WARTBURG COLLEGE
Waverly, Iowa

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended
May 31, 2014 and 2013

WARTBURG COLLEGE
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As of and for the Years Ended
May 31, 2014 and 2013

BAKER TILLY
VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Wartburg College
Waverly, Iowa

We have audited the accompanying financial statements of Wartburg College (the "College"), which comprise the statements of financial position as of May 31, 2014 and 2013, 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 Wartburg College as of May 31, 2014 and 2013, 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
September 24, 2014

WARTBURG COLLEGE

STATEMENTS OF FINANCIAL POSITION
As of May 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 7,741,741	$ 9,935,800
Student accounts receivable, net of allowance for doubtful accounts of $1,250,000 and $1,009,000	1,928,827	1,631,604
Contributions receivable (Note 5)	4,600,000	5,000,000
Other receivables	2,539,256	1,494,275
Inventories	430,290	511,297
Prepaid expenses	1,062,073	701,361
Investments (Note 6)	8,711,771	8,426,729
Endowment investments (Note 7)	59,101,559	53,287,753
Deposits with trustee (Note 8)	6,944,184	7,388,251
Student notes receivable (Note 17)	3,495,423	3,441,919
Funds held in trust by others	2,932,591	2,523,197
Real estate	126,550	126,550
Unamortized debt issuance costs	113,305	120,391
Construction in progress (Note 11)	349,430	536,990
Property, plant and equipment, net (Note 9)	97,763,757	97,968,763
TOTAL ASSETS	$ 197,840,757	$ 193,094,880

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Accounts payable	$ 1,194,183	$ 1,400,642
Accrued liabilities	4,751,943	4,359,833
Accrued interest payable	734,037	742,237
Deposit accounts	1,069,817	950,730
Deferred revenue	171,526	200,847
Long-term debt (Note 10)	81,584,988	82,553,066
U.S. government grants refundable (Note 17)	2,992,646	2,972,198
Annuities payable (Note 13)	2,853,330	2,874,573
Asset retirement obligation (Note 1)	570,000	542,000
Deposits held in custody	115,702	211,540
Total Liabilities	96,038,172	96,807,666
NET ASSETS		
Unrestricted (Note 3)	40,218,643	40,565,917
Temporarily restricted (Note 3)	19,115,450	15,872,198
Permanently restricted (Note 3)	42,468,492	39,849,099
Total Net Assets	101,802,585	96,287,214
TOTAL LIABILITIES AND NET ASSETS	$ 197,840,757	$ 193,094,880

See accompanying notes to financial statements.

WARTBURG COLLEGE

STATEMENTS OF ACTIVITIES
For the Years Ended May 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT								
Tuition and fees	$ 56,538,434	$ -	$ -	$ 56,538,434	$ 54,721,918	$ -	$ -	$ 54,721,918
Less: Scholarships and grant	(29,095,388)	-	-	(29,095,388)	(27,272,004)	-	-	(27,272,004)
Net Tuition and Fees	27,443,046	-	-	27,443,046	27,449,914	-	-	27,449,914
Student financial aid grants	326,299	-	-	326,299	344,554	-	-	344,554
Contributions	3,201,271	873,191	2,662,181	6,736,643	4,024,139	2,726,666	2,951,898	9,702,703
Endowment and other investment income (Note 7)	3,358,831	3,072,992	43,136	6,474,959	4,963,878	3,657,018	71,749	8,692,645
Income (loss) on trust assets	(5,387)	142,974	64,109	201,696	11,571	179,580	367,087	558,238
Other sources	2,906,503	-	(9,318)	2,897,185	3,143,265	-	22,693	3,165,958
Sales and services of auxiliary enterprises	15,513,492	-	-	15,513,492	14,888,892	-	-	14,888,892
	52,744,055	4,089,157	2,760,108	59,593,320	54,826,213	6,563,264	3,413,427	64,802,904
Net assets released from restrictions (Note 4)	845,905	(845,905)	-	-	276,648	(276,648)	-	-
Total Revenues, Gains and Other Support	53,589,960	3,243,252	2,760,108	59,593,320	55,102,861	6,286,616	3,413,427	64,802,904
EXPENSES								
Program Expenses								
Instruction	17,222,387	-	-	17,222,387	17,017,253	-	-	17,017,253
Public service	430,747	-	-	430,747	479,939	-	-	479,939
Academic support	3,882,950	-	-	3,882,950	3,528,419	-	-	3,528,419
Student services	11,891,939	-	-	11,891,939	11,322,792	-	-	11,322,792
Auxiliary enterprises	11,781,153	-	-	11,781,153	11,037,851	-	-	11,037,851
Support Expenses								
Institutional support	8,650,740	-	-	8,650,740	8,062,226	-	-	8,062,226
Actuarial adjustments	52,181	-	140,715	192,896	46,498	-	131,772	178,270
Subtotal	53,912,097	-	140,715	54,052,812	51,494,978	-	131,772	51,626,750
Loss (gain) on disposal of plant assets	25,137	-	-	25,137	(263,713)	-	-	(263,713)
Total Expenses and Losses	53,937,234	-	140,715	54,077,949	51,231,265	-	131,772	51,363,037
CHANGE IN NET ASSETS	(347,274)	3,243,252	2,619,393	5,515,371	3,871,596	6,286,616	3,281,655	13,439,867
NET ASSETS - Beginning of Year	40,565,917	15,872,198	39,849,099	96,287,214	36,694,321	9,585,582	36,567,444	82,847,347
NET ASSETS - END OF YEAR	$ 40,218,643	$ 19,115,450	$ 42,468,492	$ 101,802,585	$ 40,565,917	$ 15,872,198	$ 39,849,099	$ 96,287,214

See accompanying notes to financial statements.

WARTBURG COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,515,371	$ 13,439,867
Adjustments to reconcile change in net assets to net cash flow from operating activities		
Depreciation	3,773,359	3,730,803
Amortization	114,008	115,253
Accretion	28,000	26,000
Loss (gain) on disposal of plant assets	25,137	(263,713)
Actuarial adjustment of annuities payable	200,855	262,462
Increase in beneficial interest in funds held in trust	(423,062)	(155,384)
Loan cancellations and write-offs	84,649	35,604
Changes in Assets and Liabilities		
Student accounts receivable	(297,223)	(243,535)
Other receivables	(1,044,981)	(161,572)
Inventories and prepaid expenses	(279,705)	(122,793)
Funds held in trust by others	13,668	(264,530)
Accounts payable	212,077	(48,881)
Accrued liabilities and accrued interest	383,910	386,307
Other liabilities	89,766	(156,024)
Deposits held in custody for others	(95,838)	47,653
Net gain on endowment investments	(4,474,088)	(6,193,668)
Net gain on investments	(682,264)	(1,004,777)
Contributions restricted for plant, loans and long-term investments	(3,538,307)	(3,837,926)
Net Cash Flows from Operating Activities	(394,668)	5,591,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of endowment investments	(17,862,477)	(15,476,141)
Sale of endowment investments	16,522,759	14,061,875
Purchase of investments	(1,239,738)	(688,728)
Sale of investments	1,636,960	895,199
Withdrawals from (additions to) trustee, net	444,067	(89,595)
Investment in property, plant and equipment	(3,999,128)	(1,891,692)
Proceeds from sale of real estate and property, plant and equipment	174,662	574,493
Disbursement of loans to students	(677,865)	(863,078)
Repayment of loans from students	539,712	647,138
Net Cash Flows from Investing Activities	(4,461,048)	(2,830,529)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal on indebtedness	(1,075,000)	(995,000)
Proceeds from contributions restricted for plant, loans and long-term investments	4,040,725	1,200,902
Increase in U.S. government grants refundable	20,448	12,364
Payments to annuitants	(324,516)	(325,292)
Net Cash Flows from Financing Activities	2,661,657	(107,026)
Change in Cash and Cash Equivalents	(2,194,059)	2,653,591
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,935,800	7,282,209
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,741,741	$ 9,935,800
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 4,551,078	$ 4,612,454
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property, plant and equipment acquired through accounts payable	$ 418,536	$ 242,336

See accompanying notes to financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Wartburg College is a four-year liberal arts college affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America (GAAP). The more significant accounting policies are summarized below:

Net Asset Classifications – These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted or unrestricted, as follows:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be 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.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Donor-restricted contributions, including appropriation of donor restricted endowment assets for expenditure, whose restrictions are met in the same reporting period are reported as unrestricted support.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. 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 property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

Tuition and Fees and Auxiliary Revenues – Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition is reflected as a reduction of tuition and fees revenues.

Cash Equivalents – The College considers all highly liquid investments, except for those held for long-term investment, with maturity of three months or less when purchased to be cash equivalents.

Receivables – Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and loans receivable are written-off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written-off are recorded when received. Receivables are generally unsecured. A student account is considered past due if not paid within 30 days of the start of the term. A monthly finance charge of 1.5% is assessed on passed due amounts. If an account remains unpaid, it is normally turned over to a collection agency within 6 months of the student leaving the College. The collection agency will continue to add the monthly finance charge of 1.5% to the account and will also add their collection fee, which typically ranges from 25-40% depending on how long the account has gone unpaid.

Deferred Revenue – Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

Property, Plant and Equipment – Property, plant and equipment are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (40-60 years), improvements (40 years), equipment (7-15 years), and library materials (15 years). Normal repair and maintenance expenses are charged to current operations as incurred. The College capitalizes equipment expenditures in excess of $4,000 and plant improvements which exceed $15,000 for the years ended May 31, 2014 and 2013.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Impairment of Long-Lived Assets – The College reviews long-lived assets, including property, plant and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses recorded.

Unamortized Debt Discount and Issuance Costs – Bond issuance discounts and issuance costs are deferred and amortized using the effective interest method over the term of the related indebtedness.

Inventories – Bookstore and dining service inventories are valued at cost using a "first in, first out" method of accounting.

Retirement Plan – The College has a 403(b) retirement plan. Contributions for employees are determined on a percentage of annual compensation. As of May 31, 2014 and 2013, the College's contribution was 8%, of base pay. The cost of the retirement plans is paid currently and approximated $1,352,913 and $1,337,787 for the years ended May 31, 2014 and 2013, respectively.

Deposits with Trustee – Deposits held with trustee include amounts restricted for debt service as required by the trust indentures.

Unemployment Compensation – The College has elected to pay unemployment compensation claims as they arise and provisions of $30,000 and $25,000 has been established for this purpose for the years ended May 31, 2014 and 2013, respectively.

Grants to Specified Students – Amounts received from state and federal agencies and designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amount of such grants totaled $2,333,098 and $1,755,300 respectively, during the year ended May 31, 2014 and $2,360,209 and $1,891,903 respectively, during the year ended May 31, 2013.

Government Grants Refundable – Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Income Tax Status – The Internal Revenue Service has determined that the College is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2014 and 2013. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2011 and thereafter are open to examination by federal and state authorities.

Fund-Raising and Advertising Expenses – Fund-raising expenses totaled approximately $2,040,000 and $1,890,000 for the years ended May 31, 2014 and 2013, respectively. Advertising expenses totaled $350,000 and $280,000 for the years ended May 31, 2014 and 2013, respectively. Advertising costs are expensed when incurred.

Asset Retirement Obligations – The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the College's asset retirement obligations related to estimated costs to remove asbestos from its campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset Retirement Obligations (cont.) Changes in the accrual for asset retirement obligations, which is included in liabilities on the statement of financial position, during the years ended May 31 are as follows:

	2014	2013
Balance, Beginning of the year	$ 542,000	$ 516,000
Accretion expense	28,000	26,000
Balance, End of the year	$ 570,000	$ 542,000

Self-Funded Insurance - The College maintains a self-funded dental plan. A liability is provided for claims incurred but not reported. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 2 – FAIR VALUE MEASUREMENTS

Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, accounts payable, accrued liabilities, deposit accounts and deferred revenue approximate fair value because of the short-term maturity of these instruments.

The fair value of contributions receivable is based on a discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of the contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the federal government for student loans could not be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees. The fair value of receivables from students under institutional loan programs approximates carrying value.

The carrying amount of the actuarial liability for trust and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the College.

The fair value of bonds payable approximates $83,300,000 and $84,600,000 at May 31, 2014 and 2013, respectively. The estimated fair value of the bonds payable is based on discounting future cash flows using current interest rates at which similar borrowings could be obtained for the same remaining maturities, which comprise Level 2 inputs under the fair value hierarchy described below.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Fair Value Hierarchy – Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurement which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

Valuation Techniques and Inputs

Level 1 – Level 1 assets include:

- Investments in cash and short-term investments (consisting primarily of money market funds) and marketable securities for which quoted prices are readily available.

- The College's deposits held by a trustee are measured at fair value using quoted market prices. They are classified as Level 1 because they trade with sufficient frequency and volume to enable the College and its trustee to obtain pricing information on an ongoing basis. These deposits are held by the trustee as amounts restricted for debt service, as required by the related trust indenture.

Level 2 – Level 2 assets include:

- Investments in fund of hedge funds for which quoted prices are not readily available, but where the College has the ability to redeem its interest at or near the statement of financial position date. The College has estimated the fair value of such funds by using the net asset value ("NAV") provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

- Other investments, comprised primarily of variable annuity contracts held in trust, are classified as Level 2 as the valuation is based on the NAV provided by the trustee and the contracts can be liquidated in less than 90 days.

Level 3 – Level 3 assets include:

- Investments in fund of hedge funds for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a NAV per share that has been calculated in accordance with AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value by using the NAV provided by the investee as of December 31, and then rolling that information forward through May 31 based on information provided by the investee. As of May 31, 2014, these assets could not be liquidated in less than 90 days.

- The College's beneficial interest in irrevocable split interest agreements or trusts held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured as the present value of the future distributions the College expects to receive over the term of the agreements.

There have been no changes in the techniques and inputs used as of May 31, 2014 and 2013.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the College's assets measured at fair value on a recurring basis as of May 31, 2014 based upon the three-level hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and short-term investments	$ 2,198,365	$ 2,198,365	$ -	$ -
Marketable securities:				
Domestic stocks	1,812,799	1,812,799	-	-
Foreign stocks	126,039	126,039	-	-
Corporate bonds	106,446	106,446	-	-
Government obligations	6,219	6,219	-	-
Domestic equity mutual funds	15,979,023	15,979,023	-	-
Domestic fixed income mutual funds	5,671,739	5,671,739	-	-
Foreign equity mutual funds	18,660,364	18,660,364	-	-
Foreign fixed Income mutual funds	8,292,795	8,292,795	-	-
Real estate investment trusts	174,476	174,476	-	-
Fund of hedge funds	12,032,733	-	6,515,783	5,516,950
Other investments	202,623	-	202,623	-
Deposits held by trustee				
Cash and short-term investments	739,149	739,149	-	-
Municipal bonds	6,205,035	6,205,035	-	-
Funds held in trust by others	2,932,591	-	-	2,932,591
Totals	$ 75,140,396	$ 59,972,449	$ 6,718,406	$ 8,449,541

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets measured at fair value on a recurring basis as of May 31, 2013 based upon the three-level hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and short-term investments	$ 2,384,778	$ 2,384,778	$ -	$ -
Marketable securities:				
Domestic stocks	1,671,327	1,671,327	-	-
Foreign stocks	105,111	105,111	-	-
Corporate bonds	58,540	58,540	-	-
Government obligations	7,882	7,882	-	-
Domestic equity mutual funds	14,168,492	14,168,492	-	-
Domestic fixed income mutual funds	6,911,231	6,911,231	-	-
Foreign equity mutual funds	15,179,872	15,179,872	-	-
Foreign fixed Income mutual funds	6,817,722	6,817,722	-	-
Real estate investment trusts	186,345	186,345	-	-
Fund of hedge funds	11,633,662	-	4,391,098	7,242,564
Other investments	184,581	-	184,581	-
Deposits held by trustee				
Cash and short-term investments	989,816	989,816	-	-
Municipal bonds	6,398,435	6,398,435	-	-
Funds held in trust by others	2,523,197	-	-	2,523,197
Totals	$ 69,220,991	$ 54,879,551	$ 4,575,679	$ 9,765,761

Reconciliation to Statements of Financial Position: The total investments included in this footnote can be reconciled back to the Statements of Financial Position as follows:

	2014	2013
Investments	$ 8,711,771	$ 8,426,729
Endowment investments	59,101,559	53,287,753
Deposits with trustee	6,944,184	7,388,251
Funds held in trust by others	2,932,591	2,523,197
Subtotal	77,690,105	71,625,930
Less: CSV Insurance – temporarily restricted (1)	(1,987,135)	(1,894,696)
Less: CSV Insurance – permanently restricted (1)	(562,574)	(510,243)
Total at Fair Value	$ 75,140,396	$ 69,220,991

(1) Amounts are recorded at cost, thus not included in the fair value measurement tables as of May 31, 2014 and 2013.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2014:

	Balance May 31, 2013	Net realized and unrealized gains	Purchases	Sales	Transfers out	Balance May 31, 2014
Funds of hedge funds	$ 7,242,564	$ 567,797	$ 500,000	$ (1,019,391)	$ (1,774,020)	$ 5,516,950
Funds held in trust by others	2,523,197	409,394	-	-	-	2,932,591
Total	$ 9,765,761	$ 977,191	$ 500,000	$ (1,019,391)	$ (1,774,020)	$ 8,449,541

The amount of total gain for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at May 31, 2014	$ 755,349

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2013:

	Balance May 31, 2012	Net realized and unrealized gains	Purchases	Sales	Transfers out	Balance May 31, 2013
Stocks	$ 7,589	$ -	$ -	$ (7,589)	$ -	$ -
Funds of hedge funds	11,878,796	633,295	5,092,228	(5,970,657)	(4,391,098)	7,242,564
Funds held in trust by others	2,103,283	419,178	736	-	-	2,523,197
Total	$ 13,989,668	$ 1,052,473	$ 5,092,964	$ (5,978,246)	$ (4,391,098)	$ 9,765,761

The amount of total gain for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at May 31, 2013	$ 668,923

Transfers of alternative investments from Level 3 to Level 2 totaled $1,774,020 and $4,391,098 for the years ended May 31, 2014 and 2013, respectively. The transfers resulted from reevaluation of the observable inputs used to determine fair value of the investments.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV, reported by level 2 and 3 investment funds, is used as a practical expedient to estimate the fair value of the College's interest in the funds. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The College generally considers a redemption period of 90 days or less to be considered near term.

Level 2 investments that use NAV as of May 31, 2014 and 2013 consist of variable annuity contracts. The variable annuity contracts, which total $202,623 and $184,581, respectively, consist of two variable annuity contracts, with underlying separate accounts. Both contracts can be liquidated in less than 90 days.

Level 3 investments that use NAV consist of fund of hedge funds, which were entered into as a defensive strategy to diversify the College's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. There are five and six fund of hedge funds utilized by the College as of May 31, 2014 and 2013, respectively. Each of these funds of hedge funds has several fund managers, which limits the exposure to any one hedge fund manager and diversifies the risk inherent in alternative investments. The College's management, the Investment Committee of the Board of Regents and the College's external investment consultants review reports provided by general partners and fund of hedge fund managers. Also, the College's external investment consultants attend meetings of the various general partners and fund of hedge fund managers in order to evaluate the risk associated with these investments. In addition, the College monitors its portfolio mix to ensure that it is in accordance with Board policy.

The fair values of the funds of hedge funds (funds) as of May 31, 2014 and 2013 of $12,032,733 and $11,633,662, respectively, have been estimated using the net asset value per share of the investments. One of the funds, valued at $659,621 as of May 31, 2014 is being liquidated over the next year and the College will periodically receive distributions over that time period.

The following table lists the remaining alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2014:

Investment Type	Unfunded Commitments	Fair Value	Redemption Frequency	Redemption Notice Period	Remaining Life (Years)
Alternative Investments					
Blackstone Resources	$ -	$ 3,044,879	Monthly	35 days	N/A
Bridge ROC	929,946	1,769,246	Not redeemable	N/A	N/A
Titan Master	-	3,470,904	Quarterly	65 days	N/A
Blackrock Tempus	-	3,088,083	Semi-annual	120 days	N/A

Through the College's investments in fund of hedge funds, the College may be indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, the College's risk with respect to such transactions is limited to its respective share in each investment pool.

NOTE 3 – RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

The College's unrestricted net assets were allocated as follows at May 31:

	2014	2013
Operations	$ 4,579,002	$ 4,487,976
Long-term investment (quasi-endowment funds)	10,309,320	9,963,241
Loans to students	358,402	351,586
Annuity, life income and similar funds	1,744,390	1,540,240
Plant funds	(3,135,039)	(1,519,676)
Net investment in plant	26,181,554	25,556,149
Funds held in trust by others	181,014	186,401
Totals	$ 40,218,643	$ 40,565,917

Temporarily restricted net assets consist of the following at May 31:

	2014	2013
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 1,398,273	$ 1,189,847
Loans to students	588,726	579,352
Acquisition of buildings and equipment	579,528	499,278
	2,566,527	2,268,477
Endowment funds	9,233,507	6,350,481
Annuity, life income and similar funds	3,794,127	3,280,732
Funds held in trust by others	91,289	88,508
Contributions receivable	3,430,000	3,884,000
Totals	$ 19,115,450	$ 15,872,198

Permanently restricted net assets consist of the following at May 31:

	2014	2013
Endowment funds	$ 39,121,904	$ 36,561,059
Student loan funds	182,750	192,069
Annuity, life income and similar funds	1,352,303	1,327,374
Funds held in trust by others	641,535	652,597
Contributions receivable	1,170,000	1,116,000
Totals	$ 42,468,492	$ 39,849,099

NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2014	2013
Acquisition of land, building and equipment	$ 11,687	$ 8,000
Scholarships, instruction and other departmental support	324,218	268,648
Timing restriction met	510,000	-
Totals	$ 845,905	$ 276,648

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable includes the following unconditional promises to give at May 31:

	2014	2013
Temporarily restricted	$ 4,039,169	$ 4,571,754
Permanently restricted	1,331,615	1,243,201
Sub-Totals	5,370,784	5,814,955
Less: Unamortized discount	(289,975)	(328,022)
Less: Allowance	(480,809)	(486,933)
Net unconditional promises to give	$ 4,600,000	$ 5,000,000
Amounts due in:		
Less than one year	$ 1,125,862	$ 1,285,639
One to five years	3,713,560	3,967,086
Over five years	531,362	562,230
Totals	$ 5,370,784	$ 5,814,955

Promises due in one to five years were discounted at interest rates between 0.4% and 6.0% at May 31, 2014 and 2013. Promises due in less than one year were not discounted. Net unconditional promises to give at May 31, 2014 and 2013 from related parties were $887,000 and $451,000, respectively.

NOTE 6 – INVESTMENTS

The following summarizes the College's investments in funds other than endowment funds at May 31:

	2014	2013
Cash and short-term investments	$ 395,882	$ 598,891
Marketable Securities		
Stocks	1,938,838	1,776,438
Corporate bonds	106,446	58,540
Government obligations	6,219	7,882
Mutual funds	3,900,152	3,719,356
Real estate investment trusts	174,476	186,345
Cash surrender value of life insurance	1,987,135	1,894,696
Other	202,623	184,581
Totals	$ 8,711,771	$ 8,426,729

Included in the above totals are $5,177,000 and $5,004,000 of investments at May 31, 2014 and 2013, respectively, which the College is holding for various annuity and life income contracts.

NOTE 7 – ENDOWMENT INVESTMENTS

The following summarizes the College's endowment investments at May 31:

	2014	2013
Cash and short-term investments	$ 1,802,483	$ 1,785,887
Marketable securities		
Mutual funds	44,703,769	39,357,961
Fund of hedge funds	12,032,733	11,633,662
Cash surrender value of life insurance	562,574	510,243
Totals	$ 59,101,559	$ 53,287,753

NOTE 7 – ENDOWMENT INVESTMENTS (cont.)

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The components of the endowment and other investment income reflected in the statement of activities include the following:

	2014	2013
Interest and dividend income (net of investment fees of $530,000 and $500,000 for 2014 and 2013, respectively)	$ 1,318,607	$ 1,494,200
Realized and unrealized gains	5,156,352	7,198,445
Totals	$ 6,474,959	$ 8,692,645

NOTE 8 – DEPOSITS WITH TRUSTEE

Deposits with trustee at May 31 consist of the following:

	2014	2013
Bond account – 2005 A bonds	$ 2	$ 4
Debt reserve account – 2005 A bonds	3,531,093	3,722,680
Bond account – 2005 B bonds	2	471,703
Debt reserve account – 2005 B bonds	3,413,087	3,193,864
Totals	$ 6,944,184	$ 7,388,251

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of May 31:

	2014	2013
Land	$ 3,558,120	$ 3,555,780
Buildings	119,448,021	118,816,882
Improvements other than buildings	7,839,939	5,826,604
Equipment	6,520,733	6,460,266
Library books and periodicals	4,118,615	4,001,458
Art objects	74,150	74,150
Sub-Totals	141,559,578	138,735,140
Less: Accumulated depreciation	43,795,821	40,766,377
Totals	$ 97,763,757	$ 97,968,763

NOTE 10 – LONG-TERM DEBT

Long-term debt as of May 31 was as follows:

	2014	2013
Loan Payable – Iowa Higher Education Loan Authority	$ 46,400,000	$ 47,310,000
Loan Payable – Iowa Higher Education Loan Authority	36,905,000	37,070,000
Totals	83,305,000	84,380,000
Less: Unamortized debt discount	(1,720,012)	(1,826,934)
Net Outstanding Debt	$ 81,584,988	$ 82,553,066

On December 29, 2005, the Iowa Higher Education Loan Authority issued $50,420,000 and $37,305,000 of Private College Facility Revenue Bonds (Wartburg College Project) Series 2005 A and Series 2005 B, respectively, and loaned the proceeds to the College. Wells Fargo Bank is the trustee for the bonds. The bonds are secured by a mortgage on all real estate comprising the College campus. Proceeds from the Series 2005 A issue was used to defease the 2002 bonds (which were originally used for renovations and construction of the science building, the student center, and other facilities, and to refinance various debt issues).

At May 31, 2014, collateral on the bonds payable consisted of property and plant with a cost of approximately $130,300,000 and accumulated depreciation of approximately $36,300,000.

NOTE 10 – LONG-TERM DEBT (cont.)

For the Series 2005 A bonds, there are serial bonds totaling $23,120,000 with annual maturities ranging from $275,000 to $2,360,000 from 2008 to 2032. There are term bonds with $7,850,000 due in 2030 and $19,450,000 due in 2037. Interest rates range from 4.75% to 5.50%. Proceeds from the Series 2005 B bonds were used to fund the construction of the Wartburg Waverly Sports and Wellness Center. For the Series 2005 B bonds, there are serial bonds totaling $9,245,000 with annual maturities ranging from $35,000 to $1,610,000 from 2010 to 2026. There are term bonds with $9,500,000 due in 2031 and $18,560,000 due in 2037. Interest rates range from 5.00% to 5.50%. It is anticipated that the Series 2005 B bonds will be funded primarily from community membership fees and related programming. In the fall of 2005, the College entered into an agreement with the City of Waverly that provides financial support and certain revenue guarantees related to the Wartburg Waverly Sports and Wellness Center for the first 8 years of operations. In exchange, the College will operate the City of Waverly's indoor recreation program.

Total maturities of all long-term debt for each of the five years subsequent to May 31, 2014 approximate $1,165,000, $1,105,000, $1,205,000 $1,325,000 and $1,455,000 respectively.

The College is required to comply with certain financial covenants. For the 2005 Series A and B bonds, the College must maintain a debt service coverage ratio of greater than 1.1 to 1 and a liquidity ratio of .50 or greater or a liquidity ratio of .75 or greater. The College was in compliance with all of the above financial covenants as of May 31, 2014 and 2013.

NOTE 11 – CONSTRUCTION IN PROGRESS

At May 31, 2014, the College had incurred costs related to the following renovation projects which were not yet placed in service:

	Construction in Progress	Total Estimated Costs
KRONOS Time System	$ 219,630	$ 230,000
Various projects	118,210	120,000
Lacrosse Athletic Field	11,590	800,000
Total	$ 349,430	$ 1,150,000

The cost of these projects will be financed through private gifts and operations.

NOTE 12 – ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31:

	2014	2013
Interest and amortization	$ 4,542,878	$ 4,604,527
Depreciation	3,773,359	3,730,803
Operation and maintenance of plant	2,791,810	2,654,938
Totals	$ 11,108,047	$ 10,990,268

NOTE 13 – DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable gift annuities. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the donor's life. The arrangements may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used the applicable federal rate at time of gift for the year ended by May 31, 2014 and 2013 in making the calculations.

The gift values for the charitable gift annuities received during both of the years ended May 31, 2014 and 2013 were approximately $72,000.

NOTE 14 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments and student receivables and notes. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes, mortgages and contracts for deed are limited due to the College holding a secured position in these agreements. Notes and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

NOTE 15 – COMMITMENTS

In October of 2003, the College entered into an agreement with Birdworks, LLC to finance and construct a new residence hall (Lohe Hall) for approximately $5,500,000. Ownership of the residence hall will stay with Birdworks, LLC over the twenty year term of the agreement. The College will manage the property and pay annual rent to Birdworks, LLC of $2,600 per bed for each of the 168 beds in the first year. Rents shall increase by three percent annually over the twenty year term.

Total rents paid to Birdworks, LLC for the years ended May 31, 2014 and 2013 was $569,925 and $553,325, respectively. Future rent commitments are due as follows:

Year Ending May 31,	Amount
2015	$ 587,023
2016	604,633
2017	622,772
2018	641,456
2019	660,699
After 2019	3,612,974
Total	$ 6,729,557

NOTE 16 - ENDOWMENT

The College's endowment consists of approximately 450 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The College's governing board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Iowa 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 the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets are 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 UPMIFA. In accordance with UPMIFA, 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 asset composition by type of fund consists of the following as of May 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (73,422)	$ 9,233,507	$ 39,121,904	$ 48,281,989
Board-designated endowment funds	10,382,742	-	-	10,382,742
	$ 10,309,320	$ 9,233,507	$ 39,121,904	$ 58,664,731

NOTE 16 - ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of May 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (174,933)	$ 6,350,481	$ 36,561,059	$ 42,736,607
Board-designated endowment funds	10,138,174	-	-	10,138,174
	$ 9,963,241	$ 6,350,481	$ 36,561,059	$ 52,874,781

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	$ 9,963,241	$ 6,350,481	$ 36,561,059	$ 52,874,781
Investment return:				
Investment income (net of fees of $530,000)	152,451	656,603	-	809,054
Net appreciation - realized and unrealized	902,595	3,932,720	-	4,835,315
Total investment return	1,055,046	4,589,323	-	5,644,369
Contributions and other sources	2,760	-	2,460,898	2,463,658
Donor changed restrictions	-	-	1,585	1,585
Appropriation of endowment assets for expenditure	(445,729)	(1,706,297)	-	(2,152,026)
Other changes:				
Transfers from endowment to restricted funds	(3,998)	-	(504)	(4,502)
Transfers from insurance to endowment funds	-	-	98,866	98,866
Transfers from board designated endowment funds	(262,000)	-	-	(262,000)
Endowment net assets, May 31, 2014	$ 10,309,320	$ 9,233,507	$ 39,121,904	$ 58,664,731

NOTE 16 - ENDOWMENT (cont.)

Changes in endowment net assets for the year ended May 31, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2012	$ 8,115,121	$ 2,861,587	$ 33,880,606	$ 44,857,314
Investment return:				
Investment income (net of fees of $500,000)	143,987	651,918	-	795,905
Net appreciation - realized and unrealized	2,182,560	4,381,358	-	6,563,918
Total investment return	2,326,547	5,033,276	-	7,359,823
Contributions and other sources	270,706	-	2,213,035	2,483,741
Donor changed restrictions	(5,648)	-	65,487	59,839
Appropriation of endowment assets for expenditure	(443,485)	(1,544,382)	-	(1,987,867)
Other changes:				
Matured deferred gifts	-	-	34,868	34,868
Transfers from insurance to endowment funds	-	-	367,063	367,063
Transfers from board designated endowment funds	(300,000)	-	-	(300,000)
Endowment net assets, May 31, 2013	$ 9,963,241	$ 6,350,481	$ 36,561,059	$ 52,874,781

NOTE 16 - ENDOWMENT (cont.)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA 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 $73,422 and $174,933 as of May 31, 2014 and 2013, 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 was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets through investment income.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed a total return beyond meeting the needs of the spending rate, inflation, and portfolio fees while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual rate of approximately 8.5% annually. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The College has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value using a rolling 36 month average balance. The calculation is done on a monthly basis. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 17 – STUDENT LOAN CREDIT QUALITY

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At both May 31, 2014 and 2013, student loans represented 1.7% of total assets.

At May 31, student loans consisted of the following:

	2014	2013
Federal government programs	$ 3,187,926	$ 3,254,538
Institutional programs	713,497	544,381
	3,901,423	3,798,919
Less allowance for doubtful accounts:		
Beginning of year	(357,000)	(347,000)
Increases	(68,539)	(13,780)
Write-offs	19,539	3,780
End of year	(406,000)	(357,000)
Student loans receivable, net	$ 3,495,423	$ 3,441,919

Funds advanced by the Federal government of $2,992,646 and $2,972,198 at May 31, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

The student notes receivable includes the Federal Perkins Loan Program. After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their Perkins student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2014 and 2013, the following amounts were past due under student loan programs:

	Amounts Past Due				
May 31	Less than 240 days	240 days – 2 years	2 -5 years	5 + years	Total
2014	$ 182,108	$ 139,987	$ 110,297	$ 121,958	$ 554,350
2013	129,766	212,270	111,357	98,143	551,536

NOTE 18 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through September 24, 2014 which is the date that the financial statements were approved and issued.