ROLLINS COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended May 31, 2014 and 2013

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

ROLLINS COLLEGE
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position 3
Consolidated Statements of Activities ..... 4 – 5
Consolidated Statements of Cash Flows 6
Notes to Consolidated Financial Statements ..... 7 – 35

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Trustees of Rollins College
Winter Park, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rollins 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 consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over consolidated financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Orlando, Florida
September 17, 2014

CONSOLIDATED FINANCIAL STATEMENTS

ROLLINS COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

MAY 31, 2014 AND 2013

	2014	2013
ASSETS	(In Thousands)	
Cash and cash equivalents	$ 4,278	$ 19,649
Student receivables, less allowance for losses of $671 and $553, respectively	1,802	1,236
Contributions receivable	13,757	20,316
Remainder interest in charitable trusts	2,297	2,450
Loans to students, less allowance for losses of $176 and $149, respectively	1,722	1,678
Long-term investments	353,794	332,869
Land, buildings, equipment, and books, less accumulated depreciation	214,024	201,974
Land held for resale	2,894	-
Unamortized bond issue costs	1,326	1,434
Non-student receivables and other assets	4,484	3,932
Investments held in trust by others	18,348	17,012
Total assets	**$ 618,726**	**$ 602,550**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 3,265	$ 3,425
Accrued and other expenses	11,503	9,191
Deferred revenues	2,802	2,096
Advances from federal government for student loans	1,399	1,399
Annuity and life income payable	2,047	2,198
Interest rate swap liability	3,597	4,295
Long-term debt	129,807	133,198
Total liabilities	154,420	155,802
Net assets		
Unrestricted	115,811	100,480
Temporarily restricted	139,922	143,375
Permanently restricted	208,573	202,893
Total net assets	464,306	446,748
Total liabilities and net assets	**$ 618,726**	**$ 602,550**

See accompanying notes.

ROLLINS COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITY

MAY 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues:				
Tuition and fees	$ 96,552	$ -	$ -	$ 96,552
Less scholarships allowances	(35,638)	-	-	(35,638)
Net tuition and fees	60,914	-	-	60,914
Gifts and private grants	2,381	6,195	-	8,576
Federal and state grants	-	1,284	-	1,284
Appropriation of endowment assets for expenditure	7,233	8,721	-	15,954
Investment income	946	320	-	1,266
Auxilliary enterprise revenues	16,873	-	-	16,873
Independent operations revenue:				
Commercial property	4,035	-	-	4,035
Hotel	9,469	-	-	9,469
Other sources	4,617	-	-	4,617
Net assets released from restrictions:				
Scholarships	5,113	(5,113)	-	-
Educational and general	10,544	(10,544)	-	-
Total operating revenues	122,125	863	-	122,988
Operating expenses:				
Instruction	39,235	-	-	39,235
Academic support	14,652	-	-	14,652
Student services	20,840	-	-	20,840
Institutional support	26,007	-	-	26,007
Public service	2,774	-	-	2,774
Auxilliary enterprises	14,109	-	-	14,109
Independent operations expense:				
Commercial property	3,792	-	-	3,792
Hotel	9,358	-	-	9,358
Total operating expenses	130,767	-	-	130,767
Increase (decrease) in net assets from operating activities	(8,642)	863	-	(7,779)
Non-operating activities:				
Gifts and private grants	9	1,284	937	2,230
Endowment and other investment income	9,198	25,231	3,102	37,531
Appropriation of endowment assets for expenditure	(7,233)	(8,721)	-	(15,954)
Other gains and losses	239	169	12	420
Change in fair value of swap agreement	598	-	-	598
Change in present value of split interest agreements	-	314	198	512
Independent operation income restricted to endowment	(1,431)		1,431	-
Net assets released from restrictions for property, plant and equipment	22,593	(22,593)	-	-
Increase (Decrease) in net assets from nonoperating activities	23,973	(4,316)	5,680	25,337
Change in net assets	15,331	(3,453)	5,680	17,558
Net assets at beginning of year	100,480	143,375	202,893	446,748
Net assets at end of year	**$ 115,811**	**$ 139,922**	**$ 208,573**	**$ 464,306**

See accompanying notes.

ROLLINS COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITY

MAY 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues:				
Tuition and fees	$ 94,221	$ -	$ -	$ 94,221
Less scholarships allowances	(36,439)	-	-	(36,439)
Net tuition and fees	57,782	-	-	57,782
Gifts and private grants	3,836	4,284	-	8,120
Federal and state grants	-	1,242	-	1,242
Appropriation of endowment assets for expenditure	7,982	8,372	-	16,354
Investment income	147	512	-	659
Auxilliary enterprise revenues	16,853	-	-	16,853
Independent operations revenue:				
Commercial property	4,182	-	-	4,182
Other sources	4,853	-	-	4,853
Net assets released from restrictions:				
Scholarships	5,184	(5,184)	-	-
Educational and general	7,353	(7,353)	-	-
Total operating revenues	108,172	1,873	-	110,045
Operating expenses:				
Instruction	39,171	-	-	39,171
Academic support	13,972	-	-	13,972
Student services	20,540	-	-	20,540
Institutional support	21,949	-	-	21,949
Public service	2,451	-	-	2,451
Auxilliary enterprises	13,722	-	-	13,722
Independent operations expense:				
Commercial property	5,255	-	-	5,255
Total operating expenses	117,060	-	-	117,060
Increase (Decrease) in net assets from operating activities	(8,888)	1,873	-	(7,015)
Non-operating activities:				
Gifts and private grants	298	2,609	5,533	8,440
Endowment and other investment income	13,735	29,243	4,317	47,295
Appropriation of endowment assets for expenditure	(7,982)	(8,372)	-	(16,354)
Other gains and losses	(146)	219	1	74
Change in fair value of swap agreement	1,118	-	-	1,118
Change in present value of split interest agreements	-	141	154	295
Net assets released from restrictions for property, plant and equipment	50	(50)		-
Increase in net assets from nonoperating activities	7,073	23,790	10,005	40,868
Change in net assets	(1,815)	25,663	10,005	33,853
Net assets at beginning of year	119,149	100,858	192,888	412,895
Florida UPMIFA Adoption Adjustment	(16,854)	16,854	-	-
Net assets at end of year	**$ 100,480**	**$ 143,375**	**$ 202,893**	**$ 446,748**

See accompanying notes.

ROLLINS COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

MAY 31, 2014 AND 2013

	2014	2013
	(In Thousands)	
Operating activities:		
Change in net assets	$ 17,558	$ 33,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized losses (gains) on investments	(35,260)	(43,565)
Depreciation	12,148	10,575
Loss on disposal of fixed assets	-	67
Amortization	116	202
Contributions restricted for long-term investment and plant acquisition	(1,267)	(2,582)
(Increase) decrease in receivables and other assets:		
Student receivables	(566)	205
Contributions receivable	6,559	644
Remainder interest in charitable trusts	153	(123)
Non-student receivables and other assets	(596)	339
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,152	2,422
Deferred revenues and advances	706	(288)
Annuity and life income payable	(151)	24
Interest rate swap liability	(698)	(1,118)
Net cash flows provided by operating activities	854	655
Investing activities:		
Proceeds from sales and maturities of investments	88,652	103,708
Purchases of investments	(75,653)	(77,326)
Purchases of land, buildings, equipment, and books	(27,092)	(56,503)
Net cash flows used in investing activities	(14,093)	(30,121)
Financing activities:		
Payments on bonds	(3,399)	(1,830)
Contributions restricted for long-term investment and facility acquisition	1,267	2,582
Net cash flows provided by financing activities	(2,132)	752
Net change in cash and cash equivalents	(15,371)	(28,714)
Cash and cash equivalents – beginning of year	19,649	48,363
Cash and cash equivalents – end of year	$ 4,278	$ 19,649
Supplemental information:		
Interest paid	$ 7,011	$ 6,970

See accompanying notes.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies

Summary of Organization

Rollins College (the College) is an independent, nonsectarian college established in 1885. It is fully accredited by the Southern Association of Colleges and Schools. The College is a not-for-profit corporation under both federal and state rules. The College fulfills its educational mission through three major programs: the Arts and Science division offers a full-time program leading to a liberal arts degree; the Crummer Graduate School of Business offers full and part-time programs leading to graduate degrees; the Hamilton Holt School offers evening and weekend programs leading to undergraduate and graduate degrees in liberal arts and several specialized areas. In August 2014, the College opened the Alfond Inn (the Inn), a hotel with conference space, immediately adjacent to the College's campus. The Inn has 112 guest rooms, over 10,000 square feet of meeting space, operates a full-service restaurant and is open to the general public. The Inn operates under the wholly-owned subsidiary of Langford RCI, L.L.C.

The accompanying financial statements include the consolidated statements of the College, Holt Properties, L.L.C., 140 Fairbanks, L.L.C., 200 Fairbanks, L.L.C., 220 Fairbanks, L.L.C., 400 Park South, L.L.C., Lawrence Center, L.L.C., Langford RCI, L.L.C. and WPP Holt Properties, L.L.C., for which the College is the sole member. All material intercompany balances and transactions have been eliminated.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying consolidated statements of activities report the change in unrestricted, temporarily restricted and permanently restricted net assets, distinguishing between operating and non-operating activities. Operating revenues consist of all the activity of the College except for certain items specifically considered to be of a non-operating nature. Non-operating activities include contributions for endowment, contributions and other activity related to annuity and unitrust agreements, endowment income, gains and losses—net of amounts appropriated to support operations in accordance with the College's spending policy, changes in the fair value of the interest rate swap agreements, and certain other unusual or non-recurring items.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified according to the following categories:

- **Permanently restricted net assets**—Net assets subject to donor-imposed stipulations to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the earnings on related investments for general or specific purposes.

- **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.

- **Unrestricted net assets**—Net assets that are not subject to donor-imposed stipulations.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Revenues from sources other than restricted contributions and investment earnings are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expenses are reported by program classifications. Certain expenses are allocated among programs by management based on estimates of square footage utilized and estimates of percentage of assets utilized.

Revenue Recognition and Release of Restrictions

Tuition and Fees

Tuition and fees are recorded net of scholarship allowances. Scholarship allowances are provided from earnings on restricted funds, certain board-designated endowments, and through unfunded discounts. Tuition payments made prior to the consolidated statement of financial position date for terms that will be in the future are recorded as deferred revenues.

Contributions

Contributions, which include unconditional promises to give, are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor stipulation or by the passage of time. Contributions are recognized as revenues in the period an unconditional promise is made or a gift is received, net of a reserve for uncollectible amounts. Contributions to be received after one year are discounted using the appropriate risk-free rate and amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

The College is the irrevocable remainder beneficiary of several forms of split-interest agreements, including charitable remainder trusts, charitable gift annuities, and pooled income agreements. Unless the donor has stipulated a permanent restriction on the use by the remainderman, contributions to these trusts are reported as increases in temporarily restricted net assets. The amount of contribution revenue recognized is reduced by an actuarial estimate of the trust's liability for payments to an intermediate income beneficiary (or beneficiaries) over the term of the trust.

Investment Income or Loss

Investment income or loss includes (a) interest, dividends, and realized and unrealized gains and losses on investments controlled by the College, (b) income received from, and changes in the fair value of, investments held in trusts by others, and (c) changes in valuation of alternative investments based on net asset value. In the absence of explicit donor stipulations for its use, investment income is reported as an increase in unrestricted net assets. Change in the fair value of investments held in trust by others is reported as permanently restricted investment income or loss, consistent with the classification of underlying assets.

Auxiliary Enterprises

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public. A fee is charged for the goods or services, which may or may not equal the costs of the goods or services. Residence halls and food services make up the majority of auxiliary revenues. These revenues are recorded as earned.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Hotel Operations

The College owns and operates a hotel and conference center (Alfond Inn) immediately adjacent to its campus. The Alfond Inn began operations in August 2013. Alfond Inn operates under a donor gift agreement that stipulates that all distributable net operating income and other cash distributions from the operations of the inn will be directed to an endowed fund to fund scholarships for Rollins students. These distributions will continue for the later of a period of twenty five years or such time that the endowed fund has produced an endowment equal to or not less than fifty million dollars. These distributions are noted in non-operating section of the accompanying Statement of Operations as Hotel Operations income restricted to endowment. These revenues are recorded as earned.

Commercial Property

The College owns and operates several Commercial buildings adjacent or close by to the College's main campus. The properties are rented to local business and serve as a land hold for future expansion use by the College. These revenues are recorded as earned.

Release from Restrictions

Temporary restrictions on net assets expire when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed. Donor-restricted contributions in which the restrictions are satisfied in the same reporting period in which the contribution is received are classified as temporarily restricted. Typically, temporary restrictions expire when assets are expended in accordance with donor instructions. Temporary restrictions on contributions made for the acquisition of long-lived assets are released when the stipulated assets are placed in service. Temporary restrictions also expire upon termination of a split-interest gift agreement, which does not contain restrictions on the use of the remainder assets. These events are reported as net assets released from restrictions on the consolidated statements of activities.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments that are not designated as long-term investments and with an original maturity of less than three months. A portion of cash and cash equivalents amounting to $3,223,367 at May 31, 2013, was restricted by debt covenants for purchases and construction of buildings and infrastructure, as more fully described in Note 10.

Contributions Receivable

Contributions receivable includes unconditional promises to give and bequests that have cleared probate, when information regarding the College's interest in a devise is deemed reasonably sufficient to form the basis for an accrual. Conditional promises to give are not recognized until the stipulated conditions are substantially met.

From time to time, the College is informed of intentions to give by prospective donors. Such expressions of intent are revocable and unenforceable. The ultimate values of these intentions have not been established nor have they been recognized in the accompanying consolidated financial statements.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Land, Building, Equipment, and Books, Less Accumulated Depreciation

Long-lived assets are stated at cost if purchased or at fair value on the date of gift if acquired by contribution. The College's policy is to capitalize assets acquired for greater than $5,000. Depreciation is recognized on a straight-line basis over the estimated useful life of each major category of assets. These estimated useful lives are summarized in the following table:

Buildings	30-50 years
Improvements to land and buildings	5-10 years
Computers and software	3-10 years
Furniture, fixtures, equipment, and library books	7-20 years

Tenant improvements made to commercial properties are amortized over the term of the respective underlying lease. Interest costs are capitalized on funds borrowed to finance building construction.

Unamortized Bond Issue Costs

The costs relating to issuance of bonds are capitalized at the time of issue and are amortized using the straight-line method over the term of the related bonds.

Investments Held in Trust by Others

Investments held in trust by others represent resources neither in the possession nor under the control of the College, but held and administered by an outside party, with the College deriving income from such funds. The fair value of the College's share of investments held in trust by others is reflected in the consolidated statement of financial position, and the income, including fair value adjustments, is recorded in the consolidated statement of activities.

Annuity and Life Income Payable

The College is the irrevocable remainder beneficiary for several forms of split-interest agreements, including charitable remainder trusts, charitable gift annuities, and pooled income agreements. In agreements where the College is trustee of the assets, the actuarial present value of the trust's liability for payments to an intermediate income beneficiary (or beneficiaries) over the term of the trust is recorded as annuity and life income payable. The College was trustee in 102 agreements at May 31, 2014, and 98 agreements at May 31, 2013. The ranges of discount and payout rates are detailed below:

Split-Interest Type	Number	Payout Rates	Discount Rates
Charitable Gift Annuities	88	6.0% - 18.2%	1.2% - 10.0%
Annuity Trusts	0	N/A	N/A
Unitrusts	5	6.0% - 7.0%	4.4% - 10.0%
Pooled Income Funds	9	N/A	N/A

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. The College estimates the fair value of financial instruments using the hierarchical framework described below, segregated by Level I, Level II, and Level III for financial assets and liabilities that are measured and reported on a fair value basis.

Level I - Securities traded in an active market with available quoted prices for identical assets as of the reporting date.

Level II - Securities not traded on an active market but for which observable market inputs are readily available or Level I securities where there is a contractual restriction as of the reporting date. Level II also includes alternative investments for which the College has the ability to redeem in the near term.

Level III - Securities not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The fair values of *cash and cash equivalents, student receivables,* and *loans to students* of College funds are believed to approximate the carrying value of these instruments because of their short maturities. The carrying value of student receivables and loans to students of College funds has been reduced by an allowance for losses, based on historical collections experience.

The fair value of *contributions receivable* is believed to approximate carrying value and is calculated at the net present value of anticipated future cash flows reduced by an allowance for uncollectible contributions. (See Note 2.)

The carrying amount of *loans to students* under government loan programs approximates fair value because they consist of variable-rate loans and therefore reflect current market rates for loans with similar maturities and credit quality.

Investments in commercial properties are valued at cost, less accumulated depreciation.

The fair value of *remainder interest in charitable trusts* is determined based on the fair value of underlying net assets, in accordance with the Level III classification described in Note 1, as adjusted using the net present value of the College's remainder interest. The calculation incorporates the actuarial lifespan of the youngest intermediate income beneficiary, discounted by the beneficiary income rate provided by the trust agreement.

The fair value of *bonds payable* with fixed interest rates is calculated by comparing the stated yield to current market yield and imputing a value that approximates what a purchaser would reasonably pay for a similar bond given current interest rates. (See Note 9.)

The interest rate swap agreement is reflected at fair value and based on valuation models and assumptions and available market data, applied to estimate the amount the College would receive or pay to terminate the swap agreement. (See Note 10.)

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Artwork and Collections

The College does not record or capitalize its collections of works of art, historical treasures, or similar assets. These collections are held for public exhibition, education, and research in furtherance of the College's educational and public service mission. The collections are appropriately cared for and preserved and are subject to a College policy that requires the proceeds from sales, if any, of collection items to be used to acquire other items for the collection.

Income Taxes

The College's income related to its tax exempt purpose is exempt from federal income taxation under Section 501(a), as an organization described in Section 501(c)(3), of the Internal Revenue Code (the "Code"). The College is liable for federal and state taxes on any unrelated business income, as defined in the Code. The College accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and attributable to certain tax deduction carryforwards.

The College's policy is to record a liability for any tax position taken that is beneficial to the College, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of May 31, 2014 or 2013 and, accordingly, no liability has been accrued.

The IRS generally subjects federal income tax returns to examinations for a period of three years after the returns were filed. For the College this would include returns for the 2013, 2012, and 2011 fiscal years.

Advertising Costs

The College expenses advertising costs as incurred. The College expended $1,734,000 and $788,000 for advertising for the years ended May 31, 2014 and 2013, respectively.

Accrued Compensation

The College accrued for vacation pay and all other compensation earned but not paid. These items are included in accrued expenses and other liabilities in the consolidated statements of financial position.

Use of Estimates

The preparation of financial consolidated statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Change in Accounting Policy

The College revised its policy for certain financial statement classifications preferred in 2014. Accordingly, certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Consolidated Statement of Financial Position

	Previously Reported	Reclassified Balance	Reclassified Amount
ASSETS		(In Thousands)	
Cash and cash equivalents	$ 19,429	$ 19,649	$ 220
Investment in commercial properties, net	18,048	-	(18,048)
Land, buildings, equipment, and books, less accumulated depreciation	183,695	201,974	18,279
Non-student receivables and other assets	3,325	3,932	607
Total assets	$ 601,492	$ 602,550	$ 1,058
LIABILITIES AND NET ASSETS			
Accounts payable	$ 3,413	$ 3,425	$ 12
Accrued and other expenses	8,358	9,191	833
Deferred revenues	1,883	2,096	213
Total liabilities	$ 154,744	$ 155,802	$ 1,058

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Consolidated Statement of Activities

	Previously Reported	Reclassified Balance	Reclassified Amount
		(In Thousands)	
Operating revenues:			
Tuition and fees	$ 96,112	$ 94,221	$ (1,891)
Investment income	3,245	659	(2,586)
Independent operations	-	4,182	4,182
Other sources	2,962	4,853	1,891
Total operating revenues	108,449	110,045	1,596
Operating expenses:			
Instruction	37,980	39,171	1,191
Academic support	12,791	13,972	1,181
Student services	18,866	20,540	1,674
Institutional support	21,744	21,949	205
Public service	2,069	2,451	382
Auxiliary enterprises	21,242	13,722	(7,520)
Independent Operations	-	5,255	5,255
Total operating expenses	114,692	117,060	2,368
Decrease in net assets from operating activities	(6,243)	(7,015)	(772)
Non-operating activities:			
Endowment income and other investment income	46,523	47,295	772
Increase in net assets from nonoperating activities	40,096	40,868	772

1. Summary of Organization, Basis of Accounting, Basis of Presentation, and Significant Accounting Policies (continued)

Consolidated Statement of Cash Flows

	Previously Reported	Reclassified Balance	Reclassified Amount
		(In Thousands)	
Operating activities:			
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Realized and unrealized losses (gains) on investments	$ (31,055)	$ (43,565)	$ (12,510)
(Increase) decrease in receivables and other assets:			
Non-student receivables and other assets	110	339	229
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	2,431	2,422	(9)
Net cash flows provided by operating activities	12,945	655	(12,290)
Investing activities:			
Proceeds from sales and maturities of investments	91,198	103,708	12,510
Net cash flows used in investing activities	(42,631)	(30,121)	12,510
Net change in cash and cash equivalents	(28,934)	(28,714)	220
Cash and cash equivalents – end of year	19,429	19,649	220

Subsequent Events

Subsequent events have been evaluated through September 17, 2013, which is the date of the independent auditors' report.

2. Contributions Receivable

Contributions receivable at May 31, 2014 and 2013 includes the following unconditional promises (in thousands):

	2014	2013
Contributions receivable, gross	**$ 14,944**	$ 22,493
Allowance for uncollectibles	**(783)**	(1,431)
	14,161	21,062
Discount	**(404)**	(746)
Contributions receivable, net	**$ 13,757**	$ 20,316

The allowance for uncollectible contributions is based upon management's judgment and analysis of contributions receivable, past collection experience, and other relevant factors that bear on the ultimate collectability of outstanding amounts. Changes to the allowance relating to pledges that are restricted are reported as other losses. Unrestricted changes are reported as institutional support expense.

The discount is calculated using a risk-free rate as determined by the rate on U.S. Treasury Bills (.68% - 5.07%), applied to the following schedule of payments due during each fiscal year ending May 31 (in thousands):

2015	**$ 5,060**
2016	**3,583**
2017	**5,393**
2018	**626**
2019	**282**
Contributions receivable	**$ 14,944**

3. Remainder Interest in Charitable Trusts

Remainder interest in charitable trusts represents assets held in trust by others for which the College is irrevocably designated as remainder. The value of these assets is determined based on Level III criteria defined in Note 1 and is discounted based on the actuarial life expectancy of the intermediate beneficiary, according to the rate established in the trust agreement. The College recognizes changes for these trusts in actuarial estimates in the consolidated statement of activities.

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

	Level III Investments Year Ended May 31	
	2014	2013
Opening Balance	**$ 2,450**	$ 2,327
Change in present value of split interest agreements	**222**	142
Additions	**-**	-
Maturities/Distributions	**(375)**	(19)
Transfers in and/or out of Level III	**-**	-
Ending Balance	**$ 2,297**	$ 2,450
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ 222**	$ 142

4. Loans to Students

The College makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At May 31, 2014 and 2013 student loans represented .28% of total assets.

	in thousands	
	2014	2013
Federal government programs	**$ 1,767**	$ 1,643
Institutional programs	**165**	211
	$ 1,932	$ 1,853
Less allowance for doubtful accounts:		
Beginning of year	**(176)**	(148)
Increases	**(34)**	(27)
Write offs		
End of year	**(210)**	(176)
Student loans receivable, net	**$ 1,722**	$ 1,678

Allowances for doubtful accounts were 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. Institutional loan balances were written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program. At May 31, 2014 and 2013, the following amounts were past due under the student loan programs:

	in thousands			
May 31,	1-60 days past due	60-90 days past due	90+days past due	Total past due
2014	$ 1	$ 1	$ 208	$ 210
2013	$ 1	$ 1	$ 174	$ 176

Loans to students include participation in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loan. Funds advanced by the Federal government of $1,399,000 at May 31, 2014 and 2013, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

5. Cash and Cash Equivalents, and Investments

The College invests cash in excess of daily requirements in money market and other short-term funds with maturities of three months or less.

Cash and cash equivalents consisted of the following at May 31 (in thousands**):**

	2014	2013
Cash in banks and money market funds	**$ 4,193**	$ 19,568
Petty cash	**33**	24
Life insurance cash value	**52**	57
Total Cash and Cash Equivalents	**$ 4,278**	$ 19,649

Deposit Insurance

The College places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest-bearing transaction accounts. Effective January 1, 2013, funds in non-interest bearing transaction accounts no longer receive unlimited coverage, but are FDIC insured to the legal maximum of $250,000 for each bank. During the year, the College had amounts on deposit in excess of the insured limits. As of May 31, 2014 and 2013, the College had on deposit $3 million and $18 million, respectively, which exceeded these insured amounts.

5. Cash and Cash Equivalents, and Investments (continued)

Investments

Investments consist of long-term assets controlled by the College. These assets are managed in the College endowment pool, are separately invested, or represent the investment of assets held in trust under split-interest gift agreements. Investments also include a reserve established for future debt service payments.

The investments of the College are reflected in the accompanying consolidated financial statements at fair value, as determined based on the fair value hierarchy discussed in Note 1. Fair value for alternative investments is calculated based on the net asset value of underlying assets as determined by the market approach for respective investment funds, consisting of hedge funds, open-ended private real estate investment trusts, closed-end private real estate investment funds and private equity funds.

Flexible Capital (Hedge Funds)

As of May 31, 2014, the College was invested in 15 hedge fund managers, collectively pursuing a widely diversified group of investment strategies. The broad investment strategies include long/short equity positions, long/short credit positions, investments in distressed equity and debt, and short credit. No hedge fund manager represented more than 3% of the value of the total Endowment investment portfolio. The College is not obligated to make additional investments with any of its hedge fund managers. The College has the ability to redeem its investment with each manager at varying intervals ranging from full redemptions every two years on 90 days notice to full redemption every three years with 60 days notice.

Non-Marketable Securities

- *Real Assets and Real Estate*
  As of May 31, 2014, the College was invested in four open-ended private real estate investment trusts and closed-end private real estate investment funds and four real asset private equity funds, with no investment representing more than 2% of the total Endowment investment portfolio. The College has committed to an additional $14,026,000 of investment in its private real asset and real estate investment funds. As of May 31, 2014, redemptions from the open-ended private real estate investment trusts had been suspended due to market factors**.**

- *Other Private Equity*
  At May 31, 2014, the College was invested in 15 private equity funds, which include equity buyouts, venture capital, and special situations. As of May 31, 2014, remaining uncalled commitments approximated $20,764,000.

5. Cash and Cash Equivalents, and Investments (continued)

On May 31, the investment portfolio included the following assets (in thousands):

	2014			
	Endowment Pool	**Separately Managed**	**Other**	**2014**
Level I:				
Short-term investments in US money market funds	**$ 620**	**$ 200**	**$ -**	**$ 820**
Domestic equities	**11,015**	**1,442**	**-**	**12,457**
Equity mutual funds:				
Domestic	**83,398**	**1,245**	**-**	**84,643**
International	**82,106**	**1,145**	**-**	**83,251**
Fixed income mutual funds	**41,423**	**491**	**-**	**41,914**
Total Level I	**218,562**	**4,523**	**-**	**223,085**
Level II:				
US treasuries and agencies	**4,055**	**0**	**-**	**4,055**
Corporate bonds and asset-backed securities	**-**	**-**	**-**	**-**
Total Level II	**4,055**	**0**	**-**	**4,055**
Level III:				
Private Equity	**27,664**	**-**	**-**	**27,664**
Hedge Funds	**77,108**	**-**	**-**	**77,108**
Real Assets	**18,157**	**-**	**-**	**18,157**
Real Estate and Other	**-**	**159**	**-**	**159**
Split Interest Trusts	**-**	**-**	**3,566**	**3,566**
Total Level III	**122,929**	**159**	**3,566**	**126,654**
Total investments	**$ 345,546**	**$ 4,682**	**$ 3,566**	**$ 353,794**

	2013			
	Endowment Pool	**Separately Managed**	**Other**	**2013**
Level I:				
Short-term investments in US money market funds	$ 1,260	$ 195	-	$ 1,455
Domestic equities	17,818	1,148	-	18,966
Equity mutual funds:				
Domestic	82,670	1,337	-	84,007
International	63,907	1,084	-	64,991
Fixed income mutual funds	44,597	523	-	45,120
Total Level I	210,252	4,287	-	214,539
Level II:				
US treasuries and agencies	4,028	-	-	4,028
Corporate bonds and asset-backed securities	-	-	-	-
Total Level II	4,028	-	-	4,028
Level III:				
Private Equity	24,091	-	-	24,091
Hedge Funds	68,964	-	-	68,964
Real Assets	17,600	-	-	17,600
Real Estate and Other	-	179	-	179
Split Interest Trusts	-	-	3,468	3,468
Total Level III	110,655	179	3,468	114,302
Total investments	$ 324,935	$ 4,466	$ 3,468	$ 332,869

5. Cash and Cash Equivalents, and Investments (continued)

Level I investments consist of short-term investments, domestic equities, and equity in mutual funds. Level III investments consist of private equity, hedge funds, real/tangible assets and real estate and other investments.

The following tables present a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

	Level III Investments Year Ended May 31, 2014					
	Private Equity	**Hedge Funds**	**Real Assets**	**RE & Other**	**Split Interest Trusts**	**Total**
Opening Balance	**$ 24,091**	**$ 68,964**	**$ 17,600**	**$ 179**	**$ 3,468**	**$ 114,302**
Total gains or losses (realized and unrealized) included in changes in net assets	**3,588**	**6,839**	**1,564**	**2**		**11,993**
Purchases	**4,181**	**11,115**	**2,237**	**20**		**17,553**
Sales	**(4,196)**	**(9,810)**	**(3,244)**	**(42)**		**(17,292)**
Change in present value of split interest trusts	**-**	**-**	**-**	**-**	**98**	**98**
Transfers in or out of Level III	**-**	**-**	**-**	**-**	**-**	**-**
Ending Balance FY14	**$ 27,664**	**$ 77,108**	**$ 18,157**	**$ 159**	**$ 3,566**	**$ 126,654**
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ 3,588**	**$ 6,839**	**$ 1,564**	**$ 2**	**$ -**	**$ 11,993**

	Level III Investments Year Ended May 31, 2013					
	Private Equity	**Hedge Funds**	**Real Assets**	**RE & Other**	**Split Interest Trusts**	**Total**
Opening Balance	$ 24,099	$ 56,870	$ 16,761	$ 465	$ 4,770	$ 102,965
Total gains or losses (realized and unrealized) included in changes in net assets	2,040	7,683	1,178	-	-	10,901
Purchases	2,513	21,446	1,116	1	-	25,076
Sales	(4,561)	(17,035)	(1,455)	(287)	-	(23,338)
Change in present value of split interest trusts	-	-	-	-	(1,302)	(1,302)
Transfers in or out of Level III	-	-	-	-	-	-
Ending Balance FY13	$ 24,091	$ 68,964	$ 17,600	$ 179	$ 3,468	$ 114,302
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (326)	$ 7,629	$ (267)	$ -	$ -	$ 7,036

5. Cash and Cash Equivalents, and Investments (continued)

Investment Income (in thousands)

	May 31, 2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividends:				
Cash in banks and money market and other working capital assets	**$ 185**	**$ (10)**	**$ -**	**$ 175**
Endowment pool and other long-term investmer	**1,238**	**3,179**	**223**	**4,640**
Income from perpetual trusts	**135**	**597**	**-**	**732**
	1,558	**3,766**	**223**	**5,547**
Realized gains (losses)	**4,286**	**10,829**	**770**	**15,885**
Unrealized gains (losses)	**4,632**	**11,825**	**2,169**	**18,626**
Investment related expenses	**(332)**	**(869)**	**(60)**	**(1,261)**
Net investment income	**$ 10,144**	**$ 25,551**	**$ 3,102**	**$ 38,797**

	May 31, 2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividends:				
Cash in banks and money market and other working capital assets	$ 73	$ 8	$ -	$ 81
Endowment pool and other long-term investmer	1,676	3,717	292	5,685
Income from perpetual trusts	145	455	-	600
	1,894	4,180	292	6,366
Realized gains (losses)	3,773	8,150	643	12,566
Unrealized gains (losses)	8,600	18,266	3,447	30,313
Investment related expenses	(385)	(841)	(65)	(1,291)
Net investment income	$ 13,882	$ 29,755	$ 4,317	$ 47,954

Net investment income is presented on the Consolidated Statement of Activities as appropriation of endowment assets for expenditure, investment income, and endowment income and other investment income.

Investments in the College's endowment pool are managed utilizing the total return concept, which includes interest and dividends (yield) and appreciation. The College has adopted an endowment pool spending policy designed to stabilize annual endowment income available for operations, while preserving the real value of the underlying principal. In years when yield exceeds the amount appropriated under the spending policy, the excess is returned to principal as appreciation. When annual yield is insufficient to support spending appropriations, the balance is provided from accumulated appreciation.

A significant portion of the College's investments consist of REITs, hedge funds, and private equity. Management relies on various factors to estimate the fair value of these investments. Management believes its processes and procedures for valuing investments are effective, and that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and accordingly, investment values and performance can be affected. The effect of these changes could be material to the consolidated financial statements.

6. Land, Buildings, Equipment, and Books

The following is a summary of land, buildings and equipment supporting the educational activities of the College, as of May 31 (in thousands):

	2014	2013
Land and land improvements	**$ 49,770**	$ 44,560
Buildings	**219,481**	166,107
Equipment	**61,869**	47,868
Construction in progress	**10,548**	56,042
	341,668	314,577
Less accumulated depreciation	**(124,750)**	(112,603)
	$ 216,918	$ 201,974

Depreciation expense charged was $12,148,000 and $10,575,000 for years ended May 31, 2014 and 2013, respectively. The college incurred interest costs of $7,224,000 and $7,106,000 for years ended May 31, 2013 and 2012, respectively. Of these amounts, $1,174,000 and $1,367,000 was capitalized on construction in progress for the years ended May 31, 2014 and 2013, respectively.

7. Investments Held in Trust by Others

Investments held in trust by others represent assets held in trust by outside trustees for which the College is irrevocably designated as the remainder. The value of these assets is determined based on Level III criteria defined in Note 1. The College generally receives an annual spending amount from these trusts as determined by the trustees. Distributions are recorded as Income from perpetual trusts and are detailed in Note 5. Other changes in value are recorded as unrealized gain or loss on investments and are also shown in Note 5.

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III, in thousands):

7. Investments Held in Trust by Others (continued)

	Level III Investments Year Ended May 31	
	2014	2013
Opening Balance	**$ 17,012**	$ 15,030
Unrealized Gains (Losses)	**1,919**	2,418
Distributions	**(583)**	(436)
Ending Balance	**$ 18,348**	$ 17,012
The amount of total gains and losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ 1,919**	$ 2,418

8. Employee Retirement

Retirement benefits are provided through a defined contribution plan. In former years this was with either Fidelity Tax Exempt Services or the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). As of April 1, 2014, Transamerica Retirement Solutions has been the exclusive plan administrator.

Vesting provisions are full and immediate under this plan. Contribution amounts are determinable by the Board as it deems appropriate. For the years ended May 31, 2014 and 2013, the College contributed 7%, 8%, 9%, or 10% of compensation to the plan on behalf of employees who contributed, respectively, 0%, 1%, 2%, or 3% or more of their compensation voluntarily to the plan. Expenses related to the above plan amounted to $3,744,000 and $3,698,000 for the years ended May 31, 2014 and 2013, respectively.

9. Long-Term Debt

Bonds and notes payable include the following at May 31 (in thousands):

	Interest Rate	Maturity Dates	Balance at May 31		Fair Value at May 31	
			2014	2013	**2014**	2013
Bonds Payable						
Orange County Educational Facilities Authority - 2007 Loan	Fixed - (5.23%)	2014-2037	**$ 22,730**	$ 23,220	**$ 25,183**	$ 24,644
Taxable Revenue Bonds - Series 2010	Fixed - (5.80%)	2014-2026	**23,675**	24,795	**25,350**	26,638
Non-Taxable HEFFA Bonds - 2010 Loan	Fixed - (4.94%)	2014-2038	**37,545**	37,545	**40,206**	39,887
Non-Taxable HEFFA Bonds - 2012 Loan	Fixed - (4.10%)	2014-2037	**45,535**	46,990	**47,542**	47,949
Capital Lease Payable	Fixed - (2.91%)	2014	**114**	448	**n/a**	**n/a**
Principal Due			**129,599**	132,998	**138,281**	139,118
Premium on 2007 Loan			**340**	365	**-**	-
Discount on 2010 Taxable Loan			**(999)**	(1,113)	**-**	-
Discount on 2010 Non-Taxable HEFFA Loan			**(365)**	(384)	**-**	-
Premium on 2012 Non-Taxable HEFFA Loan			**1,232**	1,332	**-**	-
TOTAL			**$ 129,807**	$ 133,198	**$ 138,281**	$ 139,118

9. Long-Term Debt (continued)

In March 2012, the College borrowed $29,505,000 funded by the issuance of Higher Educational Facilities Financing Authority Revenue Bonds (HEFFA), Series 2012A. The proceeds of this issuance are for the renovation, expansion and improvements of two College buildings, the construction of two new residential halls and various capital infrastructure improvements called for in the College's master plan. The bonds mature between 2013 and 2037 and carry a weighted average fixed rate of interest of 4.1%. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding Orange County Educational Facilities Authority (OCEFA) Series 2007 Bonds.

Concurrent with the HEFFA Series 2012A Bond financing, the College issued an additional $17,485,000 of HEFFA Series 2012B Bonds. The proceeds of this issuance were utilized for the refunding of the College's OCEFA Series 2002 Bonds. The HEFFA Series 2012B Bonds carry a weighted average fixed rate of interest of 4.1% and mature between 2013 and 2032. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

In April 2010, the College borrowed $25,830,000 funded by the issuance of Taxable Capital Improvement Revenue Bonds (Taxable), Series 2010. Proceeds from this borrowing were utilized to refund the College's taxable loan from City National Bank, issued in October 2008. The bonds mature between 2013 and 2026 and carry a weighted average fixed rate of interest of 5.8%. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

Also in April 2010, the College borrowed $37,545,000 funded by the issuance of HEFFA Series 2010 Bonds. $8.2 million of the proceeds of this issuance were used for renovation of residential halls and other capital projects of the College; the remaining proceeds were used to refund the OCEFA Series 2008 Bonds and OCEFA Series 2001 Bonds, both variable rate issues. The HEFFA Series 2010 Bonds mature between 2016 and 2038 and carry a weighted average fixed rate of interest of 4.94%. Under the terms of the loan agreement with HEFFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest is secured by a pledge of College resources. These bonds are subordinate with regard to repayment to the College's outstanding OCEFA Series 2007 Bonds.

9. Long-Term Debt (continued)

In September 2007, the College borrowed $25 million, funded by the issuance of OCEFA 2007 Bonds. This borrowing was for the purpose of capital projects, including building renovations, construction or acquisition of certain facilities, and real property. Under the terms of the loan agreement with OCEFA, the College is responsible for payment of principal and interest on the bonds. Payment of the principal and interest on the bonds is secured by a pledge of College resources. The OCEFA 2007 Bonds mature between 2013 and 2037, and carry a weighted average fixed interest rate of approximately 5.23%. There are debt covenant requirements associated with the OCEFA Series 2007 bonds, most notably a debt service coverage ratio. Management believes the College is in compliance with these covenants.

Principal payments on the outstanding obligations for each of the next five fiscal years and thereafter are as follows (in thousands):

Year	Principal Payments
2015	$ 3,319
2016	3,565
2017	2,330
2018	2,425
2019	2,505
Thereafter	115,455
	$ 129,599

10. Interest Rate Swap

On August 5, 1998, the College entered into a variable-to-fixed interest rate swap agreement in the initial notional amount of $19 million. The purpose of the agreement was initially to hedge the interest rate risk on the taxable, variable-rate demand bonds issued by the College to finance the construction of the commercial real estate project described in Note 6. Under the terms of the agreement, the College pays a fixed rate of 6.11% to a counterparty and receives an amount based upon the London Interbank Offered Rate (LIBOR). The term of the agreement extends over the maturity period of the Taxable Revenue Bonds—Series 1998, with the notional amount being reduced in accordance with the original maturity of the Series 1998 Bonds through fiscal year 2027.

During 2008 the College refunded the 1998 Bonds, for which the swap agreement was originally intended as a hedge. However, the College has elected to retain the swap agreement. A termination may result in the College making or receiving a termination payment generally equal to the fair value of the swap agreement at the time of termination. Gains on the interest rate swap for the fiscal years ended May 31, 2014 and 2013, amounted to $698,000 and $1,118,000, respectively, and are included with nonoperating activities in the accompanying consolidated statement of activities. The interest rate swap is presented at fair value, based on Level II criteria defined in Note 1, which was ($3,597,000) and ($4,295,000) as of May 31, 2014 and 2013, respectively.

10. Interest Rate Swap (continued)

Using an interest rate swap may increase the College's exposure to credit risk and market risk. The College minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, (2) limiting the amount of exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The College manages the market risk associated with derivative financial instruments by monitoring and oversight activities applied by the College's investment advisor and Board of Trustees.

11. Endowment

The College's endowment consists of approximately 500 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

During fiscal 2012 the College's endowment was administered under the Florida Uniform Prudent Management Funds Act of 2012. Effective July 1, 2012, the State of Florida adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management Institutional Funds Act (Florida UPMIFA). The effect of applying Florida UPMIFA in fiscal year 2013 is a reclassification of donor-restricted endowment net assets from unrestricted to temporarily restricted to the extent amounts are not appropriated for expenditure. During the year ended May 31, 2013 the College reclassified $16,854,000 of donor-restricted net assets from unrestricted to temporarily restricted as a result of the Florida UPMIFA adoption; this reclassification is reflected in the Consolidated Statement of Activities as *Florida UPMIFA adoption adjustment.*

The Colleges' interpretation of its fiduciary responsibilities for donor-restricted endowments under Florida UPMIFA, barring the existence of any donor-specific provisions, is to preserve intergenerational equity. Under this broad guideline, future endowment beneficiaries should receive at least the same level of economic support that the current generation enjoys. The overarching objective is to preserve and enhance the real (inflation-adjusted) purchasing power of the fund in perpetuity.

Florida UPMIFA specifies that unless stated otherwise in a gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, the College reports the historical value for such endowments as permanently restricted net assets and the net accumulated appreciation as temporarily restricted net assets. In this context, historical value represents the original value of initial gifts restricted as permanent endowment plus the original value of subsequent gifts, and if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

11. Endowment (continued)

Further, the College interprets that it may spend a prudent portion of its endowment regardless of underwater conditions so long as it does so in accordance with a predetermined, Board-approved spending policy that takes into consideration the following factors:

1. The purposes of the institution;
2. The intent of the donors of the endowment fund;
3. The terms of the applicable instrument;
4. The long-term and short-term needs of the institution in carrying out its purposes;
5. The general economic conditions;
6. The possible effect of inflation or deflation;
7. The other resources of the institution; and
8. Perpetuation of the endowment.

The College's objective for the endowment pool is to provide a sustainable and increasing level of distribution to support the College's annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment pool exclusive of gift additions. The level of distribution is expected to grow over time, at least at the same rate as the annual average increase in the College's operating budget.

The investment objective for the endowment pool is to attain a compound return (net of fees) of at least 9.0% over the long term, as measured over rolling five-year time periods. The table below summarizes the calculation of the compound return need:

Spending Rate	4.5%
Inflation	2.5%
Real Growth	2.0%
Compound Return Need, net of expenses	9.0%

The College's investment policies assume that annual appropriation of endowment assets for spending over the long term will represent 4.5% of the market value of the endowment pool. The "corridor method" is used to calculate the appropriation amount -- gift and other endowment additions earn appropriation amounts equivalent to an annual rate of 4.5% of the principal addition in the first fiscal year of investment. Each fiscal year thereafter, the appropriation amount, in dollars, is increased by 3%. The annual appropriation amount will not be less than 3.5% nor will it exceed 5.5% of the endowment's fair market value measured by a four-quarter rolling average, lagged by one quarter, at the beginning of any fiscal year.

11. Endowment (continued)

The annual appropriation distribution will primarily come from current income (dividends and interest); however, a prudent portion of realized and unrealized capital gains will be used. The College periodically reviews the spending policy and issues statements of change as appropriate.

To attain the investment objective, the endowment pool assets are divided into three groups: fixed income, equities, and alternative investments. The purpose of using the asset allocation model is to ensure that the overall asset allocation among the major asset classes remains under the scrutiny of the Trustees and is not permitted to become the residual of separate manager decisions. The College's asset allocation targets were as follows as of May 31, 2014:

Asset Class	Allocation Policy
Equities:	
Domestic Equity	16.5%
Non-U.S. Developed Equity	13.5%
Emerging Markets Equity	9.0%
Total Equities	39.0%
Fixed Income:	
Multi-Strategy Fixed Income	12.0%
Total Fixed Income	12.0%
Alternative Investments:	
Global Private Equity	10.0%
Flexible Capital (Hedge Funds)	22.0%
Inflation Hedging (Real Assets)	17.0%
	49.0%
Cash	0.0%
	100.0%

Investment in alternative asset categories is an incremental process that normally requires several years to be fully implemented. Assets awaiting deployment to alternative investments may be invested in other authorized asset classes, resulting in a transitional allocation that is not compliant with the model.

11. Endowment (continued)

Changes in endowment net assets for the years ended May 31, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 112,695	$ 206,899	$ 319,594
Board-designated endowment funds	43,853	12,087	-	55,940
Endowment net assets, May 31, 2014	$ 43,853	$ 124,782	$ 206,899	$ 375,534
Investment return:				
Investment income	943	2,087	163	3,193
Net appreciation	9,288	22,271	2,939	34,498
Total investment return	10,231	24,358	3,102	37,691
Contributions	6	11	916	933
Donor & College Directed Reinvestment	-	861	12	873
Appropriation of endowment assets for expenditure	(7,233)	(8,721)	-	(15,954)
Maturation of Split Interest Trusts	2	20	434	456
Hotel Income Designated for Endowment	-	-	1,431	1,431
Change in net assets	3,006	16,529	5,895	25,430
Donor-restricted endowment funds	$ -	$ 96,444	$ 201,004	$ 297,448
Board-designated endowment funds	40,847	11,809	-	52,656
Endowment net assets, May 31, 2013	$ 40,847	$ 108,253	$ 201,004	$ 350,104
Investment return:				
Investment income	1,327	2,794	227	4,348
Net appreciation	12,374	26,392	4,090	42,856
Total investment return	13,701	29,186	4,317	47,204
Contributions	457	1,579	5,512	7,548
Divestitures	(20,557)	-	-	(20,557)
Appropriation of endowment assets for expenditure	(7,982)	(8,372)	-	(16,354)
Reclassification due to UPMIFA Adoption	(16,854)	16,854	-	-
Change in net assets	(31,235)	39,247	9,829	17,841
Donor-restricted endowment funds	$ 16,854	$ 57,584	$ 191,175	$ 265,613
Board-designated endowment funds	55,228	11,422	-	66,650
Endowment net assets, May 31, 2012	$ 72,082	$ 69,006	$ 191,175	$ 332,263

12. Net Assets

Net assets consist of the following as of May 31, 2014 and 2013 (in thousands):

	2014	2013
Unrestricted net assets:		
Available for current operations	**$ 10,142**	$ 17,889
Funds functioning as endowment	**43,853**	40,847
Accumulated appreciation on unrestricted endowments	**-**	-
Plant and commercial property assets, net of outstanding debt and accumulated depreciation	**61,816**	41,744
Unrestricted net assets	**$ 115,811**	$ 100,480
Temporarily restricted net assets:		
Restricted for specified programs (education and general programs and scholarships)	**$ 12,408**	$ 10,607
Restricted for plant acquisition	**519**	22,602
Restricted gifts functioning as endowments	**12,087**	11,809
Split-interest trusts	**2,213**	1,913
Accumulated appreciation on restricted endowments (educational and general programs and scholarships)	**112,695**	96,444
Temporarily restricted net assets	**$ 139,922**	$ 143,375
Permanently restricted net assets:		
Split-interest trusts	**$ 1,674**	$ 1,889
Endowments restricted for education and general programs and scholarships	**206,899**	201,004
Permanently restricted net assets	**$ 208,573**	$ 202,893

13. Income Taxes

The College has unrelated business income associated with the Alfond Inn business activities and with regard to income from certain investments. Associated with these activities, the College has income tax loss carryforwards that result in deferred tax assets and has temporary differences where tax depreciation is in excess of depreciation for financial reporting purposes, resulting in a deferred tax liability. For financial statement purposes, the deferred asset and liability are offset.

Deferred income tax accounts for the College are detailed as follows at May 31:

2014	Deferred income tax asset	Deferred income tax liability	Net deferred income tax asset (liability)
Benefit of carryforward of expenses available to offset future taxable income	$ 2,427,844	$ -	$ 2,427,844
Accumulated depreciation for financial reporting in excess of accumulated depreciation for income tax purposes	-	(2,427,844)	(2,427,844)
Total deferred income tax asset (liability)	$ 2,427,844	$ (2,427,844)	$ -

The following net operating loss carryforwards are available at May 31, 2014. Their future deductibility is subject to future year taxable income.

Amount	Expiration
$ 81,178	2030
74,351	2032
18,849	2033
6,514,031	2034
$ 6,688,409	

14. Related-Party Transactions

The College maintains business relationships with companies owned or operated by trustee members. These relationships are disclosed to the organization and other trustee members. The College maintains a policy requiring trustees to abstain from voting on matters regarding business operations where potential conflicts of interest exist.

During the years ended May 31, 2014 and 2013, the College paid approximately $1,025,000 and $1,236,000 respectively, to firms related to board members for legal and other services**.**

During the years ended May 31, 2014 and 2013, the College received approximately $7,184,000 and $4,295,000, respectively, in contributions from members of its Board of Trustees which are included in contributions and private grants revenue in the accompanying consolidated financial statements.

At May 31, 2014 and 2013, total contributions receivable included approximately $12,250,000 and $17,755,000, respectively, in pledged contributions from current members of the Board of Trustees.

15. Commitments

The College had committed to campus construction projects that, at May 31, 2014, were at various stages of completion. The estimated costs of these projects are $4,696,000, of which $3,627,000 had been accrued or paid as of May 31, 2014.

16. Contingencies

Amounts received by the College under federal and state financial assistance programs are subject to audit and adjustment by those agencies. If expenses under those programs were to be disallowed as a result of such audits, the reimbursement to the federal or state government would be recorded as a liability of the College. In the opinion of management, any such adjustment would not be material to the College's consolidated financial statements or its financial assistance programs.

In the conduct of its operations, claims are occasionally made against the College. Some of the claims result in filing of lawsuits. In most cases, the College is insured by its commercial insurance carrier. Management is of the opinion that no significant financial losses to the College will result from the resolution of such matters currently pending.