CORNELL COLLEGE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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YEARS ENDED JUNE 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cornell College
Mount Vernon, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Cornell College, which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.

Board of Trustees
Cornell College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornell College as of June 30, 2013, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2012 financial statements of Cornell College were audited by other auditors whose report dated October 29, 2012, expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 28, 2013

CORNELL COLLEGE
BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	$ 7,498,149	$ 13,449,310
Accounts Receivable, Less Allowance for Doubtful Accounts of $174,000 and $183,006 in 2013 and 2012, Respectively	171,413	284,415
Inventories and Prepaid Expenses	433,621	411,542
Contributions Receivable, Net	6,763,133	8,407,273
Student Loans Receivable, Net	2,089,440	2,037,810
Investments	68,707,507	66,133,423
Property, Plant and Equipment, Net	67,620,948	58,595,784
Total Assets	$ 153,284,211	$ 149,319,557
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable, Accrued Expenses and Deposits	$ 4,818,383	$ 3,304,434
Student Tuition Paid in Advance	130,803	161,609
Accrued Severance Plan Liability	1,042,012	2,818,741
Contract Advances	793,333	-
Asset Retirement Obligation	545,190	999,697
Long-Term Debt	14,983,119	16,156,922
Life-Income Payable	2,245,777	2,330,756
Due to U.S. Government, Refundable Loan Program	870,335	901,607
Total Liabilities	25,428,952	26,673,766
NET ASSETS		
Unrestricted		
Undesignated	(5,228,159)	(7,810,700)
Investment in Property, Plant and Equipment	52,637,829	42,438,862
Board Designated Endowment	2,917,147	2,819,661
Total Unrestricted	50,326,817	37,447,823
Temporarily Restricted	15,476,601	25,492,690
Permanently Restricted	62,051,841	59,705,278
Total Net Assets	127,855,259	122,645,791
Total Liabilities and Net Assets	$ 153,284,211	$ 149,319,557

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and Fees	$ 39,762,323	$ -	$ -	$ 39,762,323
Less: Scholarships and Grants	(24,020,282)	-	-	(24,020,282)
Net Tuition and Fees	15,742,041	-	-	15,742,041
Contributions and Grants	1,833,512	2,100,346	-	3,933,858
Investment Income, Net of Investment Expense of $195,905 and $175,286 in 2013 and 2012, Respectively	-	152,583	-	152,583
Investment Income - Spending Rate	858,861	1,797,620	-	2,656,481
Other Revenues	1,305,225	105,316	87,050	1,497,591
Sales and Services of Auxiliary Enterprises	8,658,101	-	-	8,658,101
Total Revenues	28,397,740	4,155,865	87,050	32,640,655
Net Assets Released from Restrictions	17,464,476	(17,464,476)	-	-
Total Revenues	45,862,216	(13,308,611)	87,050	32,640,655
EXPENSES				
Instruction	11,779,271	-	-	11,779,271
Academic Support and Research	2,509,013	-	-	2,509,013
Student Services	7,485,717	-	-	7,485,717
Institutional Support	3,538,824	-	-	3,538,824
Institutional Advancement	1,895,986	-	-	1,895,986
Auxiliary Enterprises	6,770,469	-	-	6,770,469
Total Expenses	33,979,280	-	-	33,979,280
CHANGE IN OPERATING NET ASSETS	11,882,936	(13,308,611)	87,050	(1,338,625)
Investment Income Greater (Less) Than Spending Rate	(101,663)	2,208,706	(13,356)	2,093,687
Contributions	-	1,455,561	2,088,782	3,544,343
Write-Off of Contribution Receivable	(800)	(190,400)	(1,600)	(192,800)
Actuarial Adjustment on Life Income and Annuity Agreements	-	(181,345)	185,687	4,342
Change in Severance Plan	1,098,521	-	-	1,098,521
Change in Donor Intent	-	-	-	-
CHANGE IN NET ASSETS	12,878,994	(10,016,089)	2,346,563	5,209,468
Net Assets - Beginning of Year	37,447,823	25,492,690	59,705,278	122,645,791
NET ASSETS - END OF YEAR	$ 50,326,817	$ 15,476,601	$ 62,051,841	$ 127,855,259

See accompanying Notes to Financial Statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 37,857,012	$ -	$ -	$ 37,857,012
(22,458,144)	-	-	(22,458,144)
15,398,868	-	-	15,398,868
1,707,856	1,574,316	-	3,282,172
1,064	168,253	-	169,317
289,523	2,174,040	-	2,463,563
716,647	71,684	-	788,331
8,533,108	-	-	8,533,108
26,647,066	3,988,293	-	30,635,359
7,549,653	(7,549,653)	-	-
34,196,719	(3,561,360)	-	30,635,359
11,945,706	-	-	11,945,706
2,381,464	-	-	2,381,464
7,032,688	-	-	7,032,688
3,443,368	-	-	3,443,368
1,798,120	-	-	1,798,120
6,650,341	-	-	6,650,341
33,251,687	-	-	33,251,687
945,032	(3,561,360)	-	(2,616,328)
(213,210)	(557,949)	(912,693)	(1,683,852)
-	4,811,279	745,905	5,557,184
(68,500)	(1,672,620)	(471,161)	(2,212,281)
49,917	(276,030)	303,556	77,443
-	-	-	-
-	1,061,031	(1,061,031)	-
713,239	(195,649)	(1,395,424)	(877,834)
36,734,584	25,688,339	61,100,702	123,523,625
$ 37,447,823	$ 25,492,690	$ 59,705,278	$ 122,645,791

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 5,209,468	$ (877,834)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,334,843	3,424,049
Change in Asset Retirement Obligation	(454,507)	13,922
Write-Off of Contribution Receivable	192,800	2,212,281
Actuarial Adjustment of Annuities and Life Income Payable	(4,342)	(77,443)
Net Appreciation on Investments	(4,750,168)	(779,711)
Non-Cash Donations of Investments and Equipment	(394,880)	(681,268)
Contributions Restricted for Long-Term Investment and Property, Plant and Equipment	(2,211,456)	(3,379,659)
Loss on Disposal of Property, Plant and Equipment	17,510	-
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	113,002	193,781
(Increase) Decrease in Contributions Receivable	(151,680)	1,296,026
Increase in Inventory and Prepaid Expenses	(22,079)	(86,431)
Increase in Accounts Payable and Accrued Expenses	1,513,949	453,187
Decrease in Early Retirement Liability	(1,776,729)	(169,819)
Decrease in Other Liabilities	(30,806)	(169,164)
Net Cash Provided by Operating Activities	584,925	1,371,917
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(27,731,068)	(23,984,508)
Proceeds from Sales and Maturities of Investments	30,302,032	27,464,812
Disbursements of Student Loans	(354,798)	(279,146)
Repayments of Student Loans	303,168	332,015
Purchase of Property and Equipment	(12,377,517)	(3,707,726)
Change in Cash Restricted for Land, Buildings and Equipment	-	1,180,386
Net Cash Provided (Used) by Investing Activities	(9,858,183)	1,005,833
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Indebtedness	600,000	700,000
Repayments of Principal on Indebtedness	(1,773,803)	(1,066,268)
Net Proceeds from Contract Advance	793,333	-
Cash Received from Contributions Restricted for Long-Term Investment and Property, Plant and Equipment	3,814,476	5,534,772
Decrease in U.S. Government Grants Refundable, Net	(31,272)	(152,420)
Increase in Annuities Payable Resulting from New Annuities	30,970	85,000
Investment Income Restricted for Life Income Agreements	60,512	37,630
Payments to Annuitants and Life Income Recipients	(172,119)	(191,866)
Net Cash Provided by Financing Activities	3,322,097	4,946,848

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,951,161)	7,324,598
Cash and Cash Equivalent - Beginning of Year	13,449,310	6,124,712
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,498,149	$ 13,449,310
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 457,818	$ 427,998
Accounts Payable Incurred for Purchase of Property and Equipment	$ 1,847,668	$ 354,235

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Cornell College is a nationally ranked, highly selective liberal arts college of 1,100 students characterized by life-changing academic immersion in the One Course At A Time curriculum. This intensive focus lays the foundation for a student's entire Cornell education: Transformative intellectual partnerships that bring out the best in our ambitious students. Within our curriculum, students dive in, focus intensely, and learn authentically in every course they take. Unlike the semester system, Cornell offers an education at the speed of life with no slow intros, far off exams or papers, or gaps between classes. At the heart of a Cornell College education are frequent opportunities for experiential learning. The One Course curriculum frees students to explore new ways to learn—faculty can take entire classes on field trips for a day or an entire block—in whatever venues best suit the subject of the class. Cornell's distinctive calendar immerses students in full-time internships, research, or other hands-on opportunities, producing substantial real-world experiences.

Cornell attracts an engaged student body from across the nation and around the world. They become quickly involved in campus life, living in a common rhythm due to their focused academic calendar schedules that brings them closer together as a community on a socially, culturally, and politically engaged campus. Cornell students come from 47 states, 2 U.S. territories, and 17 foreign countries, and a typical first-year class includes more than 20% domestic students of color and 5% international students. The campus is diverse on many levels and expands its global environment by drawing international speakers, artists, and authors to campus.

Cornell's setting on a wooded hilltop in Mount Vernon, Iowa, offers a classic, beautiful and safe collegiate setting. A brick pedestrian mall along the ridge of the hilltop links modern facilities with numerous buildings on the National Register of Historic Places. Mount Vernon—noted as one of the 10 Coolest Small Towns in America—provides students an idyllic small college town atmosphere but also connects them to the Eastern Iowa Creative Corridor. Cornell is consistently described as a "Best Buy," most recently in the 2014 Fiske Guide. 93% of Cornell graduates complete their degrees in 4 years or less, and 55% of Cornell graduates complete an advanced degree. Cornell's law school acceptance rate since 2011 has been 100%. Our medical acceptance rate is 70%, compared to the national average of 40%. Cornell has since 1996 been known as one of the 40 "Colleges that Change Lives," based on the Loren Pope book now in its fourth edition. Its distinctive curriculum within the liberal arts provides a solid path to professional achievement and personal fulfillment.

Accounting 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time and accumulated earnings for restricted endowment fund assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be retained permanently by the College. Generally, the donors of these assets permit the College to use all of, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, other than endowment and similar funds, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. 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; net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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, plant and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property, plant and equipment are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Income, realized gains and losses, and unrealized gains and losses on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift or the College's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets in all other cases unless the individual endowment is underwater; and
- As increases in unrestricted net assets if the individual endowment is underwater.

The Board of Trustees designates a portion of the College's cumulative unrestricted investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

Cash and Cash Equivalents

The College considers all highly liquid debt instruments purchased with a maturity date of less than three months to be cash equivalents except for money market funds held for long-term investment and deposits with bond trustees.

Cash in excess of daily requirements is invested in interest bearing accounts and money market funds of qualified financial institutions in amounts that frequently exceed insured limits. The College has not experienced any losses in these investments.

Student Accounts Receivable and Student Loans Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans 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. Student accounts and loans receivable are written off when deemed uncollectible and student loans receivable may be assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. The provision for bad debts charged to expense, net of recoveries, was a net expense of $38,841 and $14,150 for the years ended June 30, 2013 and 2012, respectively.

Interest is charged on student accounts receivable that are past due and is recognized as it is charged. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding at the beginning of the term to which the charges relate. Once a student is no longer enrolled, accrual of interest is suspended.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Accounts Receivable and Student Loans Receivable (Continued)

Interest is charged and recognized on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are received. 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 or in the case of loan funds of the College, based on the respective loan program.

Contributions Receivable

Contributions Receivable include pledges that are recorded at their present value using discount rates ranging from approximately 2% to 6% depending on the year of pledge inception. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. For the years ended June 30, 2013 and 2012, the College had an allowance of $200,000.

Inventories

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statement of activities. Donated investments are recorded at fair value on the date received.

Alternative investments, such as private equity, absolute return hedge funds, real estate investment trusts, and natural resource funds consist primarily of investments that are not readily marketable. Investments in these categories are valued utilizing the most current information provided by the general partner or manager of the fund. Because these alternative 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. Such differences could be material.

Farms and city real estate are carried at cost or, if received as a donation, at the fair market value at the date received less applicable accumulated depreciation.

Realized gains are calculated using the average cost method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property. Plant and Equipment

Land and campus improvements, buildings, rental properties, equipment and library books are stated at cost at date of acquisition or fair value at date of gift, less accumulated depreciation computed on a straight-line basis over the following estimated useful lives. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Campus land Improvements	20 Years
Buildings and Rental Properties	50 Years
Equipment	5 -10 Years
Library Books	10 Years

Pension Plan

The College has a pension plan covering substantially all of its employees. The total pension expense for the years ended June 30, 2013 and 2012 was $728,920 and $566,746, respectively. The Plan is of the defined-contribution type whereby the College contributes a specified percentage of the employee's salary and the employee's benefit is whatever amount the accumulated contributions will buy.

Self Insurance

The College is self-insured with respect to its health insurance coverage. The College maintains reinsurance that carries a specific stop-loss of $50,000 per participant covered for the period January 1, 2013 to December 31, 2013 and an aggregate stop-loss of 125% of total expected claims. Expected claims are estimated to be approximately $1,418,784. For the years ended June 30, 2013 and 2012, the amount of health insurance expense, including administrative costs and reinsurance costs, net of stop loss recoveries received or receivable, was $1,651,497 and $1,725,004, respectively.

Severance Plan

The College provides certain retirement, health care and life insurance benefits for all employees who meet eligibility requirements. The College's estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expenses over the employees' service periods to the dates they are fully eligible for benefits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (see Note 11).

Due to U.S. Government

Amounts due to the U.S. Government include advances under the Perkins Loan Program and the program's cumulative net income as these funds are ultimately refundable to the U.S. Government.

Student Tuition Paid in Advance and Contract Advances

The College records cash received for future services as deferred revenue. This revenue is recognized when services are provided. Deferred revenue consists primarily of unearned tuition and advances received on long-term contracts.

Revenue Recognition

Tuition, fees and room and board revenue is recognized in the year the services are performed. Net tuition and fees are computed after deducting financial aid awarded to students. In order to assist students in meeting tuition and other costs of attendance, the College administers a variety of federal, state, institutional and private programs. Financial aid packages to students may include direct grants, loans and employment during the academic year. Investment income is recognized as it is earned.

Income Tax Status

The College is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The College may be subject to federal and state income taxes on any net income from unrelated business activities. The College files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax exempt status and various positions relative to potential sources of UBI. As of June 30, 2013 and 2012, there were no uncertain tax benefits identified and recorded as a liability. Forms 990 and 990-T filed by the College are no longer subject to examination by the Internal Revenue Service for the fiscal years ended June 30, 2009 and prior.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The College follows the policy of charging advertising costs to expense as incurred. Total advertising expense is not material to the College's financial statements.

Functional Expenses

The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program (instruction, academic support and research, student services, and auxiliary enterprises) or support services (institutional support and institutional advancement) whenever possible. Expenses which are not directly identifiable by program or support service are allocated based on the best estimates of management.

The College incurred fundraising costs of approximately $1,284,000 and $1,242,000 for the years ended June 30, 2013 and 2012, respectively. These expenses are included with institutional advancement on the statements of activities.

Measure of Operations

In its statements of activities, the College includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Non-operating activity consists primarily of investment income greater (less) than spending rate, change in value of split interest agreements, non-cash changes in the severance plan, contributions restricted for capital campaign, permanently restricted contributions and contributions receivable which have been written off.

Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable

The carrying amount approximates fair value because of the short maturity of those instruments.

Contributions Receivable

The carrying amount approximates fair value as they are discounted to present value based on rates commensurate with the risks involved.

Student Loans Receivable

The fair value of the student loans receivable and liability for U.S. Government loans refundable, in which the College acts as an agent for the U.S. Government Perkins Loan Program, are not practical to determine. These loans are subject to restrictions on interest rates and transferability.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

Investments

Debt and equity securities are carried at fair values which are based on quoted market prices on the last day of the year for those or similar investments. Alternative investments are based on fair value as determined by management based on information provided by the general partner or manager of the fund.

Long-Term Debt and Life-Income Payable

The carrying amount of notes, bonds and life-income payable approximates fair value, as borrowing rates currently available to the College for similar instruments are consistent with existing terms, except for the 2006 IHELA bonds, whose fair value was approximately $8,280,000 and $8,550,000 at June 30, 2013 and 2012, respectively, which was calculated using Level 3 inputs.

Subsequent Events

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through October 28, 2013, the date the financial statements were available to be issued.

Reclassifications

Certain amounts included in prior year financial statements have been reclassified with no effect on change in net assets or net assets to conform with the current presentation.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30, 2013 and 2012:

	2013	2012
Contributions Receivable Expected to be Collected in:		
Less than One Year	$ 2,546,447	$ 3,239,538
One Year to Five Years	5,063,302	5,935,720
Over Five Years	92,500	330,238
Gross Contributions Receivable	7,702,249	9,505,496
Less:		
Allowance for Uncollectibles	(200,000)	(200,000)
Unamortized Discount for Time Value of Money *	(739,116)	(898,223)
Net Contributions Receivable	$ 6,763,133	$ 8,407,273

* The discount rate used ranged from 2% to 6%.

NOTE 2 CONTRIBUTIONS RECEIVABLE (CONTINUED)

The above contributions receivable have been included in the following net asset categories as of June 30, 2013 and 2012:

	2013	2012
Temporarily Restricted	$ 5,881,147	$ 7,530,453
Permanently Restricted	881,986	876,820
Total	$ 6,763,133	$ 8,407,273

Of total gross contributions receivable as of June 30, 2013 and 2012, approximately $4,556,000 and $6,580,000, respectively, are due from current and life members of the Board of Trustees of the College.

NOTE 3 STUDENT LOANS RECEIVABLE

The College's student loans receivable consist of a revolving loan fund for Federal Perkins Loans for which the College acts as an agent for the federal government in administering the loan program and an institutional loan fund created by the College to assist students in funding their education.

The College determined their allowance for doubtful accounts on these student loans by looking at historical default rates and analyzing the aging of the past due loans. During the years ended June 30, 2013 and 2012, the College has not significantly changed its methodology for the allowance for doubtful accounts on student loans.

The aging of the student loan portfolio by classes of loans as of June 30, 2013 and 2012 is presented as follows:

	2013						
Classes If Loans	Not in Repayment	Current	Less Than 240 Days Past Due	Greater Than 240 Days, but Less Than 2 Years Past Due	Greater Than 2 Years, Less Than 5 Years Past Due	Greater Than 5 Years Past Due	Total
Federal Perkins Loans	$ 686,192	$ 373,807	$ 101,668	$ 28,177	$ 33,968	$ 90,740	$ 1,314,552
Institutional Loans	347,769	325,961	60,248	54,600	36,333	78,977	903,888
	$ 1,033,961	$ 699,768	$ 161,916	$ 82,777	$ 70,301	$ 169,717	$ 2,218,440
As a Percentage of Total Loan Portfolio	46.61%	31.54%	7.30%	3.73%	3.17%	7.65%	100.00%

	2012						
Classes If Loans	Not in Repayment	Current	Less Than 240 Days Past Due	Greater Than 240 Days, but Less Than 2 Years Past Due	Greater Than 2 Years, Less Than 5 Years Past Due	Greater Than 5 Years Past Due	Total
Federal Perkins Loans	$ 363,507	$ 627,551	$ 86,060	$ 40,026	$ 26,927	$ 87,545	$ 1,231,616
Institutional Loans	389,731	354,467	49,947	32,960	30,395	77,694	935,194
	$ 753,238	$ 982,018	$ 136,007	$ 72,986	$ 57,322	$ 165,239	$ 2,166,810
As a Percentage of Total Loan Portfolio	34.76%	45.32%	6.28%	3.37%	2.65%	7.63%	100.00%

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

The allowance for doubtful accounts on student loans in aggregate is $129,000 for the years ended June 30, 2013 and 2012.

The allowance for doubtful accounts on loans by portfolio segment as of June 30, 2013 and 2012 is presented as follows:

	2013		
	Federal Perkins Loans	Institutional Loans	Total
Less: Allowance for Loans Collectively Evaluated for Impairment	$ 85,680	$ 43,320	$ 129,000
Loans Collectively Evaluated for Impairment	1,314,552	903,888	2,218,440
Student Loans Receivable, Net	1,228,872	860,568	2,089,440
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	6.52%	4.79%	5.81%

	2012		
	Federal Perkins Loans	Institutional Loans	Total
Less: Allowance for Loans Collectively Evaluated for Impairment	$ 85,680	$ 43,320	$ 129,000
Loans Collectively Evaluated for Impairment	1,231,616	935,194	2,166,810
Student Loans Receivable, Net	1,145,936	891,874	2,037,810
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	6.96%	4.63%	5.95%

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2013 and 2012:

	2013		
	Federal Perkins Loans	Institutional Loans	Total
Performing	$ 1,161,667	$ 733,978	$ 1,895,645
Nonperforming	152,885	169,910	322,795
Total	$ 1,314,552	$ 903,888	$ 2,218,440

	2012		
	Federal Perkins Loans	Institutional Loans	Total
Performing	$ 1,077,118	$ 794,145	$ 1,871,263
Nonperforming	154,498	141,049	295,547
Total	$ 1,231,616	$ 935,194	$ 2,166,810

Performing loans are those which are less than 240 days past due. Nonperforming loans are those which are greater than or equal to 240 days past due.

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

For student loans, the credit quality indicator is performance determined by delinquency status and, for Federal Perkins Loans, origination and servicing of the loan. Delinquency status is updated monthly by the College's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The College is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

NOTE 4 INVESTMENTS

The investments include funds traditionally considered the endowment of the College (including quasi-endowment) as well as other assets. As of June 30, 2013 and 2012, the carrying value of investments are as follows:

	2013	2012
Endowment:		
Money Market Funds	$ 566,808	$ 4,592,336
Common Stock	152,998	152,998
Bond Funds	24,272,971	23,574,604
Cash Value of Life Insurance	2,759,653	2,717,507
Equity Securities	15,358,071	12,807,484
Real Estate Investment Trusts **	6,397,345	3,383,749
Private Equity **	4,684,675	5,115,646
Hedge Funds **	7,315,206	6,709,977
Natural Resource Funds **	629,296	778,814
Contracts and Miscellaneous	10,342	23,042
Trusts Held by Others *	3,469,111	3,281,806
Charitable Remainder Trusts ***	1,969,003	1,953,225
	67,585,479	65,091,188
Other:		
Stocks	6,122	6,122
Land Held for Resale, Farms and City Real Estate	100,000	100,000
Cash Value of Life Insurance	401,652	492,933
Money Market Funds	438,056	438,056
Trusts Held by Others *	171,074	-
Other	5,124	5,124
	1,122,028	1,042,235
	$ 68,707,507	$ 66,133,423

* Trusts held by others are assets neither in the possession of nor under control of the College, but held and administered by outside fiscal agents, with the College deriving income from such funds. The value of such assets is supported by annual trust statements, and consists of publicly traded stocks and bonds.

NOTE 4 INVESTMENTS (CONTINUED)

** The College has the ability to liquidate these investments periodically in accordance with the provisions of the respective investment fund agreements. Under terms of certain limited partnership agreements, the College is obligated periodically to advance additional funding for private equity and real estate investments. As of June 30, 2013, the College had commitments of approximately $1,259,008 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The College anticipates that it will maintain sufficient liquidity in its investment portfolio to cover such calls.

*** Assets held under charitable remainder trusts primarily consist of equity securities and bonds.

The investments of the College are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the financial statements.

Investment return consists of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Net Realized Gains on Investments	$ 3,727,083	$ 2,159,271
Net Unrealized Gains (Losses) on Investments	1,023,085	(1,379,560)
Total Investment Gains	$ 4,750,168	$ 779,711

	2013	2012
Investment Income - Operating	$ 2,656,481	$ 2,463,563
Investment Income - Non-Operating	2,093,687	(1,683,852)
Total Investment Income	$ 4,750,168	$ 779,711

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2013 and 2012 is as follows:

	2013	2012
Land and Real Estate Improvements	$ 3,416,809	$ 3,376,702
Buildings	83,807,449	81,928,781
Equipment and Library Books	15,223,062	15,891,363
Rental Properties	1,970,964	1,824,906
Construction in Progress	12,046,451	2,017,857
	116,464,735	105,039,609
Less: Accumulated Depreciation	48,843,787	46,443,825
	$ 67,620,948	$ 58,595,784

As of June 30, 2013, $6,802 of interest was capitalized for debt incurred for construction of the Garner President's House.

NOTE 6 ACCRUED SEVERANCE PLAN LIABILITY

The College has an unfunded retirement arrangement that covers full-time faculty and salaried administrative personnel who began service prior to April 14, 1991. To be eligible, the employee must complete at least 15 years of service and have accumulated at least 75 "points" (a combination of age and years of service). The arrangement provides a benefit equal to 110% of the participant's final year's compensation in a lump-sum payment. The arrangement also added health care benefits, which will be provided for the lesser of five years or Medicare eligibility and life insurance, which will be provided for up to five years.

The following table sets forth information related to the plan as of June 30, 2013 and 2012:

	2013	2012
Benefit Obligation at Beginning of Period	$ 3,153,239	$ 2,988,560
Service Cost	51,175	49,187
Interest Cost	92,086	189,698
Actuarial (Gain) Loss	(1,607,192)	93,198
Benefits Paid	(647,296)	(167,404)
Adjustment	-	(334,498)
Benefit Obligation at End of Period	1,042,012	2,818,741
Plan Assets in Deficit of Projected Benefit Obligation	$ (1,042,012)	$ (2,818,741)
Rollforward of Accrued Benefit:		
Accrued Benefit on Balance Sheet, Beginning of Year	$ 3,153,239	$ 2,988,560
Change in Plan Liability	(2,111,227)	(169,819)
Accrued Benefit on Balance Sheet, End of Year	$ 1,042,012	$ 2,818,741
Benefits Cost	$ 213,048	$ 308,672
Benefits Paid	647,296	167,404

NOTE 6 ACCRUED SEVERANCE PLAN LIABILITY (CONTINUED)

Weighted-average assumptions used to determine benefit obligations for the year ended June 30, 2013 were as follows: discount rate was 3.0% and rate of compensation increase was 3.0% for administrative employees and faculty. Weighted-average assumptions used to determine benefit obligations for the year ended June 30, 2012 were as follows: discount rate was 3.0% and rate of compensation increase was 3.0% for administrative employees and faculty.

Weighted-average assumptions used to determine net cost for the year ended June 30, 2013 were as follows: discount rate was 3.0% and rate of compensation increase was 3.0% for administrative employees and faculty. Weighted-average assumptions used to determine net cost for the year ended June 30, 2012 were as follows: discount rate was 3.0% and rate of compensation increase was 3.0% for administrative employees and faculty.

Cash Flows

The benefits expected to be paid in each year 2014 - 2018 are as follows:

Year Ending June 30,	Amount
2014	$ 790,562
2015	176,119
2016	326,484
2017	58,696
2018	46,878

The expected benefits are based on the same assumptions used to measure the College's benefit obligation as of June 30 and include estimated future employee service.

Subsequent to June 30, 2012, the plan was changed as follows: Employees 62 and older will receive 60% of their current salary if they elect to retire by December 31, 2012 or 40% if they elect after that date but before December 31, 2013. After December 31, 2013, the plan will no longer be available. For employees under age 62, no benefits will be paid out under the plan. The liability under these new terms is anticipated to be significantly reduced.

In May 2013, an attorney, on behalf of a group of faculty and staff, has requested an "Advisory Opinion" from the US Department of Labor, Employee Benefits Security Administration, Office of Regulations and Interpretations regarding the August 13, 2012 amendment made to the Plan. As of this date, The Department of Labor has not provided an "Advisory Opinion".

NOTE 7 LONG-TERM DEBT

Long-term debt as of June 30, 2013 and 2012 is summarized as follows:

Description	2013	2012
Iowa Higher Education Loan Authority (IHELA) - Series 2006. Interest is payable semi-annually on April 1 and October 1 through maturity on October 1, 2036, at fixed rates ranging from 4.1 % to 4.875% (current effective rate is 4.72% as of June 30, 2012). Annual principal payments are due beginning in 2011. The remaining bond discount of $45,305 is being amortized over the bond term using the interest method. The College is required to maintain certain financial ratios including a liquidity ratio and a debt service ratio as well as nonfinancial covenants. The bonds are collateralized by a building with a net book value of approximately $4,990,000. The College is also required to maintain a bond reserve fund (balance as of June 30, 2013 is approximately $438,000, included in investments) to handle the repayment of bond principal and interest.	$ 6,622,530	$ 6,759,694
Iowa Higher Education Loan Authority (IHELA) - Series 2008. Interest is payable monthly through maturity on October 1, 2038, at a variable rate determined by the remarketing agent not to exceed 10% (current effective rate is 1.75% as of June 30, 2012). The entire principal balance is due at maturity in 2038. The remaining bond discount of $40,483 is being amortized over the bond term using the interest method. The bonds are collateralized by an irrevocable letter of credit in the amount of $8,897,112. The letter of credit expires on June 20, 2014. The letter of credit agreement requires the College to maintain certain financial ratios including a cash, investments and pledges to debt ratio and a debt service ratio as well as nonfinancial covenants. The letter of credit is collateralized by buildings with a net book value of approximately $5,520,000. The letter of credit agreement contains a covenant requiring the College to supply audited financial statements within a certain time period after the College's fiscal year-end.	7,431,060	8,774,517

NOTE 7 LONG-TERM DEBT (CONTINUED)

Description	2013	2012
JPMorgan Chase Bank, NA - Original loan of $700,000 with principal payments due in quarterly installments of $50,000 starting January 1, 2012 with final payment on or before December 31, 2014. Interest is payable quarterly on the first day of January, April, July and October, at a floating rate based on LIBOR plus 190 basis points (effective interest rate is 2.09378% as of June 30, 2013). The loan is collateralized by contributions receivable related to the McLennan Center property. The College is required to maintain certain financial ratios including cash, investments and pledges to debt ratio and a debt service ratio as well as nonfinancial covenants.	400,000	600,000
JPMorgan Chase Bank, NA - Original loan of $600,000 with principal payments due in monthly installments of $12,500 starting January 31, 2013 with final payment on or before December 31, 2016. Interest is payable monthly at a floating rate based on LIBOR plus 190 basis points (effective interest rate is 2.093280% as of June 30, 2013). The loan is collateralized by contributions receivable related to the Garner President's House property. The College is required to maintain certain financial ratios including cash, investments and pledges to debt ratio and a debt service ratio as well as nonfinancial covenants.	512,500	-
Other	17,029	22,711
	$ 14,983,119	$ 16,156,922

Subsequent to June 30, 2013, the College issued Private College Facility Revenue and Refunding Bonds, Series, 2013 in the aggregate principal amount of $22,990,000. As part of the issue, both the Series 2006 and Series 2008 were refunded. The remaining funds will be used as bridge financing for renovation of the Commons and Ash Park and financing the costs of residence hall renovations.

NOTE 7 LONG-TERM DEBT (CONTINUED)

The following schedule includes the debt maturities before and after the above bonds were refinanced.

	Before Re-Financing				After Re-Financing		
Year Ending June 30,	IHELA Series 2006	IHELA Series 2008	Other	Total	IHELA Series 2013	Other	Total
2014	$ 142,217	$ 7,431,060	$ 355,681	$ 7,928,958	$ -	$ 355,681	$ 355,681
2015	152,273	-	355,681	507,954	2,055,000	355,681	2,410,681
2016	157,332	-	155,667	312,999	970,000	155,667	1,125,667
2017	162,394	-	62,500	224,894	700,000	62,500	762,500
2018	172,460	-	-	172,460	900,000	-	900,000
2019-2023	988,430	-	-	988,430	3,625,000	-	3,625,000
2024-2028	1,245,750	-	-	1,245,750	3,890,000	-	3,890,000
2029-2033	1,583,779	-	-	1,583,779	4,500,000	-	4,500,000
2034-2038	2,017,895	-	-	2,017,895	5,215,000	-	5,215,000
2039-2043	-	-	-	-	1,135,000	-	1,135,000
Total	$ 6,622,530	$ 7,431,060	$ 929,529	$ 14,983,119	$ 22,990,000	$ 929,529	$ 23,919,529

NOTE 8 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

As of June 30, 2013 and 2012, the College's restricted net assets were allocated as follows:

	2013	2012
Temporarily Restricted Net Assets:		
Instruction and Other Departmental Support	$ 1,779,701	$ 3,538,247
Accumulated Earnings on Endowment Funds	7,275,322	6,914,786
Acquisition of Buildings and Equipment	4,149,265	13,255,066
Life Income, Annuities and Cash Surrender Value of Life Insurance Policies	423,243	414,176
Student Loan Funds	1,849,070	1,370,415
Total	$ 15,476,601	$ 25,492,690

	2013	2012
Permanently Restricted Net Assets:		
Invested in Perpetuity, the Income from which is Expendable for:		
Scholarships	$ 26,005,874	$ 25,742,475
Unrestricted	10,755,140	10,742,640
Professorships	11,582,325	10,980,363
Library	1,063,424	1,044,184
Other Instructional Support	8,821,698	7,630,677
Student Loan Funds	171,074	83,418
Annuity, Life Income and Cash Surrender Value of Life Insurance Policies and Restricted Pledges	3,652,306	3,481,521
Total	$ 62,051,841	$ 59,705,278

NOTE 8 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

Net assets during the years ended June 30, 2013 and 2012 were released from donor restrictions for the following purposes:

	2013	2012
Scholarships and Other Endowment Funds	$ 1,745,707	$ 1,353,350
Instruction and Other Departmental Support	2,088,021	3,169,708
Capital Projects	13,630,748	3,026,595
Total	$ 17,464,476	$ 7,549,653

NOTE 9 LIABILITY TO LIFE TENANTS UNDER CHARITABLE REMAINDER TRUSTS AND ANNUITIES PAYABLE

The College has several charitable remainder trust agreements whereby the College is required to pay certain amounts to the income beneficiary during their lifetime. The present value of these payments discounted using a rate of 6% is $1,032,989 and $1,057,006 as of June 30, 2013 and 2012, respectively. In addition, the College has received amounts from various individuals under annuity agreements that require the College to pay to the donors varying amounts during their lifetime. The present value of these payments using specified discount rate ranging from 3% to 14% totaled $1,212,788 and $1,273,750 as of June 30, 2013 and 2012, respectively.

NOTE 10 ALLOCATION OF FUNCTIONAL EXPENSES

The College is required to allocate the operations and maintenance of the physical plant, depreciation expense and interest to the various programs of the College. The allocations for the years ended June 30, 2013 and 2012 are as follows:

	Year Ended June 30, 2013		
	Expenses as Reported on the Statement of Activities	Allocations to Programs	Program Expenses Prior to Allocations
Operating Expenses:			
Instruction	$ 11,779,271	$ (2,343,131)	$ 9,436,140
Academic Support and Research	2,509,013	(500,376)	2,008,637
Student Services	7,485,717	(1,173,879)	6,311,838
Institutional Support	3,538,824	(307,688)	3,231,136
Institutional Advancement	1,895,986	(96,401)	1,799,585
Auxiliary Enterprises	6,770,469	(3,347,718)	3,422,751
Operation and Maintenance of Plant	-	3,976,532	3,976,532
Depreciation	-	3,334,843	3,334,843
Interest	-	457,818	457,818
	$ 33,979,280	$ -	$ 33,979,280

NOTE 10 ALLOCATION OF FUNCTIONAL EXPENSES (CONTINUED)

	Year Ended June 30, 2012		
	Expenses as Reported on the Statement of Activities	Allocations to Programs	Program Expenses Prior to Allocations
Operating Expenses:			
Instruction	$ 11,945,706	$ (2,187,717)	$ 9,757,989
Academic Support and Research	2,381,464	(477,850)	1,903,614
Student Services	7,032,688	(1,120,895)	5,911,793
Institutional Support	3,443,368	(601,402)	2,841,966
Institutional Advancement	1,798,120	(92,050)	1,706,070
Auxiliary Enterprises	6,650,341	(2,905,210)	3,745,131
Operation and Maintenance of Plant	-	3,533,077	3,533,077
Depreciation	-	3,424,049	3,424,049
Interest	-	427,998	427,998
	$ 33,251,687	$ -	$ 33,251,687

NOTE 11 ASSET RETIREMENT OBLIGATION

Under current accounting standards guidance, the College must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. The fair value of a liability for a legal obligation associated with an asset retirement is required to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

Substantially all of the College's conditional asset retirement obligation relates to the estimated cost to remove certain materials from campus facilities. The future value of the asset retirement obligation as of June 30, 2013 is estimated to be approximately $1.5 million. The liability was estimated using an inflation rate of 4%. Because accounting standards required retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 5%.

Changes in the accrual for asset retirement obligation during the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Balance Beginning	$ 999,697	$ 985,775
Adjustment of Asset Retirement Liability	(353,356)	35,772
Settlement of Asset Retirement Obligation	(101,151)	(21,850)
Balance Ending	$ 545,190	$ 999,697

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS

The College's Endowment Fund consists of various donor restricted endowment funds and funds designated as quasi-endowment by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 Iowa legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, (d) the original net present value of permanently restricted annuities, and *(e)* subsequent changes in amounts due under permanently restricted annuities. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the State of Iowa in its enacted version of 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 Endowment 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; and (7) the investment policies of the College.

The College has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the College a predictable funding stream for its programs while achieving an investment return greater than the combination of the current spending formula and the current rate of inflation in order to protect the purchasing power of the Endowment Fund. The College, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long term of at least 8%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the College expects to maintain appropriate diversification among equity, fixed income and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of the College may appropriate for expenditure or accumulate so much of the Endowment Fund as the College determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, per the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the eight quarters ending December 31st of the prior calendar year. The Board approved spending percentage was 5% for the fiscal years ended June 30, 2013 and 2012.

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

Endowment net assets as of June 30, 2013 and 2012 were as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (5,502,225)	$ 7,703,741	$ 61,880,767	$ 64,082,283
Board-Designated Quasi-Endowment Funds	2,917,147	-	-	2,917,147
Total Endowment Funds	$ (2,585,078)	$ 7,703,741	$ 61,880,767	$ 66,999,430

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (6,103,848)	$ 7,328,963	$ 59,621,860	$ 60,846,975
Board-Designated Quasi-Endowment Funds	2,819,661	-	-	2,819,661
Total Endowment Funds	$ (3,284,187)	$ 7,328,963	$ 59,621,860	$ 63,666,636

The changes in endowment net assets for the years ended June 30, 2013 and 2012 were as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ (3,284,187)	$ 7,328,963	$ 59,621,860	$ 63,666,636
Investment Return:				
Investment Income Allocated to Operations	858,861	1,797,620	-	2,656,481
Net Appreciation (Depreciation) (Realized and Unrealized)	(97,419)	1,352,651	(13,356)	1,241,876
Total Investment Return	(2,522,745)	10,479,234	59,608,504	67,564,993
Contributions	-	-	2,087,182	2,087,182
Appropriation of Endowment Funds for Expenditure	(62,333)	(2,594,148)	-	(2,656,481)
Other Changes	-	(181,345)	185,081	3,736
Endowment Net Assets, End of Year	$ (2,585,078)	$ 7,703,741	$ 61,880,767	$ 66,999,430

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ (3,037,623)	$ 8,183,012	$ 59,901,105	$ 65,046,494
Investment Return:				
Investment Income Allocated to Operations	-	64,725	-	64,725
Net Appreciation (Depreciation) (Realized and Unrealized)	(6,958)	1,616,091	(912,693)	696,440
Total Investment Return	(3,044,581)	9,863,828	58,988,412	65,807,659
Contributions	-	-	716,259	716,259
Write-Off of Contribution Receivable	-	-	(471,161)	(471,161)
Appropriation of Endowment Funds for Expenditure	(289,523)	(2,174,040)	-	(2,463,563)
Other Changes	49,917	(360,825)	388,350	77,442
Endowment Net Assets, End of Year	$ (3,284,187)	$ 7,328,963	$ 59,621,860	$ 63,666,636

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

From time to time, the fair value of endowment funds 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, underwater endowments. As of June 30, 2013 and 2012, donor restricted endowment funds were underwater by $5,502,225 and $6,103,848, respectively. This amount is reported in unrestricted net assets. These deficiencies, which the College believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2013 and 2012 for certain programs was prudent.

NOTE 13 FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments measured using the practical expedient, that do not have any significant redemption restrictions, lockup periods, gates or other characteristics that would cause report and liquidation date net asset value (NAV) to be significantly different, if redemption were requested at the report date.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The College reports the fair value of certain Level 3 investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the College based on various factors, to be used to determine fair value, under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments would have significant redemption and other restrictions that would limit the Funds' ability to redeem out of the fund at report date NAV.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments, securities are classified within Level 3 of the valuation hierarchy. Level 3 securities include investments in limited partnerships, life insurance policies, real estate, land and mineral rights. Investments in limited partnerships are fund-of-funds that take custody of the assets and use partnership accounting to determine the unit value of each member's interest in the partnership. Annual audits are performed each year on the partnerships. The College obtains the fair value from the fund managers. The fund managers use various models, comparisons and assumptions to estimate fair value. Consideration is given to the type of investment, risks, marketability, restrictions on dispositions and quotations from other market participants. Life insurance policies are valued at cash surrender values determined by the life insurance companies. The value of real estate, land and mineral rights is determined through third party appraisals. The value of charitable lead/remainder unitrusts is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described above. Future expected cash flows are discounted using a risk adjusted discount rate.

There have been no changes in valuation techniques used for any assets measured at fair value during the years ended June 30, 2013 and 2012.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize assets measured at fair value on a recurring basis as of June 30, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Common Stocks:				
Miscellaneous	$ 152,998	$ -	$ -	$ 152,998
Equity Mutual Funds:				
International Funds	6,272,558	6,272,558	-	-
Multi Strategy Funds	9,745,373	9,711,311	34,062	-
Fixed Income Mutual Funds:				
Total Return Funds	25,351,174	20,085,755	5,265,419	-
Tax Exempt Funds	230,940	230,940	-	-
Real Estate Investment Trust	6,397,345	-	6,397,345	-
Natural Resource Funds	629,296	-	-	629,296
Hedge Funds	7,315,206	-	-	7,315,206
Private Equity	4,684,675	-	-	4,684,675
Funds Held in Trust by Others	3,640,185	-	-	3,640,185
Charitable Remainder Trusts	1,969,003	1,969,003	-	-
Other	21,588	-	-	21,588
	$ 66,410,341	$ 38,269,567	$ 11,696,826	$ 16,443,948

	2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Common Stocks:				
Miscellaneous	$ 152,998	$ -	$ -	$ 152,998
Equity Mutual Funds:				
International Funds	2,725,259	2,725,259	-	-
Multi Strategy Funds	10,666,748	6,274,932	4,391,816	-
Fixed Income Mutual Funds:				
Total Return Funds	24,697,325	19,436,640	5,260,685	-
Tax Exempt Funds	245,981	245,981	-	-
Real Estate Investment Trust	3,383,749	-	3,383,749	-
Natural Resource Funds	778,814	-	-	778,814
Hedge Funds	6,709,977	-	-	6,709,977
Private Equity	5,115,646	-	-	5,115,646
Funds Held in Trust by Others	3,281,806	-	-	3,281,806
Charitable Remainder Trusts	1,953,225	1,953,225	-	-
Other	34,288	-	-	34,288
	$ 59,745,816	$ 30,636,037	$ 13,036,250	$ 16,073,529

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Included in investments on the balance sheets are money markets that are cash and cash equivalents and land which are recorded at a cost basis of $1,104,863 and $5,130,392 as of June 30, 2013 and 2012, respectively, and are excluded from the above table as they are not subject to fair value measurement guidance.

One fund transferred from a level 2 to a Level 1, and another transferred from a level 3 to a level 2 fair value hierarchy during the years ended June 30, 2013 and 2012.

The following tables present additional information about assets measured at fair value on a recurring basis for which the College has utilized Level 3 inputs to determine fair value.

	2013						
	Common Stocks Miscellaneous	Natural Resource Funds	Hedge Funds	Private Equity	Funds Held in Trust by Others	Other	Total
Balance, Beginning	$ 152,998	$ 778,814	$ 6,709,977	$ 5,115,646	$ 3,281,806	$ 34,288	$ 16,073,529
Total Gains or Losses (Realized/Unrealized) Included in Change in Net Assets	-	1,410	345,361	454,259	187,305	-	988,335
Purchases	-	-	562,555	133,854	171,074	-	867,483
Sales	-	(150,928)	(302,687)	(1,019,084)	-	(12,700)	(1,485,399)
Settlements	-	-	-	-	-	-	-
Balance, Ending	$ 152,998	$ 629,296	$ 7,315,206	$ 4,684,675	$ 3,640,185	$ 21,588	$ 16,443,948

	2012						
	Common Stocks Miscellaneous	Natural Resource Funds	Hedge Funds	Private Equity	Funds Held in Trust by Others	Other	Total
Balance, Beginning	$ 152,998	$ 913,891	$ 5,900,374	$ 4,820,560	$ 3,414,999	$ 37,230	$ 15,240,052
Total Gains or Losses (Realized/Unrealized) Included in Change in Net Assets	-	(62,817)	(41,931)	279,070	(133,193)	1,063	42,192
Purchases	-	2,500	900,000	480,326	-	-	1,382,826
Sales	-	(74,760)	(48,466)	(464,310)	-	(4,005)	(591,541)
Settlements	-	-	-	-	-	-	-
Balance, Ending	$ 152,998	$ 778,814	$ 6,709,977	$ 5,115,646	$ 3,281,806	$ 34,288	$ 16,073,529

Gains and losses included in change in net assets for the period above are reported as realized and unrealized gains (losses) on investments.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth additional disclosure of the College's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2013 and 2012:

	Fair Value		Unfunded	Redemption	Redemption
	2013	2012	Commitment	Frequency	Notice Period
Fixed Income Mutual Funds:					
Total Return Funds (A)	$ 5,265,419	$ 5,260,685	$ -	Daily	10 days
Real Estate Investment Trust (B)	6,397,345	3,383,749	-	Quarterly	90 days
Natural resource Funds (C)	629,296	778,814	37,500	N/A	N/A
Hedge funds:					
(D)	3,397,511	3,230,893	-	Quarterly	90 days
(E)	3,085,647	2,806,684	-	Quarterly	100 days
(F)	706,518	500,000	-	Monthly	5 days
(G)	125,530	172,400	-	N/A	N/A
Private Equity:					
(H)	1,487,954	1,536,907	428,000	N/A	N/A
(I)	979,147	1,092,963	230,214	N/A	N/A
(J)	843,008	1,019,544	180,000	N/A	N/A
(K)	700,017	763,517	70,000	N/A	N/A
(L)	246,819	297,862	249,544	N/A	N/A
(M)	427,730	404,853	63,750	N/A	N/A

(A) This fund invests in a globally diversified portfolio of primarily debt or debt-like securities. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(B) The fund invests in both publicly-owned real estate securities and privately owned real estate investments. Investors may request quarterly redemptions of 1 % with written notice from the date of investment inception. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund. This fund moved from a level three to a level two fund because it is redeemable in less than a year.

(C) The fund invests in a select group of investment funds in the natural resource sector, with an emphasis on depleting resources. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

(D) The fund invests the majority of its assets in related commodity pools, all of which engage in various investing and trading activities including investing in other funds and the speculative trading of futures contracts, forward currency contracts, securities and other financial instruments. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(E) The Fund is a "feeder" fund in a "master-feeder' structure whereby the Fund invests substantially all of its assets in the Master Fund. The Master Fund pursues its investment objectives by allocating its capital among various portfolio managers (the "Portfolio Managers") through investments in collective investment vehicles (the "Investee Funds") and individually managed accounts. The Investee Funds may engage in the trading of equity and debt securities of U.S. and non U.S. corporations, U.S. government securities, non U.S. government securities, futures contracts, options, options on futures, other derivatives including swaps, forward contracts, currencies and physical commodities, partnership interests, money market instruments and derivatives on securities. The Master Fund may also make investments directly rather than, or in addition to investing in Investee Fund including without limitation, for purposes of hedging certain exposures. This fund has a 25% quarterly investor-level redemption restriction. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by the investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(F) The Fund is a "feeder" fund in a "master-feeder" structure whereby the Fund invests substantially all of its assets in the Master Fund. The Master Fund pursues its investment objectives by allocating its capital among various portfolio managers (the "Managers") through investments in pooled investment vehicles and individually managed accounts. Distributions are made to the members in cash pro rata in proportion to their capital accounts.

(G) The Fund is a multi-strategy fund of hedge funds that only invests in funds that manage equity-like instruments comprising of four strategies: relative value, event-driven, equity market-neutral, and hedged equity. Distributions are made to members in cash pro rata in proportion to their capital accounts. The fund has only five small funds remaining with minimal market value.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

(H) The limited partnership was created with the purpose of investing in the Master Fund which holds private equity and venture capital partnerships which invest in equity, equity-related, and debt securities. The limited partners have made commitments to classes of investments in the Partnership which include Developed Markets-Private Equity (the "PE Class"), Developed MarketsVenture Capital (the "VC Class"), and Emerging Markets-Private Equity and Venture Capital (the "EM Class"), (collectively, the "Classes" and, individually, a "Class"). These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator.

(I) This limited partnership was formed for the purpose of investing substantially all of its assets in the Offshore Holdings Partnership. The Offshore Holdings Partnership was formed for the purpose of investing in pooled investment vehicles purchased from the existing owners of such pooled vehicles and not from the issuers of such investments or transactions structured to share many of the characteristics and economics of such purchases ("Secondary Investments"). The Secondary Investments are generally held by Private Equity Opportunities ("PEO"). PEO may receive distributions-in-kind from the Secondary Investments representing securities of the Secondary Investments' underlying portfolio companies ("Security Investments" and together with Secondary Investments, "Portfolio Investments"). PEO may make investments directly or indirectly related to the Secondary Investments, including underlying portfolio companies owned by Secondary Investments, swaps, options and forward currency contracts. The Offshore Holdings Partnership may also make investments in swaps, options, forward currency contracts, and other alternative transactions. The Offshore Holdings Partnership is permitted to invest both domestically and internationally across all sectors of the private equity market directly and through PEO. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(J) The fund invests in following private equity industry sectors: Buyout, Venture Capital and Special Situations. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

(K) The fund invests in securities in secondary market transactions primarily in leveraged buyout, growth equity, mezzanine and venture capital investment funds. In addition, the fund may make primary investments in Investment Partnerships, direct investments in companies alongside Investment Partnerships, and Secondary Investments in companies. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(L) This fund invests primarily in secondary transactions in privately offered direct investment funds and portfolio companies established by a select number of experienced and well established sponsors. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

(M) The fund invests in a select group of private equity funds in the venture capital, buyout and capital restructuring sectors. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's Partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The College is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management believes that the resolution of these pending matters will not have a materially adverse effect on the College's financial statements.

During the year, the College entered into various contracts for construction of new academic buildings and other infrastructure improvements. As of June 30, 2013, the remaining commitment on these contracts totaled approximately $6.1 million.