BELOIT COLLEGE

FINANCIAL STATEMENTS

Including Independent Auditors' Report

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

BELOIT COLLEGE

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

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Beloit College
Beloit, Wisconsin

We have audited the accompanying financial statements of Beloit 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 Beloit 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

Milwaukee, Wisconsin
October 9, 2014

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

ASSETS		2014		2013
Cash & Cash Equivalents	$	5,595,641	$	5,322,310
Accounts Receivable (net)		383,211		1,556,695
Contributions Receivable (net)		3,042,641		3,932,463
Student Loans Receivable (net)		5,804,634		7,591,370
Investments		144,300,316		134,343,143
Inventories		28,698		17,780
Prepaid Expenses and Other Assets		339,977		123,016
Cash Surrender Value of Life Insurance		4,901		3,735
Bond issuance costs (net)		574,295		900,465
Original Bond Issue Discount		311,105		323,549
Property, Plant and Equipment (net)		73,593,652		76,276,920
Funds Held in Trust by Others		651,952		614,733
Beneficial Interest in Perpetual Trusts.		2,858,055		2,643,266
TOTAL ASSETS	$	237,489,078	$	233,649,445

LIABILITIES				
Accounts Payable and Other Accrued Liabilities	$	3,930,479	$	4,432,316
Deferred Revenues		1,953,385		2,109,694
Student Deposits & Deferred Grant Revenue		597,034		661,553
Assets Held for Others Under Agency		373,636		738,903
Beneficiary Payable		49,825		51,484
Annuities Payable		2,788,833		3,045,824
Deferred Support Under Split interest Agreements		49,082		63,136
Long-Term Debt		57,735,500		58,440,000
Refundable Advance from Henry Strong Foundation		90,145		88,022
Refundable Advance from U.S. Government		1,552,137		2,509,015
Bond Issue Premium		100,282		104,293
Derivative Liability		6,811,134		7,540,646
TOTAL LIABILITIES		76,031,472		79,784,886
NET ASSETS				
Unrestricted		54,068,515		53,307,305
Temporarily Restricted		26,632,901		24,804,131
Permanently Restricted		80,756,190		75,753,123
TOTAL NET ASSETS		161,457,606		153,864,559
TOTAL LIABILITIES and NET ASSETS	$	237,489,078	$	233,649,445

See accompanying notes to financial statements.

BELOIT COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2014
(with comparative May 31, 2013 totals)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2013 Total
Revenues,gains and net assets released from restrictions:					
Tuition & fees	$ 49,706,833	$ -	$ -	$ 49,706,833	$ 47,344,990
Less: Funded student financial assistance	(1,886,123)	-	-	(1,886,123)	(1,897,382)
Less: Unfunded student financial assistance	(24,419,550)	-	-	(24,419,550)	(22,511,280)
Net tuition & fees	23,401,160	-	-	23,401,160	22,936,328
Auxiliary enterprises	7,686,501	-	-	7,686,501	8,687,011
Contributions	3,192,797	1,136,804	-	4,329,601	4,242,154
Government contracts	1,007,542	-	-	1,007,542	424,692
Government grants	410,252	-	-	410,252	989,678
Long-term investment income & gains allocated for operations	4,983,137	3,193,628	-	8,176,765	5,938,413
Capital gifts allocated	-	522,061	-	522,061	796,033
Other income	1,099,077	-	-	1,099,077	575,823
Total Revenue, Gains and Other Additions	41,780,466	4,852,493	-	46,632,959	44,590,132
Net assets released from restrictions	6,163,832	(6,163,832)	-	-	-
Net Assets Reclassified	(50,210)	(62,891)	113,101	-	-
Total Revenues,Gains and Net Assets Released from Restrictions	47,894,088	(1,374,230)	113,101	46,632,959	44,590,132
Operating Expenses					
Instruction	20,136,469		-	20,136,469	19,654,570
Institutional support	10,306,942	-	-	10,306,942	10,036,465
Auxiliary enterprises	7,473,888	-	-	7,473,888	7,531,356
Student services	7,243,767	-	-	7,243,767	7,001,845
Academic support	4,927,523	-	-	4,927,523	4,993,287
Public service	697,208	-	-	697,208	673,289
Research	8,508	-	-	8,508	33,791
Scholarships, grants and prizes	14,482	-	-	14,482	2,223
Total Expenses	50,808,787	-	-	50,808,787	49,926,826
Change in Net Assets from Operating Activities	(2,914,699)	(1,374,230)	113,101	(4,175,828)	(5,336,694)
Non-operating Activities					
Long-term investment activities					
Investment income	3,643,829	5,037,392	5,098	8,686,319	2,538,065
Net gain/(loss) on investments	4,211,485	1,564,443	-	5,775,928	17,557,575
Total Long-term investment income	7,855,314	6,601,835	5,098	14,462,247	20,095,640
Less: Long-term investment income and gains allocated for operations	(4,983,137)	(3,193,628)	-	(8,176,765)	(5,938,413)
Student loan income net of expenses	93,395	(3,467)	2,032	91,960	197,276
Student gifts	-	-	1,741	1,741	1,666
Endowment gifts less pledge write-offs	20,581	27,000	4,129,548	4,177,129	1,011,829
Capital giving activities - gifts and grants	-	222,981	-	222,981	199,717
Capital gifts allocated for operation	-	(522,337)	-	(522,337)	(796,033)
Deferred giving activities - gifts	76,593	-	24,856	101,449	47,650
Interest rate swap gain	729,511	-	-	729,511	2,351,558
Change in value of split interest agreements	(77,358)	70,616	511,898	505,156	325,224
Change in value of perpetual trusts	-	-	214,793	214,793	284,182
Loss on disposal of fixed assets	(38,990)	-	-	(38,990)	(17,495)
Change in Net Assets from Non-operating Activities	3,675,909	3,203,000	4,889,966	11,768,875	17,762,801
Change in Net Assets	761,210	1,828,770	5,003,067	7,593,047	12,426,107
Net Assets - Beginning of Year	53,307,305	24,804,131	75,753,123	153,864,559	141,438,452
Net Position - End of Year	$ 54,068,515	$ 26,632,901	$ 80,756,190	$ 161,457,606	153,864,559

See accompanying notes to financial statements.

BELOIT COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues,gains and net assets released from restrictions:				
Tuition & fees	$ 47,344,990	$ -	$ -	$ 47,344,990
Less: Funded student financial assistance	(1,897,382)	-	-	(1,897,382)
Less: Unfunded student financial assistance	(22,511,280)	-	-	(22,511,280)
Net tuition & fees	22,936,328	-	-	22,936,328
Auxiliary enterprises	8,687,011	-	-	8,687,011
Contributions	3,048,656	1,193,498	-	4,242,154
Government contracts	424,692	-	-	424,692
Government grants	989,678	-	-	989,678
Long-term investment income & gains allocated for operations	4,139,539	1,798,874	-	5,938,413
Capital gifts allocated	-	796,033	-	796,033
Other income	575,823	-	-	575,823
Total Revenue, Gains and Other Additions	40,801,727	3,788,405	-	44,590,132
Net assets released from restrictions	6,310,808	(6,310,808)	-	-
Net Assets Reclassified	318,190	(376,952)	58,762	-
Total Revenues,Gains and Net Assets Released from Restrictions	47,430,725	(2,899,355)	58,762	44,590,132
Operating Expenses				
Instruction	19,654,570		-	19,654,570
Institutional support	10,036,465	-	-	10,036,465
Auxiliary enterprises	7,531,356	-	-	7,531,356
Student services	7,001,845	-	-	7,001,845
Academic support	4,993,287	-	-	4,993,287
Public service	673,289	-	-	673,289
Research	33,791	-	-	33,791
Scholarships, grants and prizes	2,223	-	-	2,223
Total Expenses	49,926,826	-	-	49,926,826
Change in Net Assets from Operating Activities	(2,496,101)	(2,899,355)	58,762	(5,336,694)
Non-operating Activities				
Long-term investment activities				
Investment income (loss)	3,694,193	(1,162,137)	6,009	2,538,065
Net gain (loss) on investments	7,931,302	9,626,273	-	17,557,575
Total Long-term investment income	11,625,495	8,464,136	6,009	20,095,640
Less: Long-term investment income and gains allocated for operations	(4,139,539)	(1,798,874)	-	(5,938,413)
Student loan income net of expenses	183,564	7,637	6,075	197,276
Student loans - gifts	-	-	1,666	1,666
Endowment - gifts less pledge write-offs	4,381	-	1,007,448	1,011,829
Capital giving activities - gifts and grants	-	199,717	-	199,717
Capital gifts allocated for operation	-	(796,033)	-	(796,033)
Deferred giving activities - gifts	928	-	46,722	47,650
Interest rate swap gain	2,351,558	-	-	2,351,558
Change in value of split interest agreements	(26,682)	105,939	245,967	325,224
Change in value of perpetual trusts	-	-	284,182	284,182
Loss on disposal of fixed assets	(17,495)	-	-	(17,495)
Change in Net Assets from Non-operating Activities	9,982,210	6,182,522	1,598,069	17,762,801
Change in Net Assets	7,486,109	3,283,167	1,656,831	12,426,107
Net Assets - Beginning of Year	45,821,196	21,520,964	74,096,292	141,438,452
Net Position - End of Year	$ 53,307,305	$ 24,804,131	$ 75,753,123	$ 153,864,559

See accompanying notes to financial statements.

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BELOIT 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	$ 7,593,047	$ 12,426,107
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,926,609	3,956,775
Amortization of deferred bond issuance costs	401,661	35,856
Amortization of bond premium	(4,011)	(4,011)
Amortization of bond discount	12,444	12,444
Increase (decrease) in the allowance for doubtful accounts	(7,711)	21,125
Increase (decrease) in allowance for uncollectible loans	1,014,185	(127,725)
Decrease in allowance for uncollectible contributions receivable	(46,833)	(79,521)
Increase in fair value of derivative liability	(729,511)	(2,351,558)
Contributed investments	(1,396,302)	(723,082)
Contributions restricted for long-term investment	(4,154,404)	(1,007,448)
Interest, dividends, and other net gains/losses restricted for long term investment	(7,255,819)	(11,046,273)
Increase in value of split-interest agreements and beneficial interests in perpetual trusts	(497,719)	(731,295)
Net unrealized gain on investments	(5,661,367)	(15,654,448)
Net realized (gain) loss on investments	76,788	(1,903,125)
Loss on dispositions of property, plant and equipment	38,990	17,495
(Increases) decreases in		
Contributions receivable, net	936,656	1,590,423
Accounts receivable, net	1,181,194	(536,401)
Inventories	(10,917)	34,605
Prepaid expenses and other assets	(216,960)	40,606
Beneficial interest in perpetual trusts	(214,793)	(284,182)
Funds held in trust by others	(37,219)	41,075
Increases (decreases) in		
Accounts payable and other accrued expenses	(501,837)	673,314
Student deposits and other liabilities	(64,519)	98,827
Deferred tuition and fees	(156,309)	2,019,727
Beneficiary payable	(1,659)	2,722
Annuities payable	(256,991)	155,735
Deferred support under split-interest agreements	(14,044)	-
Funds held in custody for others	(365,267)	69,537
Net Cash Flows from Operating Activities	(6,412,618)	(13,252,696)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,282,331)	(1,876,570)
Purchases of investments	(27,672,272)	(6,086,301)
Proceeds from sales of investments	25,193,699	5,904,134
Disbursements of loans to students	(214,045)	(426,322)
Repayments of loans by students	986,596	1,072,728
(Increase) decrease in the cash surrender value of life insurance	(1,167)	826
Net Cash Flows from Investing Activities	(2,989,520)	(1,411,505)

		2014		2013
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of principal on long-term debt	$	(780,000)	$	(100,000)
Contributions received for investment in endowment		4,154,404		1,007,448
Interest, dividends and other gains restricted for reinvestment		7,255,819		11,046,273
Increase in U.S. government grants refundable, net		(956,878)		(16,125)
Increase (decrease) in Henry Strong Foundation advances refundable		2,124		(155)
Net Cash Flows from Financing Activities		9,675,469		11,937,441
Net Change in Cash and Cash Equivalents		273,331		(2,726,760)
CASH AND CASH EQUIVALENTS - Beginning of Year		5,322,310		8,049,070
CASH AND CASH EQUIVALENTS - END OF YEAR	$	5,595,641	$	5,322,310
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for interest on long-term debt	$	2,889,989	$	2,918,089
NONCASH INVESTING AND FINANCING ACTIVITIES				
Revenue bonds issued for refunding	$	29,775,500	$	-
Issuance costs on debt issued	$	(75,588)	$	-
Principal retired with refunding	$	(29,700,000)	$	-

See accompanying notes to financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Beloit College (the "College"), is a four-year, independent, residential liberal arts college in Beloit, Wisconsin, founded in 1846 by a group of Yale graduates. The College is a member of the Associated Colleges of the Midwest (ACM). The College has more than fifty fields of study in nineteen departments and offers several degrees and majors including: Bachelor of Arts, Bachelor of Science, cooperative programs in business, engineering, forestry and social work, plus five pre-professional programs. 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. The more significant accounting policies are summarized below:

Net Asset Classifications - For the purposes of financial reporting, the College classifies resources into three 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:

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. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

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.

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, living and other costs is reflected as a reduction of tuition and fees revenues.

Deferred Tuition and Fees - 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.

Cash and Cash Equivalents - Cash and cash equivalents represent demand deposits and other investments with purchased maturities of ninety days or less excluding restricted bond proceeds.

Restricted Bond Proceeds - Restricted bond proceeds represent funds restricted for use as required by various debt agreements. These funds are generally invested in short-term securities and will be used for debt service, capital projects, and/or repair and replacement of specific College debt-financed properties.

Student Accounts Receivable - Student accounts receivable are carried at the unpaid balance of the original amount billed to students. The 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 considering the College's previous loss history and specific account circumstances. Recoveries of student accounts receivable previously written-off are recorded when received. Receivables are generally unsecured. The College does not charge interest or late fees on delinquent accounts but charges a one-time per term late payment penalty if the appropriate amount is not paid by the designated due date.

Inventories - Inventories are valued at lower of cost or market determined by the first-in, first-out method.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property, Plant, and Equipment - Physical plant and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets. The College uses the following depreciable lives:

- Buildings – 40 years
- Dormitory and commons – 30 years
- Residential rental properties – 30 years
- Building improvements – 20 years
- Leasehold improvements – 10 years
- Land improvements – 20 years
- Works of art – 20 years
- Equipment and furnishings – 5 to 10 years

The College capitalizes equipment additions of $10,000 or more. Museum collections (historical treasures and similar treasures held as part of museum collections) that were acquired through purchases or contributions since the College's inception are not reflected in the statements of financial position. These museum collections are insured at a value of approximately $10,500,000 as of May 31, 2014 and 2013. Normal repairs and maintenance expenses are charged to operations as incurred.

Contributions Receivable - Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Allowance is made for doubtful contributions receivable based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience and other relevant factors. Promises to give are written-off when they become uncollectible. The policy for determining past due accounts is assessed on an individual basis.

Bond Issuance Costs - Bond issuance costs for the Series 2014 bonds are being deferred and amortized over the life of the debt.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Split Interest Agreements with Donors – The College's split interest agreements with donors consist of charitable remainder annuity trusts, charitable remainder unitrust contracts, pooled life income funds, charitable annuity lead trusts and charitable gift annuities for which the College is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held under these agreements for which the College serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. Such adjustments are included in change in value of split-interest agreements in the statement of changes in net assets.

Assets held in trust for which the College does not serve as trustee are not reported as investments in the financial statements. However, contribution revenue and a receivable are recorded at the date the trusts are established for the present value of estimated future payments to be received. This is included on the investments on the statement of financial position.

Asset Retirement Obligations - Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. There was no asset retirement obligation as of May 31, 2014 and May 31, 2013.

The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove asbestos. It is reasonably possible that changes in this estimate could occur and that actual results could differ from this estimate and could have a significant effect on the financial statements.

Beneficial Interest in Perpetual Trusts - The College is an income beneficiary of various irrevocable trusts. The College has recognized its interest in the estimated future cash flows as permanently restricted net assets based on the fair value of the assets held in the trusts. Changes in the fair value of the trusts are recognized as permanently restricted gains and losses.

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. This 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. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2011 to 2013, which statutes expire in 2014 to 2016, respectively.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

Advertising Costs - The College follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for the years ended May 31, 2014 and 2013 approximated $43,623 and $44,000, respectively.

Fundraising Expenses - The College follows the policy of expensing the costs of fundraising when incurred. Fundraising expense for the years ended May 31, 2014 and 2013 approximated $2,637,000 and $2,548,000, respectively.

U.S. 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. Expenses incurred before cash is received are recorded as receivables.

Henry Strong Foundation Advances Refundable - Funds provided by the Henry Strong Foundation Loan Fund are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Henry Strong Foundation Loan Fund.

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

Reclassifications - For comparability, certain 2013 amounts have been reclassified to conform with classifications adopted in 2014. The reclassifications have no effect on reported amounts of net assets or change in net assets.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The College has placed much of its cash and liquid investments with one financial institution. Also, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student receivables 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 3 – FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and funds held in custody for others approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee.

The fair value of variable rate long-term debt is assumed to approximate cost based on the nature of those obligations. The approximate fair value of fixed rated debt (2010A Series bonds) was $33,271,000 and $33,662,000 as of May 31, 2014 and 2013, respectively. The estimated fair value for the fixed rate debt was estimated using the rates currently offered for comparable debt instruments with similar remaining maturities. Based on these inputs, the fair value of the fixed rate long-term debt would be classified as a Level 2 liability.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Investments in real estate, venture capital limited partnerships, and other are carried at cost if purchased or if received as a gift, at is fair value at the date of the gift.

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 measurements which are 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 3 – FAIR VALUE MEASUREMENTS (cont.)

Valuation Techniques and Inputs

Level 1 - assets include investments in government bonds, common stock, and bond, equity, diversified and commodity mutual funds for which quoted prices are readily available.

Level 2 - assets include investments in money market funds and government bonds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 2 - liabilities include Interest rate swaps for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the estimated future cash flows and credit valuation adjustments which are based on observable inputs to a valuation model (interest rates, credit spreads, etc.)

Level 3 - assets include:

- Investments in beneficial interest in perpetual trust administered by a third party and annuity contracts 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).

- Investments in private equity funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time. The College has estimated the fair value of these 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.

- Investment in the venture capital limited partnerships and real estate investments for which quoted prices are not readily available. The fair value is estimated based on original cost.

- The investment in the limited partnership represents an investment in a local business and is classified as level 3 as the valuation is based on significant unobservable inputs. The investment is currently valued at cost, which approximates fair value.

- Funds held in trust by others for which quoted prices are not readily available. 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 at 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 3 – FAIR VALUE MEASUREMENTS (cont.)

Valuation Techniques and Inputs (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 or liability.

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 and liabilities measured at fair value on a recurring basis as of May 31, 2014 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Money market funds	$ 207,437	$ -	$ 207,437	$ -
Government bonds	1,034,796	71,486	963,310	-
Common stock	260,014	260,014	-	-
Mutual funds - bonds				
U.S. fixed income	42,013	42,013	-	-
U.S. high yield fixed income	188,263	188,263	-	-
U.S. Treasury inflation protected	157,771	157,771	-	-
Global fixed income	252,310	252,310	-	-
Other fixed income	1,305,129	1,305,129	-	-
Mutual funds - equities				
U.S. equities	4,302,123	4,302,123	-	-
Non-U.S. equities	1,458,406	1,458,406	-	-
Mutual funds - diversified funds	132,863,903	132,863,903	-	-
Mutual funds - commodity	113,250	113,250	-	-
Real estate investment	12,900	-	-	12,900
Venture capital limited partnerships	1,756	-	-	1,756
Alternative investments				
Private equity funds	2,100,245	-	-	2,100,245
Beneficial interset in perpetual trusts	2,858,055	-	-	2,858,055
Funds held in trust by others	651,952	-	-	651,952
Totals	$ 147,810,323	$ 141,014,668	$ 1,170,747	$ 5,624,908
LIABILITIES				
Derivative liability	$ 6,811,134	$ -	$ 6,811,134	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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

	Total	Level 1	Level 2	Level 3
ASSETS				
Money market funds	$ 211,202	$ -	$ 211,202	$ -
Government bonds	1,898,173	118,687	1,779,486	-
Common stock	232,417	232,417	-	-
Mutual funds - bonds				
U.S. fixed income	261,875	261,875	-	-
U.S. high yield fixed income	195,927	195,927	-	-
U.S. Treasury inflation protected	185,550	185,550	-	-
Global fixed income	238,731	238,731	-	-
Other fixed income	1,927,734	1,927,734	-	-
Mutual funds - equities				
U.S. equities	5,216,580	5,216,580	-	-
Non-U.S. equities	1,527,875	1,527,875	-	-
Mutual funds - diversified funds	108,132,244	108,132,244	-	-
Mutual funds - commodity	77,539	77,539	-	-
Real estate investment	12,900	-	-	12,900
Venture capital limited partnerships	1,756	-	-	1,756
Annuity Contracts	619,650	-	-	619,650
Alternative investments				
Private equity funds	13,602,990	-	-	13,602,990
Beneficial interest in perpetual trust	2,643,266	-	-	2,643,266
Funds held in trust by others	614,733	-	-	614,733
Total	$ 137,601,142	$ 118,115,159	$ 1,990,688	$ 17,495,295
LIABILITIES				
Derivative liability	$ 7,540,646	$ -	$ 7,540,646	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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

	Balances May 31, 2013	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers in (out)	Balance May 31, 2014
Annuity contracts	$ 619,650	$ -	$ -	$ (619,650)	$ -	$ -
Real estate investment	12,900	-	-	-	-	12,900
Venture capital limited partnerships	1,756	-	-	-	-	1,756
Alternative investments						
Private equity funds	13,602,990	(4,628)	-	(11,861,213)	363,096	2,100,245
Beneficial interest in perpetual trusts	2,643,266	214,789	-	-	-	2,858,055
Funds held in trust by others	614,733	37,219	-	-	-	651,952
Totals	$ 17,495,295	$ 247,380	$ -	$ (12,480,863)	$ 363,096	$ 5,624,908

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) measured at fair value still held at May 31, 2014.	$ (4,628)

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:

	Balances May 31, 2012	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers	Balance May 31, 2013
Annuity contracts	$ 604,798	$ 14,852	$ -	$ -	$ -	$ 619,650
Limited partnerships	237,657	-	-	(237,657)	-	-
Real estate investment	12,900	-	-	-	-	12,900
Venture capital limited partnerships	1,756	-	-	-	-	1,756
Alternative investments						
Private equity funds	11,800,825	1,177,165	-	-	625,000	13,602,990
Beneficial interest in perpetual trusts	2,359,084	284,182	-	-	-	2,643,266
Funds held in trust by others	655,808	(41,075)	-	-	-	614,733
Totals	$ 15,672,828	$ 1,435,124	$ -	$(237,657)	$625,000	$17,495,295

The amount of total gains 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.	$ 566,456

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The College uses the net asset value ("NAV") as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values.

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

	Private Equity
Fair value, May 31, 2014	$2,100,245
Significant Investment Strategy	Equity funds
Remaining Life	7 years
Dollar amount of unfunded commitments	$1,875,000
Timing to Draw Down Commitments	Not defined
Redemption Terms	N.A.
Redemption Restrictions	N.A.
Redemption Restrictions in Place at Year End	N.A.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of May 31 are composed of and are to be used for the following:

	2014	2013
Capital funds	$ 15,300	$ 296,733
Operations	2,836,463	3,005,741
Endowment	372,952	847,205
Scholarships and programs	15,000	58,717
Gross contributions receivable	3,239,715	4,208,396
Less: Discount	(36,935)	(68,961)
Less: Allowance for uncollectible contributions	(160,139)	(206,972)
Net Contributions Receivable	$ 3,042,641	$ 3,932,463
Less than one year	$ 1,087,840	
One to five years	2,151,375	
More than five years	500	
Totals	$ 3,239,715	

Contributions have been discounted using a rate ranging from 0.14% to 5%. As of May 31, 2014 and 2013, the College had approximately $117,650 and $417,000, respectively, of contributions receivable from board members and employees.

NOTE 5 – CREDIT QUALITY OF RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. 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 May 31, 2014 and 2013, student loans represented approximately 3% of total assets.

At May 31, student loans consisted of the following:

	2014	2013
Federal government programs	$ 2,677,260	$ 2,791,368
Institutional programs	4,463,712	5,122,156
	7,140,972	7,913,524
Less allowance for doubtful accounts		
Beginning of year	(322,154)	(449,879)
Decreases (increases)	(1,014,184)	127,725
End of year	(1,336,338)	(322,154)
Student Loans Receivable, Net	$ 5,804,634	$ 7,591,370

Funds advanced by the Federal government were $1,552,137 and $2,509,015 at May 31, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs 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 Federal 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 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	$ 24,695	$ 79,894	$ 191,158	$ 83,145	$ 378,892
2013	$ 45,752	$ 103,213	$ 227,819	$ 501,681	$ 878,465

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at May 31:

	2014	2013
Tuition and fees	$ 167,125	$ 171,420
Government grants and contracts receivable	114,106	1,244,207
Accrued interest and pending investment trades	6,910	97,466
Other	149,207	105,450
Gross accounts receivable	437,348	1,618,543
Less: Allowance for doubtful accounts	(54,137)	(61,849)
Net Accounts Receivable	$ 383,211	$ 1,556,694

NOTE 7 – INVESTMENTS

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

	2014	2013
Money market funds	$ 207,437	$ 211,202
Government bonds	1,034,796	1,898,173
Mutual funds - bonds		
U.S. fixed income	42,013	261,875
U.S. high yield fixed income	188,263	195,927
U.S. Treasury inflation protected	157,771	185,550
Global fixed income	252,310	238,731
Other fixed income	1,305,129	1,927,734
Mutual funds - equities		
U.S. equities	4,302,123	5,216,580
Non-U.S. equities	1,458,406	1,527,875
Mutual funds - diversified	132,863,903	108,132,244
Mutual funds - commodity	113,250	77,539
Common stock	260,014	232,417
Alternative investments		
Private equity funds	2,100,245	13,602,990
Real estate investment	12,900	12,900
Venture capital limited partnerships	1,756	1,756
Other	-	619,650
Totals	$ 144,300,316	$ 134,343,143

NOTE 7 – INVESTMENTS (cont.)

The estimated fair value of certain alternative investments is based on valuations provided by external investment managers as of May 31. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

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.

Investment income for the years ended May 31 consists of the following:

	2014	2013
Interest and dividends	$ 8,686,319	$ 2,538,065
Realized gains on investments	244,852	1,903,127
Unrealized gains on investments	5,531,076	15,654,448
Totals	$ 14,462,247	$ 20,095,640

The College paid investment trustee and management fees of approximately $75,240 and $115,000 for the years ended May 31, 2014 and 2013, respectively.

NOTE 8 – PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment as of May 31 is as follows:

	2014	2013
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	8,655,571	8,589,197
Buildings	79,855,016	79,855,016
Building improvements	6,010,120	5,986,160
Equipment and furnishings	9,841,361	10,207,835
Dormitory and commons	26,671,312	26,671,312
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Construction in process	1,008,363	19,102
	133,731,806	133,018,685
Less: accumulated depreciation	(60,138,154)	(56,741,765)
Net Property, Plant, and equipment	$ 73,593,652	$ 76,276,920

Depreciation expense of $3,926,609 and $3,956,775 was recorded for the years ended May 31, 2014 and 2013, respectively.

NOTE 8 – PROPERTY, PLANT, AND EQUIPMENT (cont.)

There was approximately $2.24 million of outstanding construction commitments at May 31, 2014. There were no significant outstanding commitments at May 31, 2013.

NOTE 9 – LONG-TERM OBLIGATIONS

BONDS PAYABLE

Bonds payable at May 31 consist of the following:

Description	Interest Rate	Due Date	2014	2013
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2010A	Fixed (3.5% to 5.25%)	Interest payable semiannually, annual principal installments are due on June 1, beginning in fiscal year 2013 through 2040 in amounts ranging from $100,000 to $4,300,000	$ 27,960,000	$ 28,540,000
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2010B	Variable (.22% at May 31, 2013)	Issue was refunded during the 2014 fiscal year.	-	29,900,000
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2014A	Variable (.15% at May 31, 2014)	Principal and interest are payable in annual installments duen on June 1, beginning in fiscal 2014 through 2037 in principal amounts ranging from $150,000 to $2,210,000	29,775,500	-
Totals			$ 57,735,500	$ 58,440,000

The Series 2010A (fixed rate bonds) and 2014A (variable rate bonds) Bonds are collateralized by a mortgage on the property and buildings of the College campus in the amount of approximately $60 million as of May 31, 2014 and 2013, respectively. In May 2014, the Series 2010B Bonds were refinanced with refunding revenue bonds (Series 2014A) via direct placement with JPMorgan Chase and the Letter of Credit was terminated.

NOTE 9 – LONG-TERM OBLIGATIONS (cont.)

The College is required to comply with certain financial covenants. For the 2010 and 2014 bond issues, the College must maintain a debt service coverage ratio of greater than 1.1 to 1; a funded debt to sum of funded debt plus net assets ratio of not greater than 0.40 to 1.0; and an amount of unrestricted cash and investments plus temporarily restricted pledge receivables plus unrestricted pledge receivables of not less than $40,000,000. As of May 31, 2014, the College was not in compliance with the debt service coverage ratio due to unrestricted activities not meeting the requirement. A waiver was obtained.

Future principal payments on the bonds payable as of May 31, 2014 are due as follows:

Years Ending May 31	
2015	$ 150,000
2016	715,000
2017	830,000
2018	1,150,000
2019	1,225,000
Thereafter	53,665,500
Total	$ 57,735,500

Interest expense on all long-term debt, including the interest expense under the interest rate swap agreement was $2,890,000 and $2,918,000 for the years ended May 31, 2014 and 2013, respectively.

NOTE 10 – DERIVATIVE INSTRUMENTS

The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate exchange agreements between the College and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparties.

NOTE 10 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2014, the College received $729,511 more than it expensed in interest under the swap agreements. In fiscal 2013, the College received $2,351,558 more than it expensed in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of May 31, 2014:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$29,700,000	June 1, 2037	4.1175%	One month LIBOR interest rate

Derivative instruments are reported in the statements of financial position at fair value as of May 31, 2014 and 2013 are as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative: Statement of Financial Position Location	Fair Value 2014	Fair Value 2013
Interest rate swap	Derivative liability	$ 6,811,134	$ 7,540,646

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of (Gain) Loss on Derivatives Recognized in the Statement of Changes in Net Assets 2014	2013
Interest rate swap	Non-operating activities	$ (729,511)	$ (2,351,558)

During 2014 and 2013, the College entered into a future purchase contract for its gas usage. This contract meets the definition of normal purchases and normal sales as defined by accounting standards and therefore, no asset or liability associated with the derivative is required to be recognized.

NOTE 11 – LINE OF CREDIT

The College has a $1,500,000 unsecured line of credit with JP Morgan Chase Bank. Interest is at 175 basis points plus the bank's LIBOR rate and amounts borrowed are due on demand. As of May 31, 2014 and 2013, there was no balance outstanding on the line of credit. No borrowings were made under this line of credit during the years ended May 31, 2014 and May 31, 2013.

NOTE 12 – RELATED PARTIES

Contributions from trustees, officers, and employees totaled $820,439 and $1,144,956 for the years ended May 31, 2014 and 2013, respectively. See Note 4 for related party contributions receivable.

NOTE 13 – OPERATING LEASES

In May 2001, the College entered into an operating lease agreement with Beloit Hotel, LLC for building space. In May 2008, the College exercised its option to renew the lease. The renewed lease automatically renews for five years in May 2015 unless terminated one year prior and provides for monthly payments that increase by 2% or the consumer price index, whichever is less. Rent expense for the years ended May 31, 2014 and 2013 was $182,044 and $91,335, respectively. Future lease commitments are due as follows:

Years ending May 31		
2015	$	119,579
2016		122,090
2017		124,654
2018		127,272
2019		129,944
Total	$	623,539

NOTE 14 – NET ASSETS

Unrestricted net assets are those which are not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses by the Board of Trustees or by various internal operating and administrative arrangements of the College as follows as of May 31:

	2014	2013
Net investment in land, buildings, and equipment	$ 13,562,205	$ 16,793,170
Funds designated for endowment	36,264,351	32,622,874
Funds designated for annuity contract reserves	2,792,856	2,555,005
Funds designated for Federal Perkins Student Loan Program	87,507	87,508
Funds designated for student loan funds	1,361,596	1,248,748
Totals	$ 54,068,515	$ 53,307,305

Temporarily restricted net assets as of May 31 are available for the following purposes:

	2014	2013
Investment in land, buildings, and equipment	$ 294,173	$ 625,954
Endowment	18,368,404	15,216,396
Split-interest annuity agreements	1,122,286	1,416,025
Student loans	236,752	157,719
Academic support	1,353,165	1,222,157
Instruction	1,104,168	1,342,293
Scholarships	454,023	719,826
Contribution receivables and other	3,699,930	4,103,761
Totals	$ 26,632,901	$ 24,804,131

Temporarily restricted net assets were released from donor restrictions as follows:

	2014	2013
Scholarships	$ 1,528,011	$ 1,379,162
Investment in land, buildings, and equipment	699,962	128,863
Institutional support	515,471	749,063
Student services	700,081	1,491,209
Academic support	953,693	1,167,441
Public service	42,602	49,528
Instruction	1,724,012	1,345,542
Totals	$ 6,163,832	$ 6,310,808

NOTE 14 – NET ASSETS (cont.)

Permanently restricted net assets as of May 31 represent the original corpus of the following restricted gifts where the earnings on such are used for unrestricted or restricted activities as designated by the donor.

	2014	2013
Investments (perpetual endowment)	$ 76,128,858	$ 69,387,997
Beneficial interest in perpetual trusts	2,858,059	2,643,266
Split-interest annuity agreements	840,906	2,800,146
Revolving student loan funds	928,367	921,714
Totals	$ 80,756,190	$ 75,753,123

NOTE 15 – RETIREMENT PLANS

The College has a defined contribution retirement plan for certain non-exempt employees. The expense relating to this plan was $258,000 and $270,000 for the years ended May 31, 2014 and 2013, respectively.

All administrative employees and full-time faculty members above the rank of instructor are eligible to participate in individual annuity retirement programs through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Expenses relating to these plans were $1,238,000 and $1,172,000 for the years ended May 31, 2014 and 2013, respectively.

NOTE 16 – SELF INSURANCE

The College provides medical benefits through a self-insurance plan which provides benefits to eligible employees of the College and their eligible dependents. Provisions of the plan require that the College be self-insured to the extent of the first $70,000 in annual major medical benefits per participant. The plan has insurance contracts to provide stop-loss coverage for benefit payments in excess of the self-insured amounts. Contributions to the plan are based upon the number of participants and the types of coverage elected. Employees are responsible for 33.3% of the plan's required contributions and the College is responsible for the remaining required contributions. Accounts payable and other accrued expenses include an incurred but not reported reserve of approximately $139,000 and $163,000 as of May 31, 2014 and 2013, respectively. These are estimates of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently.

NOTE 17 – UNEMPLOYMENT COMPENSATION CLAIMS

The College is self-insured for unemployment compensation claims. As a result, the College has a $243,446 bank letter of credit, which expires on December 31, 2015, that was issued in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in order to assure payment of unemployment compensation. The College paid unemployment compensation claims of $95,135 and $73,530 during the years ended May 31, 2014 and 2013, respectively.

NOTE 18 – ENDOWMENT

The College's endowment includes more than 500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - In August 2009, the State of Wisconsin adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA is applicable to funds existing on or established after August 4, 2009. A key component of the change in law is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Board of Trustees of the College has interpreted the Wisconsin enacted version of UPMIFA as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classification.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purpose of the College and the 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

NOTE 18 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of May 31, 2014:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,769,563)	$ 18,352,063	$ 76,128,860	$ 92,711,360
Board-designated endowment funds	38,033,914	16,341	-	38,050,255
Total Endowment Net Assets	$ 36,264,351	$ 18,368,404	$ 76,128,860	$ 130,761,615

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,765,820)	$ 15,107,055	$ 69,387,997	$ 81,729,232
Board-designated endowment funds	35,388,694	109,341	-	35,498,035
Total Endowment Net Assets	$ 32,622,874	$ 15,216,396	$ 69,387,997	$ 117,227,267

NOTE 18 – ENDOWMENT (cont.)

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	$ 32,622,874	$ 15,216,396	$ 69,387,997	$ 117,227,267
Net asset reclassification - other	(131,919)	169,408	(37,489)	-
Endowment net assets after reclassification	32,490,955	15,385,804	69,350,508	117,227,267
Net assets released from restrictions	105,235	(105,235)	-	-
Adjustment for underwater endowments	996,257	(996,257)	-	-
Investment return:				
Investment income	3,448,467	4,834,501	5,099	8,288,067
Net appreciation/depreciation - realized and unrealized	3,236,926	2,416,219	-	5,653,145
Total investment return	7,681,650	6,254,463	5,099	13,941,212
Contributions and other additions	20,581	27,000	6,778,352	6,825,933
Appropriation of endowment assets for expenditure	(5,002,677)	(3,193,628)	(5,099)	(8,201,404)
Transfer in to the endowment	968,607	-	-	968,607
Endowment Net Assets, May 31, 2014	$ 36,264,351	$ 18,368,404	$ 76,128,860	$ 130,761,615

NOTE 18 – ENDOWMENT (cont.)

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2012	$ 24,492,829	$ 10,090,563	$ 68,108,526	$ 102,691,918
Net asset reclassification - other	(82,761)	44,359	38,402	-
Endowment net assets after reclassification	24,410,068	10,134,922	68,146,928	102,691,918
Net assets released from restrictions	274,310	(274,310)	-	-
Adjustment for underwater endowments	2,515,673	(2,515,673)	-	-
Investment return:				
Investment income	1,123,307	1,340,525	1,437	2,465,269
Net appreciation/depreciation - realized and unrealized	7,489,378	9,599,556	-	17,088,934
Total investment return	11,128,358	8,424,408	1,437	19,554,203
Contributions and other additions	136,303	-	1,245,641	1,381,944
Appropriation of endowment assets for expenditure	(2,869,789)	(3,068,624)	(6,009)	(5,944,422)
Bad debt alowance for pledges receivable	15,706	-	-	15,706
Transfer out of the endowment	(472,082)	-	-	(472,082)
Endowment Net Assets, May 31, 2013	$ 32,622,874	$ 15,216,396	$ 69,387,997	$ 117,227,267

NOTE 18 – 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 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 $1,769,563 and $2,765,820 as of May 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued distribution for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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 Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices appropriate to the investment asset class while assuming a moderate level of investment risk. The College's investment objectives and policies are designed to meet the spending policy of the fund while also growing the assets of the fund at least equal to the long-term rate of inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on 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 a percentage of its endowment fund's average fair market value over the prior 3 years. The rate used was 4.5% for the years ended May 31, 2014 and 2013. 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 maintain its purchasing power.

NOTE 19 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 9, 2014, which is the date that the financial statements were issued.