	-	-	1,205,022	900,043
Marketable fixed income securities	-	728,239	-	728,239	756,349
Total investments in the fair value hierarchy	41,625,735	5,508,258	-	47,133,993	34,811,852
Alternative investments measured using NAV (practical expedient)				185,450,502	187,608,079
Total investments measured at fair value	41,625,735	5,508,258	-	232,584,495	222,419,931
Interest rate swaps liability	-	(9,159,959)	-	(9,159,959)	(11,607,304)
Total assets and liabilities at fair value	$ 41,625,735	$ (3,651,701)	$ -	$ 223,424,536	$ 210,812,627

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, 2017	May 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Commingled trusts (a)						
Marketable international equity securities	$ 62,767,525	$ 52,043,745	$ -	Range from monthly to quarterly	6 - 30 days	3 year lockup
Marketable domestic equity securities	32,535,356	27,681,739	-	Quarterly	60 days	None
U.S. Treasury securities	13,901,944	15,425,679	-	Daily	2 - 5 days	None
Marketable international fixed income securities	-	6,793,049	-	Monthly	10 days	Funds delivered between 5 and 15 days after valuation date
Hedge funds (b)						
Global Macro Funds (b)	2,502,176	3,040,798	-	Range from daily to quarterly	1 - 33 days	Funds delivered 90 days after redemption request
Multi-Strategy Funds (b)	7,767,551	17,714,239	-	Range from quarterly to annually	30 - 90 days	Rolling one to two year lockup
Long/Short Funds (b)	17,929,819	18,742,107	-	Range from monthly to annually	30 - 90 days	Rolling 12 month lockup
Credit Opportunities Funds (b)	4,146,547	10,936,265	-	Range from quarterly to bi-annually	60 - 90 days	Rolling one to two year lockup
Private equity funds (c)	5,964,008	4,737,515	11,585,121	N/A*	N/A*	N/A*
International private equity funds (c)	6,060,280	5,434,780	616,500	N/A*	N/A*	N/A*
Venture capital funds (c)	20,250,071	15,757,447	18,086,543	N/A*	N/A*	N/A*
Natural resources funds (c)	7,874,156	5,711,897	3,595,462	N/A*	N/A*	N/A*
Real estate funds (c)	3,751,069	3,588,819	3,303,486	N/A*	N/A*	N/A*
	$ 185,450,502	$ 187,608,079	$ 37,187,112			

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

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

(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) Hedge fund strategies and allocations include 53% multi-strategy, 12% distressed opportunities, 35% long/short.
(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 major percentage of a company's equity, with the purpose of acquiring its assets and operations. Venture capital funds invest in mon-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) The 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, buildings, equity-like investments in mortgages or land leases that include substantial participation in revenues, capital appreciation, and private-operating companies.

Certain funds held at year end have remaining lives ranging from 1 to 15 years with estimated commitments due as follows as of May 31, 2017:

Years Ending May 31	Amount
2018	$ 11,625,275
2019	18,869,550
2020	5,592,210
2021	1,100,077
	$ 37,187,112

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost at the date of acquisition or fair value on the date contributed. New equipment with a cost of $10,000 or more, and expenditures for major repairs and improvements exceeding $20,000 for equipment and buildings are capitalized; conversely, maintenance, repairs, and routine replacements are charged to expense as incurred. All plant assets except land and art and artifacts collections are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives of land improvements and buildings and related improvements are 20 to 100 years; and furniture and equipment are 4 to 7 years.

	May 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 17,865,336	$ -	$ 17,865,336
Land improvements	16,037,543	10,104,070	5,933,473
Buildings and improvements	216,909,205	77,505,976	139,403,229
Art and artifacts collection	2,562,692	-	2,562,692
Furniture and equipment	49,600,333	42,113,660	7,486,673
Construction in progress	1,008,584	-	1,008,584
	$ 303,983,693	$ 129,723,706	$ 174,259,987

	May 31, 2016		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 17,865,336	$ -	$ 17,865,336
Land improvements	15,849,885	9,401,838	6,448,047
Buildings and improvements	213,030,706	72,535,735	140,494,971
Art and artifacts collection	2,562,692	-	2,562,692
Furniture and equipment	48,070,722	40,271,366	7,799,356
Construction in progress	1,812,680	-	1,812,680
	$ 299,192,021	$ 122,208,939	$ 176,983,082

NOTE 8 – BONDS AND CAPITAL LEASE PAYABLE

Capital Lease

At May 31, 2017, the College leased certain equipment under capital lease obligations. Future minimum payments associated with capital lease agreements for succeeding years are as follows:

Years Ending May 31	
2018	$ 340,340
2019	340,340
2020	77,075
Total minimum payments	757,755
Less amount representing interest	(79,189)
	$ 678,566

Bonds Payable

At May 31, bonds payable consist of the following:

	2017	2016
State of Oregon Revenue Bonds, 2011 Series A, fixed interest rates ranging from 4.00% to 5.75%, secured by a Uniform Commercial Code security interest in the unrestricted revenues of the College, payable in annual installments beginning October 2015, with maturity in 2041	$ 107,430,000	$ 108,030,000
Less amortized discount	(402,909)	(419,470)
Less bond issuance costs	(946,153)	(985,036)
Total bonds payable	$ 106,080,938	$ 106,625,494

On March 7, 2011, the College entered into a loan agreement and trust indenture with the State of Oregon Facilities Authority that provided for the issuance of $108,610,000 2011 Series A Revenue Bonds with mandatory final redemption on October 1, 2041. The bonds were issued to refund all of the College's 2008 Series A Bonds, and to finance the costs associated with construction of a new residence hall for students. Bond issuance costs are amounts paid by the College in connection with bond financing. Amortization is calculated using the straight-line method, which approximates the effective interest method, over the life of the bonds.

Interest expense for all bonds payable was $5,916,600 and $5,940,333 for the years ended May 31, 2017 and 2016, respectively. Total interest expense, including payments connected to the interest rate swaps, was $7,557,891 and $7,776,897 for the years ended May 31, 2017 and 2016, respectively.

NOTE 8 – BONDS AND CAPITAL LEASE PAYABLE (Continued)

Dates fixed for redemption occur annually on October 1, and continue through 2041. Future principal and interest payments are as follows as of May 31, 2017:

	2011 Bonds Repayment Requirements	
	Principal	Interest
Years Ending May 31		
2018	$ 625,000	$ 5,896,100
2019	650,000	5,870,600
2020	680,000	5,844,000
2021	1,440,000	5,801,600
2022	1,495,000	5,742,900
Thereafter	102,540,000	75,420,931
	$ 107,430,000	$ 104,576,131

The agreement contains certain restrictive covenants as to additional indebtedness, as defined in the agreement.

NOTE 9 – INTEREST RATE SWAPS

In the past the College had used variable-rate debt to finance the acquisition of property, plant, and equipment. These debt obligations had exposed the College to variability in interest payments due to changes in interest rates.

The College had swapped virtually 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 received variable-rate interest payments and made fixed interest rate payments, thereby creating substantially fixed interest rate payments on the related debt obligations. The College does not enter into derivative instruments for investment purposes. The College's existing swaps were contracted as cash flow hedges.

In March 2011, the College novated a 30-year swap to the Bank of New York, at an annual fixed rate of 3.85%. The notional amount at May 31, 2017 and 2016 was equal to $10,000,000. Also in March 2011, the College novated a 30-year swap to Deutsche Bank, at an annual fixed rate of 3.85%. The notional amount at May 31, 2017 and 2016 was equal to $10,000,000. In January 2007, the College executed a 25-year swap with the Bank of New York at an annual fixed rate of 3.42%. The notional amount at May 31, 2017 and 2016 was equal to $29,620,000 and $31,315,000, respectively.

In each of these swaps, the College's variable-rate receipts are tied to a percentage of one-month LIBOR.

Changes in the fair market value of the interest rate swaps are reported as unrealized gains or losses on interest rate swaps and are included in investment returns in the statement of activities. As of May 31, 2017 and 2016, the valuation of the swap resulted in an unrealized gain of $2,447,345 for 2017 and an unrealized loss of $894,258 for 2016. 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 any time during the term of the swap.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	2017	2016
Endowment funds		
Without purpose restrictions	$ 2,739,900	$ 2,437,196
With purpose restrictions		
Scholarships	37,101,863	31,825,555
Faculty and staff compensation	11,706,217	10,203,927
Facilities	10,538,625	9,401,804
Departmental	5,152,504	4,487,881
	67,239,109	58,356,363
Split interest agreements	771,656	506,615
Student loans	1,552,743	1,556,899
Restricted for specific projects	6,524,228	6,041,751
Total temporarily restricted net assets	$ 76,087,736	$ 66,461,628

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of:

	2017	2016
Endowment funds	$ 111,798,655	$ 108,555,355
Trusts held for endowment	1,262,091	1,213,221
Property held for College use in perpetuity	7,287,707	7,287,707
Total permanently restricted net assets	$ 120,348,453	$ 117,056,283

The income from the investments related to these net assets, 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 600 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 $112,009 and $789,753 as of May 31, 2017 and 2016, 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.

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 4.5% of the sixteen quarter rolling average endowment market value in addition to a supplemental amount approved by the Board not to exceed 1.5%. In 2017 and 2016 the endowment spending rate was 5.3% and 5.5%, respectively. In February 2016, the Board of Trustees approved a long term phased reduction in the supplemental spending policy until it eventually reaches a 4.5% annual spending rate. The spending rate will be reduced annually by either 0.1% or 0.2% depending upon the annual growth in the College's budget.

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.

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (112,009)	$ 67,239,109	$ 111,798,655	$ 178,925,755
Board-designated endowment funds	42,996,552			42,996,552
Total endowment net assets	$ 42,884,543	$ 67,239,109	$ 111,798,655	$ 221,922,307

Endowment net assets consist of the following at May 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (789,753)	$ 58,356,363	$ 108,555,355	$ 166,121,965
Board-designated endowment funds	37,917,314			37,917,314
Total endowment net assets	$ 37,127,561	$ 58,356,363	$ 108,555,355	$ 204,039,279

NOTE 12 – ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended May 31 are as follows:

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment net assets, beginning of year	$ 37,127,561	$ 58,356,363	$ 108,555,355	$ 204,039,279	$ 224,942,839
Total investment returns	8,566,136	16,946,811	1,247,027	26,759,974	(10,500,881)
Contributions	15,200		1,958,854	1,974,054	1,356,509
Matured trusts and other transfers		44,174	37,419	81,593	27,120
Appropriation of endowment assets for expenditure (spending rate)	(2,824,354)	(8,108,239)		(10,932,593)	(11,786,308)
Endowment net assets, end of year	$ 42,884,543	$ 67,239,109	$ 111,798,655	$ 221,922,307	$ 204,039,279

NOTE 13 – RETIREMENT PLAN

The College participates in a contributory retirement plan covering substantially all personnel. All employees are eligible to make voluntary deferrals to the plan immediately upon employment. All regular employees working at least half time receive College contributions after one year of employment. The plan is administered by TIAA.

Once an employee becomes eligible for the employer contribution, the College makes monthly payments of 9.00% of the employee's compensation. There is no requirement for the employee to make a contribution in order to receive the College's contribution. All funds vest immediately. Aggregate pension expense for the years ended May 31, 2017 and 2016, was approximately $4,064,000 and $3,950,000, respectively.

NOTE 14 – POST-RETIREMENT HEALTHCARE BENEFITS

In addition to providing retirement plan benefits, the College provides certain healthcare 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 post-retirement plans be recognized as either an asset or liability on the statements 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. The liability is included in accrued and other liabilities on the statement of financial position.

Obligations and funded status at May 31 are as follows:

	2017	2016
Amounts recognized in the statements of financial position		
Accrued postretirement healthcare benefits liability	$ 1,310,113	$ 1,603,936
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,603,936	$ 2,112,783
Service cost	84,915	147,507
Interest cost	57,718	81,397
Actuarial gain	(387,781)	(689,901)
Benefits paid	(48,675)	(47,850)
Benefit obligation, end of year	$ 1,310,113	$ 1,603,936
Reconciliation of funded status		
End of year	$ 1,310,113	$ 1,603,936
Unrecognized net actuarial loss	-	-
Net amount recognized	$ 1,310,113	$ 1,603,936

NOTE 14 – POST-RETIREMENT HEALTHCARE BENEFITS (Continued)

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

	2017	2016
Net periodic benefit cost		
Service cost	$ 84,915	$ 147,507
Interest cost	57,718	81,397
Recognition of actuarial (gains)/losses	(387,781)	(689,901)
Net periodic benefit cost	$ (245,148)	$ (460,997)

The discount rate used in determining the accumulated post-retirement benefit obligation was 3.9% at May 31, 2017 and 3.7% at May 31, 2016. To determine the accumulated post-retirement benefit obligation at May 31, 2017 and 2016, 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, 2017 and 2016, the College made healthcare insurance premium payments for the participants of approximately $48,675 and $47,850, respectively.

The healthcare insurance premium payments for the participants are expected to be paid as follows as of May 31, 2017:

Years Ending May 31	
2018	$ 50,150
2019	53,197
2020	56,509
2021	60,597
2022	63,860
Thereafter	369,813
	$ 654,126

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The College has placed its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC), established by ten 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 $175,156. As of May 31, 2017 and 2016, no amounts were outstanding against the standby letter of credit.

NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

The College has placed a portion of its medical insurance coverage with Pioneer Educators Health Trust (the Trust, formerly Oregon Independent Colleges Employee Benefits Trust). The Trust was 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 Trust 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 approximately $795,419. 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. Interest is due monthly at the prime interest rate (4.00% at May 31, 2017). The scheduled maturity on the line of credit is October 31, 2017. As of May 31, 2017 and 2016, no amounts were outstanding on the line of credit. No loans were taken from the line of credit during the years ended May 31, 2017 and 2016. The agreement establishes various positive and negative covenants, including liquid asset requirements.

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 as of May 31, 2017.

NOTE 16 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents. The College places substantially all of its cash and liquid investments with financial institutions; however, cash balances may periodically exceed federally insured limits. Investments are diversified in order to limit credit risk.

LEWIS & CLARK COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2017

Federal Grantor/ Program or Cluster Title	CFDA Number	Pass-through Entity	Pass-through Entity Identification Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER				
U.S. Department of Education				
Federal Pell Grant Program	84.063			$ 1,765,035
Federal Supplemental Educational Opportunity Grant Program	84.007			337,498
Federal Work-Study Program	84.033			583,590
Federal Perkins Loan Program	84.038			8,359,718
Federal Direct Loan Programs	84.268			45,137,283
Teacher Education Assistance for College Higher Education Grants (TEACH Grants)	84.379			44,716
Total Student Financial Assistance Cluster				56,227,840
RESEARCH AND DEVELOPMENT CLUSTER				
National Science Foundation				
Mathematical and Physical Sciences	47.049			124,099
Biological Sciences	47.074			187,241
Biological Sciences	47.074	Oregon State University	S1776A-C	23,316
Total Biological Sciences				210,557
Education and Human Resources	47.076			33,913
Total National Science Foundation				368,569
National Insitutes of Health				
Biomedical Research and Research Training	93.859			129,667
Total National Institutes of Health				129,667
U.S. Department of Energy				
Office of Science Financial Assistance Program	81.049			61,570
Total U.S. Department of Energy				61,570
Total Research and Development Cluster				559,806
OTHER PROGRAMS				
U.S. Department of Education				
Improving Teacher Quality Grants- SAHEs	84.367B	Western Oregon University	TRSUB13.03	104,498
Total U.S. Department of Education				104,498
U.S. Department of the Treasury				
Low Income Taxpayer Clinics	21.008			101,499
Total U.S. Department of the Treasury				101,499
National Endowment for the Arts				
Promotion of the Arts-Partnership Agreements	45.025			6,489
Total National Endowment for the Arts				6,489
National Endowment for the Humanities				
Promotion of the Humanities-Professional Development	45.163			120
Total National Endowment for the Humanities				120
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 57,000,252

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal award activity of Lewis & Clark College under programs of the federal government for the year ended May 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this Schedule presents only a selected portion of the operations of Lewis & Clark College, it is not intended to and does not present the financial position, changes in net assets or cash flows of Lewis & Clark College.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions,* or the cost principles contained in the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

Lewis & Clark College has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program is administered directly by Lewis & Clark College, and balances and transactions relating to this program are included in Lewis & Clark College's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans made during the year ended May 31, 2017 totaled $1,071,607. Federal Perkins loans outstanding at May 31, 2017 totaled $6,720,218.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lewis & Clark College
Portland, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lewis & Clark College (the "College"), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 26, 2017

BAKER TILLY

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lewis & Clark College
Portland, Oregon

Report on Compliance for the Major Federal Program

We have audited Lewis & Clark College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended May 31, 2017. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on the Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2017.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 26, 2017

LEWIS & CLARK COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended May 31, 2017

SECTION I – SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 516(a) of the Uniform Guidance?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

LEWIS & CLARK COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended May 31, 2017

The previous audit of the Federal Award Programs was for the year ended May 31, 2016 and was performed by other auditors whose report was dated September 14, 2016. There were no findings or questioned costs reported in that audit.