

LEWIS & CLARK COLLEGE
Portland, Oregon

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2019 and 2018

LEWIS & CLARK COLLEGE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Lewis & Clark College (the "College"), which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 4, 2019

LEWIS & CLARK COLLEGE**STATEMENTS OF FINANCIAL POSITION**

As of May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 17,980,420	\$ 12,719,758
Student accounts receivable, net	11,410	47,898
Other receivables	1,669,060	1,919,088
Grants receivable	249,574	302,460
Prepaid expenses and other assets	479,422	423,350
Contributions receivable, net	4,667,211	3,954,800
Student loans receivable, net	4,433,351	5,678,512
Cash restricted for long-term investment	6,391,724	1,946,267
Investments	247,228,159	249,020,235
Funds held in trust with others	3,700,996	-
Property, plant, and equipment, net	<u>170,485,607</u>	<u>172,213,664</u>
TOTAL ASSETS	<u>\$ 457,296,934</u>	<u>\$ 448,226,032</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,436,059	\$ 1,485,896
Accrued and other liabilities	13,462,612	14,288,184
Deferred revenues	3,204,078	3,051,554
Liability for split interest agreements	1,402,691	1,110,771
Bonds and capital lease payable, net	104,988,879	105,896,904
Interest rate swaps liability	5,430,130	4,347,405
U.S. government grants refundable	<u>4,782,638</u>	<u>4,721,605</u>
Total liabilities	<u>134,707,087</u>	<u>134,902,319</u>
NET ASSETS		
Without donor restrictions	104,170,423	107,017,921
With donor restrictions	<u>218,419,424</u>	<u>206,305,792</u>
Total net assets	<u>322,589,847</u>	<u>313,323,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 457,296,934</u>	<u>\$ 448,226,032</u>

See accompanying notes to financial statements.

LEWIS & CLARK COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2019

(with comparative totals for the year ended May 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees, net of scholarships and fellowships of \$60,873,917 and \$57,533,600, respectively	\$ 81,640,745	\$ -	\$ 81,640,745	\$ 81,717,638
Contributions	2,765,330	4,420,349	7,185,679	7,205,696
Government grants	2,457,788		2,457,788	2,359,203
Contracts and exchange transactions	283,310	-	283,310	348,769
Endowment earnings allocated for operations	2,648,275	8,487,158	11,135,433	10,941,205
Other investment returns (losses)	396,748	-	396,748	(2,813)
Other revenue	3,064,278	-	3,064,278	2,931,953
Sales and services of auxiliary enterprises	19,575,732	-	19,575,732	19,186,510
	<u>112,832,206</u>	<u>12,907,507</u>	<u>125,739,713</u>	<u>124,688,161</u>
Net assets released from restrictions	<u>12,865,650</u>	<u>(12,865,650)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains and Other Support	<u>125,697,856</u>	<u>41,857</u>	<u>125,739,713</u>	<u>124,688,161</u>
EXPENSES				
Program expenses				
Instruction	51,847,246	-	51,847,246	51,727,919
Research	2,756,030	-	2,756,030	2,848,309
Public service	1,345,295	-	1,345,295	1,318,712
Academic support	11,909,644	-	11,909,644	12,169,072
Student services	15,465,410	-	15,465,410	15,048,004
Institutional support	23,885,157	-	23,885,157	24,315,716
Auxiliary enterprises	15,235,024	-	15,235,024	15,924,932
TOTAL EXPENSES	<u>122,443,806</u>	<u>-</u>	<u>122,443,806</u>	<u>123,352,664</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>3,254,050</u>	<u>41,857</u>	<u>3,295,907</u>	<u>1,335,497</u>
NON-OPERATING ACTIVITIES				
Long-term investment returns	198,627	4,657,085	4,855,712	22,766,496
Less: Endowment earnings allocated for operations	<u>(2,648,275)</u>	<u>(8,487,158)</u>	<u>(11,135,433)</u>	<u>(10,941,205)</u>
Long-term investment returns, net of allocation	<u>(2,449,648)</u>	<u>(3,830,073)</u>	<u>(6,279,721)</u>	<u>11,825,291</u>
Contributions	100	12,529,756	12,529,856	3,808,853
Other revenue	-	122,332	122,332	124,056
Redesignation of prior year net assets	(3,652,000)	3,652,000	-	-
Change in value of split interest agreements	-	(402,240)	(402,240)	241,544
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	<u>(6,101,548)</u>	<u>12,071,775</u>	<u>5,970,227</u>	<u>15,999,744</u>
CHANGE IN NET ASSETS	<u>(2,847,498)</u>	<u>12,113,632</u>	<u>9,266,134</u>	<u>17,335,241</u>
NET ASSETS - Beginning of Year	<u>107,017,921</u>	<u>206,305,792</u>	<u>313,323,713</u>	<u>295,988,472</u>
NET ASSETS AT END OF YEAR	<u>\$ 104,170,423</u>	<u>\$ 218,419,424</u>	<u>\$ 322,589,847</u>	<u>\$ 313,323,713</u>

See accompanying notes to financial statements.

LEWIS & CLARK COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees, net of scholarships and fellowships of \$57,533,600	\$ 81,717,638	\$ -	\$ 81,717,638
Contributions	2,555,658	4,650,038	7,205,696
Government grants	2,359,203	-	2,359,203
Contracts and exchange transactions	348,769	-	348,769
Endowment earnings allocated for operations	2,713,925	8,227,280	10,941,205
Other investment losses	(2,813)	-	(2,813)
Other revenue	2,931,953	-	2,931,953
Sales and services of auxiliary enterprises	19,186,510	-	19,186,510
	<u>111,810,843</u>	<u>12,877,318</u>	<u>124,688,161</u>
Net assets released from restrictions	12,611,873	(12,611,873)	-
	<u>124,422,716</u>	<u>265,445</u>	<u>124,688,161</u>
EXPENSES			
Program expenses			
Instruction	51,727,919	-	51,727,919
Research	2,848,309	-	2,848,309
Public service	1,318,712	-	1,318,712
Academic support	12,169,072	-	12,169,072
Student services	15,048,004	-	15,048,004
Institutional support	24,315,716	-	24,315,716
Auxiliary enterprises	15,924,932	-	15,924,932
	<u>123,352,664</u>	<u>-</u>	<u>123,352,664</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES			
	<u>1,070,052</u>	<u>265,445</u>	<u>1,335,497</u>
NON-OPERATING ACTIVITIES			
Long-term investment returns	9,109,586	13,656,910	22,766,496
Less: Endowment earnings allocated for operations	(2,713,925)	(8,227,280)	(10,941,205)
Long-term investment returns, net of allocation	6,395,661	5,429,630	11,825,291
Contributions	100	3,808,753	3,808,853
Contracts and exchange transactions	(175)	124,231	124,056
Change in value of split interest agreements	-	241,544	241,544
	<u>6,395,586</u>	<u>9,604,158</u>	<u>15,999,744</u>
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES			
	<u>7,465,638</u>	<u>9,869,603</u>	<u>17,335,241</u>
NET ASSETS - Beginning of Year	<u>99,552,283</u>	<u>196,436,189</u>	<u>295,988,472</u>
NET ASSETS AT END OF YEAR	<u>\$ 107,017,921</u>	<u>\$ 206,305,792</u>	<u>\$ 313,323,713</u>

See accompanying notes to financial statements.

LEWIS & CLARK COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,266,134	\$ 17,335,241
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contribution of marketable securities	(2,241,193)	(1,001,952)
Depreciation and amortization	7,809,182	7,827,798
Loss (gain) on disposal of property, plant and equipment	(58,482)	189,173
Unrealized loss (gain) on interest rate swaps related to bonds	1,082,725	(2,226,593)
Actuarial gain on split interest agreement obligations	(97,969)	(264,171)
Change in value of funds held in trust with others	342,957	-
Change in contributions receivable discount	(71,901)	162,601
Contributions restricted for endowment, trust, and capital projects	(12,529,856)	(3,808,853)
Interest and dividends restricted for long-term investment	(210,931)	(106,145)
Net realized and unrealized gain on investments	(5,702,486)	(21,077,161)
New split interest agreement obligations	392,561	430,844
Increase (decrease) in cash due to changes in assets and liabilities:		
Accounts and other receivables	339,402	(399,107)
Prepaid expense and other assets	(56,072)	462,703
Contributions receivable	(151,348)	(1,665,422)
Accounts payable	169,548	(564,140)
Accrued and other liabilities	(825,572)	764,321
Deferred revenues	152,524	(1,945,366)
Net cash from operating activities	(2,390,777)	(5,886,229)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Advances of student loans receivable	-	(679,999)
Payments on student loans receivable	1,245,161	1,236,505
Change in U.S. government grants refundable, net	61,033	(768,132)
Purchases of land, property, plant and equipment	(6,186,585)	(7,047,385)
Proceeds from sale of land, property, plant, and equipment	-	653,711
Proceeds from sales of investments	81,132,019	60,164,458
Termination of bond swap agreement	-	(1,778,000)
Purchases of investments	(71,396,264)	(55,234,909)
Net cash used by investing activities	4,855,364	(3,453,751)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment, trust, and capital projects	7,996,741	3,538,594
Interest and dividends restricted for long-term reinvestment	210,931	106,145
Principal payments on capital lease	(313,468)	(293,043)
Principal payments on bonds payable	(650,000)	(625,000)
Maturities of split interest obligations	(2,672)	-
Net cash provided by financing activities	7,241,532	2,726,696
 Net increase (decrease) in cash and cash equivalents	9,706,119	(6,613,284)
 Cash and cash equivalents at beginning of year	14,666,025	21,279,309
 Cash and cash equivalents at end of year	\$ 24,372,144	\$ 14,666,025
 SUPPLEMENTAL CASHFLOW DISCLOSURE:		
Cash paid for interest	\$ 6,673,335	\$ 7,294,258
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property, plant and equipment included in accounts payable	\$ 150,740	\$ 370,125

See accompanying notes to financial statements.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

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 – For the purposes of financial reporting, the College classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

With Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time or maintained permanently 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.

Without Donor Restrictions – Net assets not subject to donor-imposed stipulations.

The Board of Trustees has established policies that affect the presentation of board designations on net assets without donor restrictions. Bequests without restrictions under \$100,000 are distributed to current unrestricted funds. By board approved policy, bequests without restrictions over \$100,000 are added to the board designated endowment to the school with which the donor had affinity. The same methodology is applied to matured deferred gifts. The board has designated other funds for future capital projects and related initiatives and has delegated to management the authority to approve expenditures of these funds.

Revenue recognition – Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions.

Tuition and fees, net – Student tuition and fees are recognized in the fiscal year in which the academic programs are delivered, i.e. when the performance obligation is satisfied. Withdrawals that occur prior to a published deadline may receive a full or partial refund in accordance with the College’s refund policy. Historically, refunds have not been significant. Payments for tuition are due, prior to the first day of the start of the academic term unless addressed by a payment plan in good standing. All payment plans must be complete prior to the end of the academic term. Generally, the College’s performance obligations are satisfied equally over the academic term. The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 19-20 academic year. The College determines the transaction price based on standard charges for goods and services provided reduced by discounts provided, relating to institutional scholarships and fellowships in accordance with the College’s policies. 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 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 ED.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tuition and fees received in advance of services to be rendered are recorded as deferred revenues on the statements of financial position. The following table notes the activity within the deferred revenue accounts relating to tuition.

Balance at May 31, 2018	Refunds Issued	Revenue recognized included in May 31, 2018 balance	Cash received in advance of performance	Balance at May 31, 2019
\$ 3,051,554	\$ -	\$ (3,051,544)	\$ 3,204,078	\$ 3,204,078

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 at the date of receipt. 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.

Government grants – Revenues from government grants are considered to be contributions as the transactions are non-reciprocal in nature and contain a right of return. As such, revenues from grants are recognized when the conditions are met, that is as allowable expenditures under such agreements are incurred, and reported as increases in net assets without donor restrictions.

Contracts and exchange transactions – Revenues from contracts and exchange transactions are recognized as related performance obligations are satisfied and reported as increases in net assets without donor restriction.

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

- Increases in donor 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 restricted net asset held in perpetuity or if the terms of the gift impose restrictions on the timing or the use of the income.
- Increases in net assets without donor restriction in all other cases.

Auxiliary enterprises – Auxiliary enterprises include income primarily from student housing, food services, transportation services, and conventions or conferences. Revenue for auxiliary enterprises is recognized when the related service is performed. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing those services.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College's measure of operations presented in the statement of activities includes revenues from tuition and fees, grants, contracts, contributions, investment income from investments except those gains and losses earned by funds without donor restriction 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 donor restricted endowments, gains and losses earned by funds without donor restriction 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 investments, 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.

Student accounts receivable – Student accounts receivable are recorded at the invoiced amount and do not bear interest. At May 31, 2019 and 2018, student accounts receivable totaled \$11,410 and \$47,898, net of an allowance for doubtful accounts of \$150,000 and \$247,682 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. 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 balances are charged off against the allowance after all means of collection have been exhausted and the potential recovery is considered remote.

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 are determined from valuations prepared by independent appraisers at the time of gift and, subsequently, 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, 2019 and 2018, no allowance for uncollectible receivables was recorded.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 1 – 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 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.

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, 2019 and 2018, the College distributed \$249,183 and \$249,935, respectively, in split-interest beneficiary payments.

Funds held in trust with others – The College has been designated as beneficiary of trusts managed by outside parties. These trusts generate income that is distributed to the College on a periodic basis. Those trusts are generally invested in marketable securities, real estate, or contracts collateralized by real estate.

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.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The College recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended May 31, 2019 and 2018, the College recognized no interest and penalties.

The College had no unrecognized tax benefits at May 31, 2019 and 2018. 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.

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, 2019. Contributions made by members of the College’s Board of Trustees totaled approximately \$4,595,000 and \$3,120,000 for the years ending May 31, 2019 and 2018, respectively.

New accounting pronouncements adopted in current year – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that creates a single source of revenue guidance for all companies in all industries. The model is more principles-based than historical guidance, and is primarily based on recognizing revenue at an amount that reflects consideration to which the entity expects to be entitled to in exchange for transferring goods or services to a customer. The College adopted this guidance June 1, 2018 utilizing the modified retrospective method of adoption, and the adoption of this guidance did not have a material impact on the College's business practices, financial condition, or results of operations during the fiscal year ended May 31, 2019. The College has provided expanded disclosures pertaining to revenue recognition within Note 1.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The College adopted the provisions of this new standard during the year ended May 31, 2019. The primary changes include presenting two classes of net assets versus the three categories previously required and recognition of underwater endowment funds as a reduction to the net assets with donor restrictions class. The standard also provides for enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and availability, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provided clarity and improved accounting guidance for contributions received and contributions made. The College adopted this guidance June 1, 2018 utilizing the modified retrospective method of adoption, and the adoption of this guidance did not have a material impact on the College's business practices, financial condition, or results of operations during the fiscal year ended May 31, 2019.

New accounting pronouncements not yet effective – In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

Reclassifications – Certain amounts appearing in the 2018 financial statements have been reclassified to conform with the 2019 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

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 October 4, 2019, which is the date the financial statements were issued.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 2 – STUDENT LOANS RECEIVABLE

Student loans receivable represents loans from the Perkins loan funds that are generally payable with interest between 3% and 5% 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, 2019 and 2018, student loans funded through the Perkins loan program were \$4,433,351 and \$5,678,512, respectively, net of an allowance for doubtful accounts. 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, 2019 and 2018 to account for those amounts advanced by the College.

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program. However, the College may choose to liquidate at any time in the future. As of May 31, 2019, the College continues to service the Perkins Loan Program.

Funds advanced by the Federal government of \$4,782,638 and \$4,721,605 at May 31, 2019 and 2018, 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 decrease in the liability to the government.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Conditional contributions – At May 31, 2019 and 2018, the College had received conditional promises to give of approximately \$274,000 and \$585,000. 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. At May 31, 2019, the College had approximately \$2,140,000, of conditional contributions outstanding on various grants, whereby, the conditions will be met upon incurring certain qualifying expenditures.

Unconditional contributions – 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 1.45% and 1.71% for the years ended May 31, 2019 and 2018, respectively.

Amounts due are as follows:

	<u>2019</u>	<u>2018</u>
Amounts receivable in less than one year	\$ 1,634,935	\$ 1,172,000
Amounts receivable in one to five years	3,232,016	3,028,662
	<u>4,866,951</u>	<u>4,200,662</u>
Unamortized discount	(199,740)	(245,862)
Total contributions receivable	<u>\$ 4,667,211</u>	<u>\$ 3,954,800</u>

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 4 – SPLIT INTEREST AGREEMENTS

As of May 31, 2019 and 2018, the College had various 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, 2019 and 2018, the fair value of the total assets held was \$2,160,820 and \$1,321,296, respectively. The reserve was \$1,024,215 and \$658,682, respectively, leaving \$1,136,605 and \$662,614 of net assets in excess, respectively. During the fiscal years ended May 31, 2019 and 2018, distributions to annuitants totaled \$109,103 and \$81,376, 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, 2019 and 2018, the College's actuarially determined future payments and other obligations were as follows:

	<u>2019</u>	<u>2018</u>
Gift annuity reserve	\$ 1,024,215	\$ 658,682
Present value of future payments - annuity trusts	1,396	48,308
Present value of future payments - fixed rate unitrust	<u>377,080</u>	<u>403,781</u>
Total liability for split-interest agreements	<u>\$ 1,402,691</u>	<u>\$ 1,110,771</u>

NOTE 5 – 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, mutual funds and real property. Marketable securities and mutual funds 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.

Funds held in trust with others - Assets held in trust by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 5 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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.

There were no changes in fair value methods or assumptions during the years ended May 31, 2019 or 2018.

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 assets and liabilities:

	At May 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments				
Equity securities				
International mutual funds	\$ 1,071,036	\$ -	\$ -	\$ 1,071,036
Domestic mutual funds	10,088,880	-	-	10,088,880
Balanced mutual funds	2,036,519	-	-	2,036,519
Domestic equity securities	42,648	-	-	42,648
Real estate investment trust	5,167,037	-	-	5,167,037
Debt securities				
U.S. Treasury securities	-	1,389,300	-	1,389,300
Municipal fixed income securities	-	1,655,164	-	1,655,164
Domestic fixed income mutual funds	21,315,901	-	-	21,315,901
Domestic fixed income securities	-	4,021,735	-	4,021,735
Assets held in charitable remainder trusts				
Fixed income mutual funds	1,652,342	-	-	1,652,342
Equity mutual funds	2,277,317	-	-	2,277,317
Marketable fixed income securities	-	613,189	-	613,189
Total investments in the fair value hierarchy	43,651,680	7,679,388	-	51,331,068
Alternative investments measured using NAV (practical expedient)	-	-	-	195,802,954
Total investments measured at fair value	43,651,680	7,679,388	-	247,134,022
Funds held in trust with others	-	-	3,700,996	3,700,996
Interest rate swaps liability	-	(5,430,130)	-	(5,430,130)
Total assets and liabilities at fair value	<u>\$ 43,651,680</u>	<u>\$ 2,249,258</u>	<u>\$ 3,700,996</u>	<u>\$ 245,404,888</u>
Total Investments at fair value	\$ 247,134,022			
Real estate investments (at cost)	<u>94,137</u>			
Total Investments	<u>\$ 247,228,159</u>			

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 5 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

	At May 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments				
Equity securities				
International mutual funds	\$ 3,880,997	\$ -	\$ -	\$ 3,880,997
Domestic mutual funds	16,462,034	-	-	16,462,034
Balanced mutual funds	1,997,281	-	-	1,997,281
Domestic equity securities	196,953	-	-	196,953
Real estate investment trust	2,122,452	-	-	2,122,452
Debt securities				
U.S. Treasury securities	-	1,851,968	-	1,851,968
Domestic fixed income mutual funds	-	1,297,089	-	1,297,089
Domestic fixed income securities	16,736,068	-	-	16,736,068
Collateralized debt securities	-	3,404,589	-	3,404,589
Assets held in charitable remainder trusts	-	4,997	-	4,997
Fixed income mutual funds				
Equity mutual funds	1,207,058	-	-	1,207,058
Marketable fixed income securities	1,972,702	-	-	1,972,702
	-	618,855	-	618,855
Total investments in the fair value hierarchy	44,575,545	7,177,498	-	51,753,043
Alternative investments measured using NAV (practical expedient)				
	-	-	-	197,173,055
Total investments measured at fair value	44,575,545	7,177,498	-	248,926,098
Interest rate swaps liability	-	(4,347,405)	-	(4,347,405)
Total assets and liabilities at fair value	\$ 44,575,545	\$ 2,830,093	\$ -	\$ 244,578,693
Total Investments at fair value	\$ 248,926,098			
Real estate investments (at cost)	94,137			
Total Investments	\$ 249,020,235			

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2019 are as follows:

	Beginning Balance	Total (Losses)	Additions	Ending Balance
Funds held in trust by others	\$ -	\$ (342,957)	\$ 4,043,953	\$ 3,700,996

Change in unrealized gains or losses for the period included in changes in net assets for assets held at the end of the reporting period reported as change in fair value of split interest agreements of (\$342,957).

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 5 – 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		Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
	May 31, 2019	May 31, 2018				
Commingled trusts (a)						
Marketable international equity securities	\$ 60,424,931	\$ 68,089,405	\$ -	Range from monthly to quarterly	6 - 30 days	3 year lockup
Marketable domestic equity securities	28,968,588	27,179,621	-	Quarterly	60 days	None
U.S. Treasury securities	12,590,898	14,743,066	-	Daily	2 - 5 days	None
Hedge funds (b)						
Global macro funds	2,919,989	6,835,720	-	Range from daily to quarterly	1 - 33 days	Funds delivered 90 days after redemption request
Multi-strategy funds	8,408,705	6,901,441	-	Range from quarterly to annually	30 - 90 days	Rolling one to two year lockup
Long/Short funds	13,882,413	15,225,585	-	Range from monthly to annually	30 - 90 days	Rolling 12 month lockup
Credit opportunities funds	5,065,000	4,280,416	-	Range from quarterly to bi-annually	60 - 90 days	Rolling one to two year lockup
Private equity funds (c)	8,111,780	7,050,897	8,472,842	N/A*	N/A*	N/A*
International private equity funds (c)	6,858,035	6,830,308	451,500	N/A*	N/A*	N/A*
Venture capital funds (c)	36,891,547	26,838,367	23,217,698	N/A*	N/A*	N/A*
Natural resources funds (d)	8,136,052	9,541,849	3,907,830	N/A*	N/A*	N/A*
Real estate funds (e)	<u>3,545,016</u>	<u>3,656,380</u>	<u>6,883,312</u>	N/A*	N/A*	N/A*
	<u>\$ 195,802,954</u>	<u>\$ 197,173,055</u>	<u>\$ 42,933,181</u>			

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

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 5 – 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 28% multi-strategy, 26% distressed opportunities, 46% 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 non-marketable securities of new companies or companies considered to be in the early stages of growth.
 - (d) This category invests in funds-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.
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NOTE 6 – LIQUIDITY AND AVAILABILITY

The following reflects the College's total assets as of the statement of financial position date, reduced by amounts not available for general use because of lack of liquidity (non-financial assets), contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investment in the board-designated funds that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board designated endowment for general expenditures within one year of the statement of financial position date have not been removed in the table below.

	<u>May 31, 2019</u>
Total assets at year-end	\$ 457,296,934
Less those unavailable for general expenditures within one year due to,:	
Non-Financial Assets	
Other receivables	(883,239)
Prepaid expenses and other assets	(479,422)
Property, plant and equipment, net	(170,485,606)
Contractual or donor-imposed restrictions	
Split interest agreements	(4,754,667)
Funds held in trust with others	(3,700,996)
Contributions receivable (non-endowment)	(2,557,125)
Contributions receivable restricted to endowment	(1,930,086)
Federal Perkins loan fund assets	(6,649,561)
Donor restricted endowment funds	(191,538,806)
Donor restricted non-endowment funds	(6,322,235)
Board designations:	
Quasi-endowment funds	(48,263,587)
Other board-designated funds	(9,816,339)
Fiscal year 2020 appropriation of endowment earnings	<u>11,020,382</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 20,935,647</u>

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 6 – LIQUIDITY AND AVAILABILITY (Continued)

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 (5.50% at May 31, 2019). The scheduled maturity on the line of credit is October 31, 2019. As of May 31, 2019 and 2018, no amounts were outstanding on the line of credit. The agreement establishes various positive and negative covenants, including liquid asset requirements.

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 50 years; and furniture and equipment are 4 to 7 years.

	May 31, 2019		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 18,528,127	\$ -	\$ 18,528,127
Land improvements	18,792,629	11,228,030	7,564,599
Buildings and improvements	222,774,190	87,984,453	134,789,737
Art and artifacts collection	2,664,192	-	2,664,192
Furniture and equipment	29,432,347	23,606,755	5,825,592
Construction in progress	1,113,360	-	1,113,360
	<u>\$ 293,304,845</u>	<u>\$ 122,819,238</u>	<u>\$ 170,485,607</u>
	May 31, 2018		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 17,784,427	\$ -	\$ 17,784,427
Land improvements	16,227,934	10,570,616	5,657,318
Buildings and improvements	220,257,723	82,693,023	137,564,700
Art and artifacts collection	2,579,192	-	2,579,192
Furniture and equipment	50,548,630	43,745,828	6,802,802
Construction in progress	1,825,225	-	1,825,225
	<u>\$ 309,223,131</u>	<u>\$ 137,009,467</u>	<u>\$ 172,213,664</u>

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 8 – BONDS AND CAPITAL LEASE PAYABLE

Capital Lease

At May 31, 2019, 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		
2020	\$	77,077
Total minimum payments		77,077
Less amount representing interest		(5,022)
	\$	72,055

Bonds Payable

At May 31, bonds payable consist of the following:

	2019	2018
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 without donor restricted revenues of the College, payable in annual installments which began October 2015, with maturity in 2041	\$ 106,155,000	\$ 106,805,000
Less unamortized discount	(369,789)	(386,349)
Less bond issuance costs	(868,387)	(907,270)
Total bonds payable	\$ 104,916,824	\$ 105,511,381

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 \$5,866,267 and \$5,891,933 for the years ended May 31, 2019 and 2018, respectively. Total interest expense, including payments connected to the interest rate swaps, was \$6,706,970 and \$7,170,040 for the years ended May 31, 2019 and 2018, respectively.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

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, 2019:

Years Ending May 31	2011 Bonds Repayment Requirements	
	Principal	Interest
2020	\$ 680,000	\$ 5,844,000
2021	1,440,000	5,801,600
2022	1,495,000	5,742,900
2023	1,570,000	5,671,788
2024	1,650,000	5,587,263
Thereafter	<u>99,320,000</u>	<u>64,161,881</u>
	<u>\$ 106,155,000</u>	<u>\$ 92,809,432</u>

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'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, 2019 and 2018 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, 2019 and 2018 was equal to \$26,100,000 and \$27,890,000, 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, 2019 and 2018, the valuation of the swap resulted in an unrealized loss of \$1,082,725 and unrealized gain of \$2,226,593, 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 any time during the term of the swap.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 10 – NET ASSETS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Operations	\$ (7,432,605)	\$ (10,539,035)
Invested in property, plant and equipment	68,424,272	68,276,652
Funds held for long-term investment (Endowment)	<u>43,178,756</u>	<u>49,280,304</u>
Total net assets without donor restrictions	<u>\$ 104,170,423</u>	<u>\$ 107,017,921</u>

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Endowment funds		
Without purpose restrictions	\$ 6,537,140	\$ 6,670,976
With purpose restrictions		
Scholarships	108,493,442	108,715,132
Faculty and staff compensation	32,278,565	32,767,775
Facilities	22,354,053	22,881,357
Departmental	<u>23,805,692</u>	<u>15,298,383</u>
	193,468,892	186,333,623
Split interest agreements	7,052,862	2,914,448
Student loans	1,550,605	1,549,933
Restricted for specific projects	9,059,358	8,220,081
Property held for College use in perpetuity	<u>7,287,707</u>	<u>7,287,707</u>
Total net assets with donor restrictions	<u>\$ 218,419,424</u>	<u>\$ 206,305,792</u>

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 11 – 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. 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 Investment Committee of the Board of Trustees has approved a spending constraint threshold which states that if the market value is less than the permanent gift value, the distribution would be reduced to 2.5% of the sixteen quarter rolling average endowment market value.

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 2019 and 2018, the effective endowment spending rate was 5.0% and 5.1%, 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.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 11 – ENDOWMENTS (Continued)

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, 2019:

	Without Donor Restrictions	With Donor Restrictions			Total Funds May 31, 2019
		Original Gift	Accumulated Gain (Losses)	Total	
Board-designated endowment funds	\$ 43,178,756	\$ -	\$ -	\$ -	\$ 43,178,756
Donor-restricted endowment funds	-	128,455,693	64,030,219	192,485,912	192,485,912
Underwater funds	-	1,000,790	(17,810)	982,980	982,980
Total endowment net assets	\$ 43,178,756	\$ 129,456,483	\$ 64,012,409	\$ 193,468,892	\$ 236,647,648

Endowment net assets consist of the following at May 31, 2018:

	Without Donor Restrictions	With Donor Restrictions			Total Funds May 31, 2018
		Original Gift	Accumulated Gain (Losses)	Total	
Board-designated endowment funds	\$ 49,280,304	\$ -	\$ -	\$ -	\$ 49,280,304
Donor-restricted endowment funds	-	118,464,300	67,869,323	186,333,623	186,333,623
Underwater funds	-	-	-	-	-
Total endowment net assets	\$ 49,280,304	\$ 118,464,300	\$ 67,869,323	\$ 186,333,623	\$ 235,613,927

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 11 – ENDOWMENTS (Continued)

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 49,280,304	\$ 186,333,623	\$ 235,613,927
Investment returns	198,627	4,641,168	4,839,795
Contributions	100	7,324,320	7,324,420
Matured trusts and other transfers	(3,652,000)	3,656,939	4,939
Appropriation of endowment assets for expenditure (spending rate)	(2,648,275)	(8,487,158)	(11,135,433)
Endowment net assets, end of year	\$ 43,178,756	\$ 193,468,892	\$ 236,647,648
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 42,884,543	\$ 179,037,764	\$ 221,922,307
Investment returns	9,109,586	13,656,910	22,766,496
Contributions	100	1,816,297	1,816,397
Matured trusts and other transfers	-	49,932	49,932
Appropriation of endowment assets for expenditure (spending rate)	(2,713,925)	(8,227,280)	(10,941,205)
Endowment net assets, end of year	\$ 49,280,304	\$ 186,333,623	\$ 235,613,927

During 2019, the College received a contribution requiring the College to match the gift amount to create an endowed scholarship fund. The Board approved the use of board-designated funds to fulfill the matching requirement, which is included as a transfer to net assets with donor restrictions in 2019.

NOTE 12 – 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% 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, 2019 and 2018, was approximately \$4,108,000 and \$4,111,000, respectively.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 13 – 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 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:

	2019	2018
Amounts recognized in the statements of financial position		
Accrued postretirement healthcare benefits liability	\$ 1,259,277	\$ 1,270,287
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 1,270,287	\$ 1,310,113
Service cost	57,701	62,831
Interest cost	49,745	49,683
Actuarial gain	(68,906)	(102,565)
Benefits paid	(49,550)	(49,775)
Benefit obligation, end of year	\$ 1,259,277	\$ 1,270,287
Reconciliation of funded status		
End of year	\$ 1,259,277	\$ 1,270,287
Unrecognized net actuarial loss	-	-
Net amount recognized	\$ 1,259,277	\$ 1,270,287

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

	2019	2018
Net periodic benefit cost		
Service cost	\$ 57,701	\$ 62,831
Interest cost	49,745	49,683
Recognition of actuarial (gains)/losses	(68,906)	(102,565)
Net periodic benefit cost	\$ 38,540	\$ 9,949

The discount rate used in determining the accumulated post-retirement benefit obligation was 3.65% at May 31, 2019 and 4.0% at May 31, 2018. To determine the accumulated post-retirement benefit obligation at May 31, 2019 and 2018, 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, 2019 and 2018, the College made healthcare insurance premium payments for the participants of approximately \$49,550 and \$49,775, respectively.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 13 – POST-RETIREMENT HEALTHCARE BENEFITS (Continued)

The healthcare insurance premium payments for the participants are expected to be paid as follows as of May 31, 2019:

Years Ending May 31	
2020	\$ 52,378
2021	55,339
2022	57,924
2023	60,301
2024	63,046
Thereafter	<u>350,367</u>
	<u>\$ 639,355</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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 \$294,535. 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 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.

From time to time, 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, 2019.

LEWIS & CLARK COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended May 31, 2019 and 2018

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Operating Lease Commitments

The College leases office space for clinics associated with the Law & Graduate Schools and various equipment under operating lease obligations. Future minimum payments associated with operating lease agreements for succeeding years are as follows:

Years Ending May 31		
2020	\$	397,507
2021		148,365
2022		52,405
2023		11,743
		<u>610,020</u>
	\$	<u>610,020</u>

NOTE 15 – CONCENTRATIONS

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.

As of May 31, 2019 and 2018, the College had investments of \$24,252,449 and \$27,179,621, respectively, which were concentrated in one fund.

As of May 31, 2019 and 2018, gross contributions receivable of \$1,988,000 and \$1,725,000, were due from three donors, respectively.

NOTE 16 –EXPENSES BY NATURE AND FUNCTION

Expenses are allocated to programs and organized by functional categories that correlate to the educational mission of the College. Natural expenses that relate to more than one functional expense category are allocated based upon factors such as square footage and percent of time and effort.

Expenses by natural and functional classification for the year ended May 31, 2019 were as follows:

	Salaries & Wages	Benefits	Services & Supplies	Depreciation	Facilities Operating Expenses	Interest	Total
Instruction	\$ 31,787,652	\$ 6,669,621	\$ 7,961,307	\$ 3,184,140	\$ 1,182,434	\$ 1,062,092	\$ 51,847,246
Research	1,961,545	209,426	568,294		16,765	-	2,756,030
Public Service	906,928	126,488	285,589		26,290	-	1,345,295
Academic Support	5,830,500	1,151,690	2,907,812		426,504	1,593,138	11,909,644
Student Services	7,721,505	1,709,359	5,406,661	44,604	583,281	-	15,465,410
Institutional Support	10,146,267	2,237,042	6,179,690	2,256,116	1,944,778	1,121,264	23,885,157
Auxiliary Enterprises	1,202,630	860,597	6,222,471	2,268,879	2,508,361	2,172,086	15,235,024
Total	<u>\$ 59,557,027</u>	<u>\$ 12,964,223</u>	<u>\$ 29,531,824</u>	<u>\$ 7,753,739</u>	<u>\$ 6,688,413</u>	<u>\$ 5,948,580</u>	<u>\$ 122,443,806</u>