SWEET BRIAR, VIRGINIA
A NOT-FOR-PROFIT EDUCATIONAL INSTITUTION
INCORPORATED IN VIRGINIA IN 1901

CONSOLIDATED FINANCIAL STATEMENTS

For Years Ended June 30, 2014 and 2013

And Report of Independent Auditor



TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-6
Consolidated Statements of Cash Flows	
Notes to Consolidated Financial Statements	9-29



Report of Independent Auditor

The Board of Directors Sweet Briar Institute Sweet Briar, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sweet Briar Institute (the "Institute"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated 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 financial statements that are free from material misstatement, whether due to error or fraud.

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 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 financial position of the Institute as of June 30, 2014 and 2013, and its changes in 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 November 5, 2014, on our consideration of Sweet Briar Institute'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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Lynchburg, Virginia November 5, 2014

Chery Befort LLP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	 2014	 2013
ASSETS		
Cash and cash equivalents	\$ 2,205,731	\$ 1,520,551
Accounts receivable, less allowance of \$237,520 in 2014 and \$157,520 in 2013	545,899	678,659
Loans to students, less allowance of \$125,000 in 2014 and \$195,000 in 2013	2,077,447	1,857,255
Dividends and interest receivable	1,024	5,797
Contributions receivable	1,579,590	1,042,507
Pledges receivable, net	3,802,005	3,878,876
Inventories	128,371	150,375
Prepaid expenses and deferred charges	193,882	169,230
Investments	88,007,199	86,199,830
Beneficial interest in perpetual trusts	8,010,929	7,518,299
Assets restricted to investment in land, buildings, and equipment	· · ·	2,129,094
Land, buildings, and equipment, net of accumulated		_,,
depreciation	57,103,388	55,234,421
Deferred bond issuance costs, net	268,425	283,088
	200, .20	200,000
Total Assets	\$ 163,923,890	\$ 160,667,982
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other payables	\$ 1,173,952	\$ 1,220,187
Accrued interest	271,502	280,114
Deposits and advance fees	582,275	718,189
U.S. Government grants refundable	1,099,707	1,089,878
Annuity obligations	534,610	493,525
Asset retirement obligation	61,632	61,632
Capital lease obligation	-	119,772
Bonds payable	 25,857,309	 26,777,955
Total Liabilities	 29,580,987	 30,761,252
Net Assets:		
Unrestricted	48,787,509	37,756,882
Unrestricted, non-controlling interest in SBC Restoration Lessee LLC	1,335	-
Temporarily restricted	21,028,984	29,063,130
Permanently restricted	64,525,075	63,086,718
Total Net Assets	134,342,903	129,906,730
Total Liabilities and Net Assets	\$ 163,923,890	\$ 160,667,982

CONSOLIDATED STATEMENTS OF ACTIVITIES

	2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Operating revenues:					
Tuition and fees	\$ 22,997,858	\$ -	\$ -	\$ 22,997,858	
Less scholarship aid	(12,831,691)	<u>-</u>		(12,831,691)	
Net tuition and fees	10,166,167	-	-	10,166,167	
Federal grants and contracts	-	479,651		479,651	
State grants and contracts	-	913,988		913,988	
Private gifts and grants	2,422,235	1,973,743	-	4,395,978	
Appropriation of endowment spending	6,625,840	1,840,499	15,823	8,482,162	
Other investment income	21,473	487	6,563	28,523	
Realized gains	74,778	-	-	74,778	
Unrealized gains Sales and services of educational	3,185	-	-	3,185	
departments	56,050	26,047	-	82,097	
Other sources	141,955	-	-	141,955	
Auxiliary sales and services	8,226,393	-	-	8,226,393	
Appropriation from unexpended plant	1,570,730	291,348	-	1,862,078	
Net assets released from restrictions					
and reclassifications	2,873,596	(3,006,781)	133,185		
Total operating revenues	32,182,402	2,518,982	155,571	34,856,955	
Operating expenses:					
Instruction	14,479,922	-	-	14,479,922	
Research	489,522	-	-	489,522	
Academic support	3,021,705	-	-	3,021,705	
Student services	4,039,244	-	-	4,039,244	
Institutional support	7,041,284	-	-	7,041,284	
Auxiliary enterprises	6,368,977			6,368,977	
Total operating expenses	35,440,654			35,440,654	
Change in net assets, operating	(3,258,252)	2,518,982	155,571	(583,699)	

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

	2014							
			7	Temporarily	P	ermanently		
	U	nrestricted		Restricted	Restricted			Total
Non-operating income:								
Private gifts and grants	\$	988,030	\$	101,264	\$	280,947	\$	1,370,241
Investment income	•	1,199,558		441,053	·	5,674	·	1,646,285
Realized gains		3,467,005		-		-		3,467,005
Unrealized gains (losses)		10,290,000		(2,251,917)		-		8,038,083
Appropriation of endowment spending Gains on beneficial interest in		(6,625,840)		(1,840,499)		(15,823)		(8,482,162)
perpetual trust		-		-		492,630		492,630
Loss on disposal of equipment Change in value of split interest		(376,220)		-		-		(376,220)
agreements		-		42,730		519,358		562,088
Net assets released from restrictions								
and reclassifications		6,754,411		(6,754,411)		-		-
Appropriation from unexpended plant		(1,570,730)		(291,348)				(1,862,078)
Change in net assets, non-operating		14,126,214		(10,553,128)		1,282,786		4,855,872
Other changes in net assets: Capital contribution to SBC								
Restoration Lessee LLC		164,000		-				164,000
Change in net assets		11,031,962		(8,034,146)		1,438,357		4,436,173
Net assets at beginning of year		37,756,882		29,063,130		63,086,718		129,906,730
Net assets at end of year	\$	48,788,844	\$	21,028,984	\$	64,525,075	\$	134,342,903

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Operating revenues:	Φ 00.057.400	Φ.	Φ.	Φ 00.057.400
Tuition and fees	\$ 22,957,463	\$ -	\$ -	\$ 22,957,463
Less scholarship aid	(10,798,820)			(10,798,820)
Net tuition and fees	12,158,643	-	-	12,158,643
Federal grants and contracts	-	539,316	-	539,316
State grants and contracts	-	827,927	-	827,927
Private gifts and grants	2,012,526	1,382,392	-	3,394,918
Appropriation of endowment spending	6,320,911	1,859,983	20,250	8,201,144
Other investment income	39,108	-	8,234	47,342
Realized gains	22,761	-	-	22,761
Unrealized losses	(26,387)	-	-	(26,387)
Sales and services of educational				
departments	96,610	50,180	-	146,790
Other sources	145,489	-	-	145,489
Auxiliary sales and services	7,616,037	-	-	7,616,037
Appropriation from unexpended plant	1,232,874	381,440	-	1,614,314
Net assets released from restrictions				
and reclassifications	3,500,202	(3,522,075)	21,873	
Total operating revenues	33,118,774	1,519,163	50,357	34,688,294
Operating expenses:				
Instruction	14,359,323	-	-	14,359,323
Research	513,880	-	-	513,880
Academic support	2,922,494	-	-	2,922,494
Student services	3,968,504	-	-	3,968,504
Institutional support	7,104,268	-	-	7,104,268
Auxiliary enterprises	5,946,577			5,946,577
Total operating expenses	34,815,046			34,815,046
Change in net assets, operating	(1,696,272)	1,519,163	50,357	(126,752)
Non-operating income:				
Private gifts and grants	663,669	140,168	2,074,016	2,877,853
Investment income	1,363,416	456,204	5,495	1,825,115
Loss on disposal of equipment	(204,727)	-	-	(204,727)
Realized gains	2,492,055	-	-	2,492,055
Unrealized gains (losses)	7,012,959	(1,425,928)	-	5,587,031
Appropriation of endowment spending Gains on beneficial interest in	(6,320,911)	(1,859,983)	(20,250)	(8,201,144)
perpetual trust Change in value of split interest	-	-	306,019	306,019
agreements	-	(8,586)	11,562	2,976
Appropriation from unexpended plant	(1,232,874)	(381,440)	-	(1,614,314)
Net assets released from restrictions				
and reclassifications	3,321,760	(3,321,760)		
Change in net assets, non-operating	7,095,347	(6,401,325)	2,376,842	3,070,864
Change in net assets	5,399,075	(4,882,162)	2,427,199	2,944,112
Net assets at beginning of year	32,357,807	33,945,292	60,659,519	126,962,618
Net assets at end of year	\$ 37,756,882	\$ 29,063,130	\$ 63,086,718	\$ 129,906,730

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 4,436,173	\$ 2,944,112
Adjustments to reconcile change in net assets to net cash		
used in operating activities:		
Depreciation and amortization	2,317,366	2,297,840
Loss on annuity obligations	7,670	49,100
Net realized and unrealized gains on long-term investments	(11,502,088)	(8,079,087)
Contributions restricted for endowment or investment in	(, ,,	(-,,
land, buildings, and equipment	(2,208,996)	(2,848,757)
Unrealized gain on beneficial interest in perpetual trusts	(492,630)	(306,019)
Loss on disposals of land, buildings, and equipment	382,547	204,727
Decrease in allowance for doubtful loans to students	(70,000)	
Changes in operating assets:	(. 0,000)	
(Increase) decrease in:		
Accounts receivable, net	132,760	(50,277)
Dividends and interest receivable	4,773	(4,015)
Contributions receivable	(537,083)	247,006
Pledges receivable, net	76,871	221,543
Inventories	22,004	4,511
Prepaid expenses and deferred charges	(24,652)	36,043
Changes in operating liabilities:	(24,002)	30,043
Increase (decrease) in:		
Accounts payable and other payables	(46,235)	464,499
Accounts payable and other payables Accrued interest	(8,612)	(38,032)
Deposits and advance fees	(135,914)	(144,853)
U.S. Government grants refundable	9,829	(3,991)
0.5. Government grants retundable	 9,829	 (3,991)
Net cash used in operating activities	 (7,636,217)	 (5,005,650)
Cash flows from investing activities		
Loans to students	(426,715)	(518,496)
Payments on loans to students	276,523	212,836
Purchase of investments	(3,579,656)	(4,378,840)
Proceeds from sale of investments	13,307,203	7,537,090
Increase in assets restricted to investment in land,	, ,	, ,
buildings, and equipment	2,129,094	3,320,986
Purchase of land, buildings, and equipment	(4,854,313)	(3,434,260)
Proceeds from sale of land, buildings, and equipment	 293,050	-
Net cash provided by investing activities	 7,145,186	2,739,316

(continued) 7

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	2014	2013
Cash flows from financing activities		
Contributions restricted for endowment or investment in		
land, buildings, and equipment	\$ 2,208,996	\$ 2,848,757
Reinvestment of restricted endowment earnings	(32,828)	(38,372)
Proceeds from charitable gift annuities	103,509	4,663
Payments of annuity obligations	(70,094)	(72,337)
Principal payments on capital lease obligation	(119,772)	(113,767)
Principal payments on bonds payable	 (913,600)	 (880,214)
Net cash provided by financing activities	1,176,211	 1,748,730
Net increase (decrease) in cash and cash equivalents	685,180	(517,604)
Cash and cash equivalents, beginning of year	 1,520,551	2,038,155
Cash and cash equivalents, end of year	\$ 2,205,731	\$ 1,520,551
Supplemental disclosure of cash flow information Cash paid for interest	\$ 1,079,382	\$ 1,112,275
Supplemental disclosure of noncash investing activities Construction in progress accrued in accounts payable	\$ 230,096	\$ 597,941

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Nature of operations and significant accounting policies

Nature of Operations – The accompanying consolidated financial statements include the accounts of Sweet Briar College - Virginia Programs (the "College"), Sweet Briar College Junior Year in France, Sweet Briar College Junior Year in Spain, Sweet Briar Alumnae Association, and SBC Restoration Lessee LLC (the "LLC"), collectively referred to as Sweet Briar Institute (the "Institute").

In March 2014, SBC Restoration Lessee LLC, a Virginia limited liability company and controlled affiliate of the Institute, was formed so that the renovation expenditures incurred in connection to the rehabilitation of the Institute's library will support Virginia Historic Tax Credits certified to SBC Restoration Lessee LLC for allocation to its members. The Institute is the managing member of the LLC and holds a majority membership interest. Accordingly, the accounts of the LLC have been consolidated with the accounts of the Institute. All significant interfund and intercompany accounts and transactions have been eliminated.

The Institute is a private, nonprofit institution of higher education offering undergraduate, graduate, and abroad programs. The Institute is accredited by the Southern Association of Colleges and Schools. The significant accounting policies followed by the Institute are presented below.

Basis of Financial Statement Presentation – The consolidated financial statements of the Institute have been prepared in accordance with accounting principles generally accepted in the United States of America. The Institute's consolidated financial statements follow the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*.

Classification of Net Assets – The accompanying consolidated financial statements present information regarding the Institute's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled by appropriate action of the Institute pursuant to those stipulations.

Permanently restricted net assets are required by donor-imposed stipulations to be held permanently by the Institute. These net assets include primarily permanent endowment funds. Generally, the income from these assets either becomes temporarily restricted for such use as scholarships or is currently available for the Institute's unrestricted use.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash, money market funds, and treasury bills with a maturity of ninety days or less when acquired. Cash held for long-term investment is classified as investments or as assets restricted to investment in land, buildings, and equipment. The Institute 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. During the year, the Institute from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2014, the Institute had \$1,255,367 which exceeded these insured amounts. The Institute has not experienced significant losses in such accounts and does not believe it is exposed to any significant risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Nature of operations and significant accounting policies (continued)

Accounts Receivable – Accounts receivable consist of student accounts receivable and are stated at the billed amount less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. Concentrations of credit risk with respect to student receivables are limited due to the number of students and their dispersion across geographic areas.

Contributions Receivable – Contributions receivable include irrevocable gifts in which the Institute has a remainder interest, but that are held in trust and administered by outside trustees.

Pledges Receivable – Unconditional pledges to contribute to the Institute are recorded upon receipt at their estimated fair values. The fair value of pledges to be received after one year is presented at an appropriate discount rate. In addition, an allowance for doubtful amounts as determined by management has been recorded.

Investments – Investments are reported in the consolidated statements of financial position at fair value. Unrealized and realized gains and losses on investments are reflected in the consolidated statements of activities. The Institute has a spending policy based on the total return concept that governs the rate at which funds are transferred from the Endowment Fund to the operating budget. The spending rate is determined annually by the Board as part of the budgeting process.

Purchases and sales of investments are recorded on the trade date.

Beneficial Interest in Perpetual Trust – The beneficial interest in perpetual trust represents resources neither in the possession of nor under the control of the Institute, but held and administered by outside fiscal agents, with the Institute deriving income from such funds. The fair value of the Institute's share of the assets is reflected in the consolidated statements of financial position, and income (including unrealized gains/losses) is recorded in the consolidated statements of activities.

Inventories – Inventories are stated at the lower of cost (first-in, first-out method) or market value and consist primarily of book store merchandise. Such cost is determined using the retail inventory method.

Deposits and Advance Fees – Deposits and student fees applicable to academic sessions subsequent to the current year are deferred and recognized as revenues in subsequent periods.

Land, Buildings, and Equipment – Land, buildings, and equipment are stated at cost at the date of purchase or, if acquired by gift, at fair value at the date of the gift. Depreciation of buildings and equipment is computed by the straight-line method, based on the estimated useful lives of assets, as follows:

	Estimated
Classification	<u>Useful Life</u>
Land improvements	10 to 15 years
Buildings	10 to 60 years
Equipment	7 to 20 years

Interest costs incurred for construction are capitalized. Betterments and major renewals which extend the lives of properties are capitalized; maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is then recognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Nature of operations and significant accounting policies (continued)

Deferred Bond Issuance Costs – Bond issuance costs are being amortized on the straight-line basis over the term of the related financing agreement.

Split-Interest Agreements and Annuity Obligations – The Institute has been named the beneficiary in several charitable gift annuity contracts and charitable remainder trusts for which the Institute serves as trustee. Assets held in these trusts are included in investments at fair value and are recognized at the date the trusts are established. Annuity obligations arising from these gifts are recognized as liabilities and measured at the present value of the actuarially determined obligation based upon the life expectancy of the donors and their beneficiaries, the contractual payment obligation under the agreement, and using a discount rate of 7% for the years ending June 30, 2014 and 2013. Periodic revaluations of these liabilities result in changes in the value of the contracts.

Tuition and Fees – Student tuition and fees are recorded as revenue in the fiscal year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the Institute is reflected as a reduction of tuition and fees.

Grants – Grant revenue is recognized when qualified grant expenditures are incurred as they have been determined to be exchange transactions.

Operating Results – Operating activities in the consolidated statements of activities illustrate a measure of how the Institute is managing the resources available for its current operations. Operations reflect all transactions that increase or decrease unrestricted net assets, except those of a capital nature. Temporarily restricted net assets that are released from restrictions and satisfy an operating purpose are also classified as operating.

Endowment distributions reported as operating revenue consist of endowment returns (regardless of when such income or returns were earned) distributed to support current operational needs. The Institute's Board of Directors approves the determination of amounts to be distributed from the endowment pool. Objectives of the endowment spending methodology include providing for current operating needs and protecting the future purchasing power of the endowment fund.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic inventories of facilities. Interest expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds.

Auxiliary Enterprises – Auxiliary enterprises, including dormitories, food service, and the bookstore furnish services to students, faculty, and staff. The Elston Inn provides services to alumnae, faculty, and staff. Fees charged are directly related to the costs of the services rendered.

Art Objects – The Institute owns a collection of various objects of art. These items are held for public exhibition rather than for financial gain and are kept protected and preserved. It is the Institute's policy to use any proceeds from the sale of collection items to acquire other items for the collection. Accordingly, the Institute does not recognize contributions of works of art, nor are works of art capitalized and recorded on the consolidated statements of financial position.

Allocation – Expenses, including depreciation, are allocated on a functional basis and are not presented by natural categories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Nature of operations and significant accounting policies (continued)

Income Taxes – The Institute is exempt from federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, certain income unrelated to its exempt function is subject to income taxation.

The Internal Revenue Service ("IRS") has held that a Virginia limited liability company, treated as a partnership for state income tax purposes, would also be treated as a partnership for federal income tax purposes. Therefore, income taxes are not provided with respect to the operations of SBC Restoration Lessee LLC since each member is responsible for the income tax consequences associated with its proportionate share of such operations.

Management has evaluated the effect of the guidance provided in the FASB ASC on Accounting for Uncertainty in Income Taxes that became effective for the Institute on July 1, 2009. Management believes that the Institute continues to satisfy the requirements of a tax-exempt organization at June 30, 2014 and 2013. Management has evaluated all tax positions that could have a significant effect on the consolidated financial statements and determined the Institute had no uncertain income tax positions at June 30, 2014 and 2013. The Institute is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for tax years prior to the year ending June 30, 2011.

Use of Estimates – The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The fair value of investments held by the Institute which are not traded on an organized exchange is necessarily based upon estimates by management and these estimates are critical to the Institute's reported net assets and its changes in net assets.

Fair Value Measurements – The carrying amounts reflected in the consolidated statements of financial position for cash and cash equivalents, accounts payable, and deferred grant revenue approximate the respective fair values due to the short maturities of those instruments and any differences being immaterial. The carrying amounts of contributions receivable and annuities payable approximate fair value upon application of the discount rate used on future cash flows. The carrying amounts reflected in the balance sheets for notes payable approximate fair value due to the effect of the variable rate of interest stated in the note.

The carrying value of investments, beneficial interests in perpetual trusts, and amounts payable to third-party beneficiaries approximate fair value as amounts were derived from quoted market prices, net asset value of investments held, a mid-market quotation from a broker, a bid quotation, or if unavailable or unrepresentative, at their probable realization value as of year-end, estimated in good faith by the investment administrator.

The FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Nature of operations and significant accounting policies (continued)

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair Value of Other Financial Instruments – Except for notes receivable from students and long-term debt, the fair value of all financial instruments is substantially the same as the carrying value. It was not considered practical to determine fair value of notes receivable from students under U.S. Government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. Government or its designees. These installment notes are due over terms of ten years, with interest at five percent per annum, and are carried at face value.

Asset Retirement Obligations – Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Institute records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Institute derecognizes ARO liabilities when the related obligations are settled.

New Accounting Pronouncements – In October 2012, the FASB issued Accounting Standards Update ("ASU") 2012-05, *Not-for-Profit: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The ASU was issued to standardize the treatment of cash receipts from donated financial assets on the statement of cash flows and eliminate the diversity in practice among not-for-profit entities. The guidance in this ASU is effective for years beginning after June 15, 2013, and is to be applied prospectively; accordingly, the Institute adopted the provisions of this ASU as of June 30, 2014, which did not have a material effect on the Institute's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2—Accounts receivable

Accounts receivable as of June 30 were as follows:

	 2014	2013		
Students	\$ 556,246	\$	538,913	
Grants	78,647		74,035	
Auxiliary services	62,928		83,238	
Other	85,598		139,993	
Total accounts receivable	783,419		836,179	
Allowance for doubtful accounts	(237,520)		(157,520)	
Accounts receivable, net	\$ 545,899	\$	678,659	

Note 3—Loans to students

These loans are funded primarily by advances from the U.S. Government (\$1,099,707 and \$1,089,878 at June 30, 2014 and 2013, respectively). Advances from the U.S. Government for student loans, all part of the Perkins loan program, are repayable upon liquidation of the program. At June 30, 2014 and 2013, loans to students represented 0.7% of total assets which are not material to the consolidated financial statements as a whole.

The availability of funds for loans under the Perkins federal revolving loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the government of \$1,099,707 are ultimately refundable to the government and are classified as liabilities in the consolidated statement 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.

Note 4—Donated life insurance

The Institute is the owner and beneficiary of donated life insurance policies with a total face value of approximately \$236,270 at June 30, 2014 and 2013. Premiums are funded by the donors through periodic gifts to the Institute. The cash value of the policies was \$142,679 and \$137,288 at June 30, 2014 and 2013, respectively, and is included in contributions receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 5—Pledges receivable, net

Pledges receivable as of June 30, 2014 and 2013, consisted of the following:

	 2014	 2013
Expected to be collected Within one year After one year and before five years After five years	\$ 658,766 244,335 5,047,664	\$ 1,194,986 257,172 5,095,331
Totals	5,950,765	6,547,489
Discount to present value at 1-3%, at June 30, 2014 and 2013 Allowance for doubtful amounts	(1,613,194) (535,566)	(1,717,827) (950,786)
Pledges receivable, net	\$ 3,802,005	\$ 3,878,876

Pledges receivable in future periods have been discounted using a credit risk adjusted rate based upon the expected collection date of the pledge.

Although pledges receivable are included in temporarily restricted net assets due to implicit time restrictions, use of the funds from pledges receivable have been restricted by donors for future use as follows:

	2014	2013
Unrestricted	\$ 3,410,000	\$ 3,327,906
Temporarily restricted	786,919	872,121
Permanently restricted	 140,652	 629,635
Totals	4,337,571	4,829,662
Allowance for doubtful amounts	 (535,566)	(950,786)
Pledges receivable, net	\$ 3,802,005	\$ 3,878,876

Note 6—Investments

Long-term investments at June 30, 2014 and 2013, stated at fair value, are summarized as follows:

	2014	2013
Cash equivalents	\$ 2,059,189	\$ 5,829,175
Fixed income mutual funds	12,106,250	12,483,215
Real estate and mortgages	1,130,073	1,400,877
Domestic equities	21,385,830	18,235,487
International equities	27,671,196	27,068,053
Inflation hedging	8,206,163	7,284,081
Flexible capital	15,448,498	13,898,942
Total long-term investments	\$ 88,007,199	\$ 86,199,830

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 6—Investments (continued)

The Institute's cash and temporary investments are placed in major domestic and international financial institutions which limit the amount of credit exposure. At times, cash and temporary investments may be in excess of the federally insured limits. The Institute's investment funds are managed by a number of investment managers which limits the amount of credit risk within any one investment fund. The Institute's Investment and Finance Committee establishes investment guidelines and performance standards which further reduce its exposure to credit risk.

The following schedule summarizes total investment return and its classification in the consolidated statements of activities for the years ended June 30:

	2014	2013
Investment income	\$ 1,674,808	\$ 1,872,457
Net realized gains (losses)	3,541,783	2,310,089
Net unrealized gains (losses)	8,041,268	5,560,644
Change in value of split interest agreements	562,088	2,976
Total return on investments	\$ 13,819,947	\$ 9,746,166
Included in the consolidated statement of activities as follows:		
Operating:		
Investment income	\$ 28,523	\$ 47,342
Net realized and unrealized gains (losses)	77,963	(3,626)
Non-operating:		
Investment income	1,646,285	1,825,115
Net realized and unrealized gains	11,505,088	7,874,359
Change in value of split interest agreements	562,088	2,976
Total return on investments	\$ 13,819,947	\$ 9,746,166

The Institute holds investments with fund managers which invest in private investment funds or limited partnerships as part of the Institute's asset allocation. The investment in the private investment funds and limited partnerships is an alternative investment strategy with the purpose of increasing the diversification of the Institute's holdings and is consistent with the Institute's overall investment objectives. The alternative investments are not traded on any organized exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The alternative investments may invest in other private investment funds, equity or debt securities, which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

Net returns on alternative investments for the years ended June 30, 2014 and 2013, are summarized as follows:

	 2014	 2013
Interest and dividends	\$ 117,749	\$ 158,810
Net realized gains	130,846	988,442
Net unrealized gains (losses)	 1,919,422	 (274,529)
Total investment return	\$ 2,168,017	\$ 872,723

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 6—Investments (continued)

Investments reported on the consolidated statements of financial position at June 30, 2014 and 2013, include \$1,120,849 and \$925,794, respectively, of assets held under split-interest agreements, which are reported at fair value.

Investment expenses for the years ended June 30, 2014 and 2013, were \$707,448 and \$707,984, respectively.

Note 7—Fair value measurements of assets and liabilities

See "Fair Value Measurements" in Note 1 above for discussions of the methodologies and assumptions used to determine the fair value of the Institute's investments.

The following table summarizes the valuation of the Institute's financial assets and liabilities measured at fair value as of June 30, 2014 and 2013, based on the level of input utilized to measure fair value:

$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	
Cash and cash equivalents \$ 2,059,189 \$ - \$ - \$ 2,059,189	
Domestic edulties '' 5 120 486 16 265 344 - 21 385 830	
(2)	
Fixed income mutual funds ^(e) 10,840,416 1,265,834 - 12,106,250	
Flexible capital ^(a) 2,377,523 4,198,819 8,872,156 15,448,498	
Inflation hedging ^(b) - 8,206,163 - 8,206,163	
International equities (c) 11,470,474 16,200,722 - 27,671,196	
Real estate and mortgages 1,130,073 - - - 1,130,073	
Total investments 32,998,161 46,136,882 8,872,156 88,007,199	Total investments
Beneficial interest in perpetual trust	Beneficial interest in perpetual trust
Contributions receivable: Cash equivalents 6,618 - - 6,618 Mutual funds 1,316,771 - - 1,316,777 Common stocks 113,522 - - - 113,522	Cash equivalents Mutual funds
Total contributions receivable 1,436,911 1,436,91	Total contributions receivable
Pledges receivable, net	Pledges receivable, net
Total assets measured at fair value on a recurring basis \$ 34,435,072 \$ 46,136,882 \$ 20,685,090 \$ 101,257,044	
Measurement on a non-recurring basis:	Measurement on a non-recurring basis:
Contributions receivable: Cash surrender value of life insurance \$ - \$ 142,679 \$ - \$ 142,679	
Total contributions receivable \$ - \$ 142,679 \$ - \$ 142,679	Total contributions receivable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Fair value measurements of assets and liabilities (continued)

	As of June 30, 2013							
		uoted Prices in Active Markets for entical Assets (Level 1)	Significant Observable Inputs (Level 2)			Significant nobservable Inputs (Level 3)		Total Fair Value
Investments: Cash and cash equivalents Domestic equities Fixed income mutual funds ^(e) Flexible capital ^(a) Inflation hedging ^(b) International equities ^(c) Real estate and mortgages	\$	5,829,175 3,961,807 11,128,640 2,048,797 - 10,390,465 1,400,877	\$	14,273,680 1,354,575 3,917,372 7,284,081 16,677,588	\$	- - - 7,932,773 - - -	\$	5,829,175 18,235,487 12,483,215 13,898,942 7,284,081 27,068,053 1,400,877
Total investments		34,759,761		43,507,296		7,932,773		86,199,830
Beneficial interest in perpetual trust		_				7,518,299		7,518,299
Contributions receivable: Cash equivalents Common collective trust funds Common stocks Publicly traded limited partnership Corporate bonds		7,576 282,272 80,205 61 5,105		- - - -		- - - -		7,576 282,272 80,205 61 5,105
Total contributions receivable		375,219		-				375,219
Pledges receivable, net		-				3,878,876		3,878,876
Total assets measured at fair value on a recurring basis	\$	35,134,980	\$	43,507,296	\$	19,329,948	\$	97,972,224
Measurement on a non-recurring basis:								
Contributions receivable: Cash surrender value of life insurance Real estate	\$	<u>-</u>	\$	137,288 -	\$	- 530,000	\$	137,288 530,000
Total contributions receivable	\$		\$	137,288	\$	530,000	\$	667,288

The majority of the Institute's underlying fund managers use a market approach to value an investment, although some funds may also use an income approach. In addition, the following inputs/valuation techniques are used – comparable security analysis, recent transactions, earnings and cash flow forecasts, market multiple analysis, discounted cash flows, internal valuation models, and third-party appraisals. Pledges receivable are valued using discounted cash flows. For certain investments in entities which calculate net asset value ("NAV"), or its equivalent, the Institute has estimated the fair value of the investment on the basis of the NAV of the fund, as a practical expedient, because a) the underlying investment manager's calculation of the NAV is fair value based and b) the NAV has been calculated as of the Institute's reporting date. The Institute believes that the stated value of its investments in these funds is a reasonable estimate of fair value as of June 30, 2014 and 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Fair value measurements of assets and liabilities (continued)

There were no changes in valuation methodology during the year ended June 30, 2014.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with those of other market participants, because of the inherent subjectivity in any valuation methodology, the estimated fair value may differ from the fair value that would have been used had a ready market for the securities existed, and the difference could be material.

The table below sets forth a summary of changes in the fair value of the Institute's Level 3 assets for the year ended June 30, 2014:

	_	Beneficial nterest in	Flexible		Pledges	
	Per	petual Trust	Capital	Red	ceivable, net	Total
Beginning fair value Investment income Net realized and unrealized gains	\$	7,518,299 279,186	\$ 7,932,773	\$	3,878,876 -	\$ 19,329,948 279,186
included in changes in net assets Change in value included in changes		492,630	939,383		-	1,432,013
in net assets		-	-		519,853	519,853
New pledges received		-	-		197,000	197,000
Payments on pledges		-	-		(793,724)	(793,724)
Withdrawals		(279,186)	 -			(279,186)
Ending fair value	\$	8,010,929	\$ 8,872,156	\$	3,802,005	\$ 20,685,090
Amount of total gains for period included in changes in net assets						
attributable to the change in unrealized						
gains relating to assets still held at the						
reporting date	\$	492,630	\$ 939,383	\$	519,853	\$ 1,951,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Fair value measurements of assets and liabilities (continued)

The table below sets forth a summary of changes in the fair value of the Institute's Level 3 assets for the year ended June 30, 2013:

	Ī	Beneficial nterest in petual Trust	Flexible Capital	Red	Pledges eivable, net	Total
Beginning fair value Investment income Net realized and unrealized losses	\$	7,212,280 299,099	\$ 8,415,932	\$	4,100,419	\$ 19,728,631 299,099
included in changes in net assets Change in value included in changes		306,019	710,428		-	1,016,447
in net assets New pledges received Payments on pledges		-	- -		(442,718) 472,338 (251,163)	(442,718) 472,338 (251,163)
Withdrawals Sales		(299,099)	(4,443,587)		-	(299,099) (4,443,587)
Purchases Ending fair value	\$	7,518,299	\$ 3,250,000 7,932,773	\$	3,878,876	\$ 3,250,000 19,329,948
Amount of total losses for period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still					-	
held at the reporting date	\$	306,019	\$ 608,270	\$	(442,718)	\$ 471,571

For investments in entities that calculate net asset value or its equivalent whose fair value is not readily determinable, the following tables provide information about the relative liquidity of these investments. The fair values of these investments have been estimated using net asset value per share of the investments, unless noted. Management is not aware of any factors that would impact net asset value as of June 30, 2014 and 2013.

The following table sets forth a summary of the Institute's assets valued at net asset value per share, or its equivalent, as of June 30, 2014:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Applicable)	Redemption Notice Period
Flexible capital ^(a)	\$ 13,070,97	5 \$ -	Quarterly	65 days
Inflation hedging ^(b)	8,206,16	3 -	Daily - Monthly	0-15 days
International equities ^(c)	16,200,72	2 -	Monthly	6-30 days
Domestic equities ^(d)	16,265,34	-	Daily	2 days
Fixed income mutual funds ^(e)	1,265,83	-	Monthly	10 days

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Fair value measurements of assets and liabilities (continued)

The following table sets forth a summary of the Institute's assets valued at net asset value per share, or its equivalent, as of June 30, 2013:

	 Fair Value	 inded itments	Redemption Frequency (If Applicable)	Redemption Notice Period
Flexible capital ^(a)	\$ 11,850,145	\$ -	Quarterly	45-65 days
Inflation hedging ^(b)	7,284,081	-	Daily - Monthly	0-30 days
International equities ^(c)	16,677,588	-	Monthly	0-30 days
Domestic equities ^(d)	14,273,680	-	Daily	-
Fixed income mutual funds ^(e)	1,354,575	-	Monthly	0-30 days

- (a) Includes investments in two fund of funds as of June 30, 2014 and 2013. One fund focuses on four major investment styles: long/short equity, diversified event-driven, macro, and multi-strategy. Long/short is targeted to be the largest allocation at 50-65%. Macro and multi-strategy are targeted to be 15-20% and 5-15% respectively. Diversified event-driven has a smaller target of 5-15% and dedicated distressed funds are avoided. The other fund is a diversified fund of hedge funds that seeks to generate equity-like returns with bond-like volatility by employing a multi-manager, multi-strategy approach including long/short equity, event driven, relative value and global asset allocation. The fund uses a systematic scoring process on various investments and business-related factors for funds in the evaluation process. Typically, 65-70% of managers are firmly established fund managers. Multiple strategies are employed with an average allocation of 50% long/short equity, 20% event driven, 20% relative value, and 10% global assets allocation. The fund will typically comprise 15-30 managers, and the aim is for no single fund to account for more than 15% of capital.
- (b) Includes an investment in a limited partnership which seeks to generate net returns in excess of UBS Global Real Estate Investor Index. It achieves its objective by managing a portfolio of securities issued by REITS and other publicly held real estate companies. This class also includes an investment in a real asset strategy that seeks to deliver positive real returns with an overall portfolio risk similar to that of longer-dated U.S. Treasury Inflation-Protected Securities. The strategy is composed of three passive indices: Passive Commodity Index (Dow Jones UBS Roll Select Commodities Index), Passive Natural Resources Index (S&P Global Large Midcap Commodities Resources Index), and Passive TIPS Index (BC U.S. Tips index). Real assets complement a policy portfolio by adding diversification and are intended to provide inflation protection relative to equities and fixed income.
- (c) Includes investments in funds that seek to provide long-term growth by investing in a diversified portfolio of foreign equities that include small and mid-cap securities and emerging markets. The emerging markets investment utilizes a fund of funds approach with exposure to 75-100 closed-end funds and over 4,000 underlying securities. The mid-cap strategy includes 50-60 equities that are between \$2 billion and \$10 billion in market cap and have grown beyond the small cap strategy. Also includes investments in a limited partnership which invests in non-U.S. issuers and seeks to earn returns greater than the Morgan Stanley EAFE Index over a full market cycle.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Fair value measurements of assets and liabilities (continued)

- (d) Includes an investment in a fund that seeks to approximate as closely as practicable the returns of the Russell 3000 Index over the long term. The fund achieves its objective by investing primarily in equity securities which comprise the Russell 3000 Index.
- (e) Includes an investment in a trust which seeks favorable income-oriented returns and preservation and enhancement of principal by investing in a globally diversified portfolio of primarily debt and debt-like securities. For the year ended June 30, 2013, this class included an investment in a limited partnership that sought to achieve a total return consisting of high current income and long-term capital growth. The fund is a global fund that invests in issuers around the word, including emerging or developing countries. The Institute liquidated its investment in this entity during the year ended June 30, 2014.

Note 8—Land, buildings, and equipment, net

Land, buildings, and equipment, net, at June 30, 2014 and 2013, is summarized as follows:

	 2014	 2013
Land and land improvements	\$ 2,739,891	\$ 2,739,891
Buildings	72,406,257	73,050,340
Equipment	12,415,723	11,362,724
Equipment - capitalized lease	-	542,010
Construction in progress	7,726,422	 4,108,470
	95,288,293	91,803,435
Less accumulated depreciation	38,184,905	36,569,014
Land, buildings, and equipment, net	\$ 57,103,388	\$ 55,234,421

Depreciation expense for the years ended June 30, 2014 and 2013, was \$2,309,749 and \$2,290,225, respectively.

Note 9—Capital lease

The Institute entered into a 60 month capital lease agreement for network infrastructure, hardware, software, and installation costs in July 2009, and the value of the property was \$542,010. Accumulated depreciation related to this capital lease was \$542,010 and \$433,608 as of June 30, 2014 and 2013, respectively. Depreciation expense related to this capital lease was \$108,402 for both the years ended June 30, 2014 and 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 10—Bonds payable

Bonds payable at June 30, 2014 and 2013, were as follows:

	Final		
	Maturity	2014	2013
Bond payable, Series 2011, Industrial Development Authority of the Town of Amherst, Virginia, fixed interest rate of 2.97%, uncollateralized, quarterly payments	2036	\$ 9,219,856	\$ 9,508,456
Bonds payable, Series 2006, Industrial Development Authority of the Town of Amherst, Virginia, fixed interest rate of 4% to 5%, uncollateralized,			
semi-annual payments	2030	16,520,000	 17,145,000
		 25,739,856	26,653,456
Premium on bonds		 117,453	 124,499
Total bonds payable		\$ 25,857,309	\$ 26,777,955

During the year ended June 30, 2012, the Institute entered into a Series 2011 bond payable in the amount of \$10,000,000. The bond series is for a twenty-five year term with a fixed rate of interest for seven years at 2.97% and a variable rate of LIBOR plus 2% thereafter. At the end of the initial seven years, there is also a put/call option to renew every five years thereafter.

Scheduled maturities of long-term debt as of June 30, 2014, are as follows:

Year Ending June 30,	Amount	ount	
2015	\$ 947,260	<u> </u>	
2016	986,187	7	
2017	1,020,383	3	
2018	1,064,855	5	
2019	1,109,611	1	
Thereafter	20,611,560)	
	\$ 25,739,856	<u>`</u>	

Based upon current borrowing rates available to the Institute for similar borrowings, management of the Institute believes that the carrying value of its long-term debt approximates its fair value.

The Institute's bond agreement contains various restrictive covenants, all of which management of the Institute believes it had complied with as of and for the years ended June 30, 2014 and 2013.

Interest expense for the years ended June 30, 2014 and 2013, was \$1,063,724 and \$1,076,488, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 11—Landfill liability

During the year ended June 30, 2005, the Institute established a trust for the benefit of the Department of Environmental Quality ("DEQ") of the Commonwealth of Virginia as a method of providing assurance that the Institute would adequately fund post-closure costs for the Institute's solid waste landfill. The Institute is required to maintain a cash or investment account in the trust equal to the estimated post-closure liability, as originally submitted to the DEQ, plus an adjustment for inflation. A third-party trustee may make payments from the trust for post-closure costs as authorized by the DEQ. Upon termination of the trust, remaining trust property, less final trust administrative expenses, will be distributed to the Institute. During the year ended June 30, 2013, the DEQ released the Institute from its requirements of post-closure care maintenance. As a result, the Institute was distributed the remaining value of the trust in the amount of \$40,295.

Note 12—Unrestricted net assets and other changes in unrestricted net assets

Unrestricted net assets at June 30, 2014 and 2013, consist of the following:

	 2014	2013
Losses on underwater perpetual endowment funds	\$ (6,688,291)	\$ (8,940,208)
Other gifts and income	403,695	249,090
Designated for scholarships	255,668	279,627
Designated for contingency and research and divisional support	4,896,000	5,677,685
Funds functioning as endowment	35,296,893	27,580,233
Net investment in land, buildings, and equipment	14,000,462	12,375,118
Student loan funds	 624,417	535,337
	\$ 48,788,844	\$ 37,756,882

Changes in unrestricted net assets consisted of the following for the years ended June 30, 2014 and 2013:

	Controlling	Noncontrolling	
	Interest	Interest	Total
Balance, July 1, 2012	\$ 32,357,807	\$ -	\$ 32,357,807
Changes in net assets	5,399,075		5,399,075
Balance, June 30, 2013 Changes in net assets Capital contribution to SBC Restoration Lessee LLC	37,756,882 10,868,267 162,360	(305) 1,640	37,756,882 10,867,962 164,000
Balance, June 30, 2014	\$ 48,787,509	\$ 1,335	\$ 48,788,844

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 13—Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2014 and 2013, are summarized as follows:

	2014	2013
Contributions restricted for instruction, research, and divisional support	\$ 1,171,790	\$ 1,928,804
Contributions restricted for scholarships	1,232,777	285,019
Contributions restricted for land, buildings, and equipment	1,475,205	5,204,451
Income on endowment restricted for instruction, research, and divisional		
support	4,917,676	6,019,347
Income on endowment restricted for scholarships	4,056,266	5,110,929
Split interest agreements	352,921	284,758
Term endowment funds - restricted for instruction, research, and divisional		
support	3,999,573	6,866,246
Time restricted and other	3,822,776	 3,363,576
	\$ 21,028,984	\$ 29,063,130

Note 14—Permanently restricted net assets

Permanently restricted net assets at June 30, 2014 and 2013, are categorized as follows:

	2014	2013
Beneficial interest in perpetual trusts	\$ 8,010,929	\$ 7,518,299
Perpetual endowment funds	54,367,027	53,489,260
Split interest agreements	1,220,895	682,007
Other gifts and income	140,654	629,636
Student loan interest	785,570	767,516
	\$ 64,525,075	\$ 63,086,718

Note 15—Endowment

The Institute's endowment consists of approximately 400 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Institute has interpreted UPMIFA 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 stipulation to the contrary. As a result of this interpretation, the Institute 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.

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 Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 15—Endowment (continued)

In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1. The duration and preservation of the fund
- 2. The purposes of the Institute 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. The investment policies of the Institute
- 7. Other resources of the Institute

Endowment net assets consist of the following at June 30, 2014:

			Т	emporarily	P	ermanently	
	U	nrestricted		Restricted		Restricted	 Total
Donor-restricted endowment funds Board-designated endowment funds	\$	(6,688,291) 35,296,893	\$	8,973,943 3,999,573	\$	54,367,027 -	\$ 56,652,679 39,296,466
	\$	28,608,602	\$	12,973,516	\$	54,367,027	\$ 95,949,145

Changes in endowment net assets for the year ended June 30, 2014, are as follows:

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Endowment net assets, July 1, 2013	\$ 18,640,024	\$ 17,926,522	\$ 53,489,260	\$ 90,055,806
Investment return: Investment income Net realized and unrealized gain	211,563 9,995,341	438,570 1,401,529	5,674	655,807 11,396,870
Total investment return	10,206,904	1,840,099	5,674	12,052,677
Contributions	100,250	34,006	748,850	883,106
Transfers	3,062,525	(2,900,679)	128,421	290,267
Appropriation of endowment assets for expenditure	(5,651,652)	(1,840,099)	(5,674)	(7,497,425)
Appropriations not spent Other reclassifications	2,250,551	165,584 (2,251,917)	- 496	165,584 (870)
Endowment net assets, June 30, 2014	\$ 28,608,602	\$ 12,973,516	\$ 54,367,027	\$ 95,949,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 15—Endowment (continued)

Endowment net assets consist of the following at June 30, 2013:

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Donor-restricted endowment funds Board-designated endowment funds	\$ (8,940,208) 27,580,232	\$ 11,060,276 6,866,246	\$ 53,489,260	\$ 55,609,328 34,446,478
	\$ 18,640,024	\$ 17,926,522	\$ 53,489,260	\$ 90,055,806

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Endowment net assets, July 1, 2012	\$ 15,613,543	\$ 19,335,459	\$ 51,626,648	\$ 86,575,650
Investment return: Investment income Net realized and unrealized gain	348,286 6,595,797	425,674 1,434,309	5,495 	779,455 8,030,106
Total investment return	6,944,083	1,859,983	5,495	8,809,561
Contributions	700	4,900	1,849,000	1,854,600
Transfers	294,365	537	13,695	308,597
Appropriation of endowment assets for expenditure	(5,639,573)	(1,859,983)	(5,495)	(7,505,051)
Appropriations not spent Other reclassifications	1,426,906	11,554 (1,425,928)	(83)	11,554 895
Endowment net assets, June 30, 2013	\$ 18,640,024	\$ 17,926,522	\$ 53,489,260	\$ 90,055,806

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that is required to be retained for a fund of perpetual duration. Deficiencies of this nature that are reported as a reduction in unrestricted net assets were \$6,688,291 and \$8,940,208 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for programs that were deemed prudent by the Board of Directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. These subsequent gains are included in "other reclassifications" in the schedules above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 15—Endowment (continued)

Return Objectives and Risk Parameters – The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for a donor specified period of time as well as board-designated funds. The endowment's investment objective is to preserve its purchasing power, while providing a continuing and stable funding source to support the current and future mission of the Institute. To accomplish this objective, the endowment seeks to generate a total return that will exceed not only its operating expenses, but also all expenses associated with managing the endowment and the eroding effects of inflation. Under this policy the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of:

Domestic equities	Russell 3000 Index	22%
Non-US Developed Equity	MSCI EAFE Index	22%
Emerging Markets Equity	MSCI Emerging Markets Net Index	11%
Flexible Capital	HFRI Fund of Funds Index	20%
Domestic Fixed Income	Custom Composite Benchmark	10%
Non-U.S. Fixed Income	Custom Composite Benchmark	5%
Inflation Hedging	Custom Composite Benchmark	10%

This is a long-term expected objective and may not be achieved in shorter time periods. In meeting this objective, the Institute seeks to achieve a high level of total investment return consistent with a prudent level of portfolio risk.

Strategies Employed for Achieving Objectives – To achieve its long-term investment objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The investments will be diversified both by and within asset classes. The investments will be compared to its Policy Benchmark which is defined as the sum of all the policy target weights for each of the asset classes multiplied by the returns of their respective benchmarks.

Spending Policy – The goal for the endowment funds is to spend up to the maximum of 5% of the average fair value over the prior twelve quarters through the June 30th preceding the fiscal year in which the distribution is planned.

Note 16—Expenses by functional classification

Unrestricted expenses allocated to their functional classification consisted of the following as of June 30, 2014 and 2013:

2014

	 2014	 2013
Program services	\$ 28,399,370	\$ 27,710,778
Management and general	4,781,025	5,102,511
Fundraising	2,260,259	 2,001,757
	\$ 35,440,654	\$ 34,815,046

2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 17—Employee benefits

The Institute participates in a defined contribution retirement plan administered by the Teachers Insurance and Annuity Association and Institute Retirement Equities Fund ("TIAA-CREF") and ING Life Insurance and Annuity Company. Substantially all of the employees of the Institute are covered under the plan. The Institute contributes an amount equal to 5% of all eligible employees' salaries. Contributions under the plan were \$658,899 and \$650,432 for the years ended June 30, 2014 and 2013, respectively.

Note 18—Foreign currency transactions

The aggregate transaction gain on foreign currency transactions of \$74,778 and \$22,761 for the years ended June 30, 2014 and 2013, respectively, is included in realized gains on long-term investments for presentation in the consolidated statements of activities.

Note 19—Home building program

The Institute's "Lease and Purchase" agreement allows faculty and staff to lease land from the Institute and build homes, subject to necessary architectural and administrative approval, or buy existing homes that the Institute determines it wishes to resell. Employees eligible for this program include full-time, tenure-track faculty members and full-time administrative department heads. The Institute is committed upon notification by the owners to repurchase such properties. At June 30, 2014 and 2013, there were 20 and 21 residential properties, respectively, with an estimated value of \$3,622,100 and \$3,772,300, respectively. During the year ended June 30, 2014, one home was sold and two homes were repurchased. During the year ended June 30, 2013, there was one home repurchased.

Note 20—Commitments

Remaining minimum commitments under construction contracts totaled \$988,420 as of June 30, 2014.

Note 21—Subsequent events

Effective September 1, 2014, the Institute amended the financing agreement for the Series 2011 bonds with the Industrial Development Authority of the Town of Amherst, Virginia, and the bank to revise certain covenants required for the Institute. Management of the Institute believe it has complied with the requirements of the revised covenants as of June 30, 2014.

Management has evaluated subsequent events through November 5, 2014, which is the date the consolidated financial statements were issued. No other transactions or events requiring disclosure have occurred through this date.