Wabash College

Independent Auditor’s Report and Financial Statements

June 30, 2016 and 2015

Wabash College

June 30, 2016 and 2015

Contents

Independent Auditor's Report

Board of Trustees
Wabash College
Crawfordsville, Indiana

We have audited the accompanying financial statements of Wabash College, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wabash College as of June 30, 2016 and 2015, 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.

Indianapolis, Indiana
October 14, 2016

Wabash College

Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash	$ 3,596,660	$ 2,576,899
Accounts receivable	586,299	766,891
Prepaid expenses and other	442,126	317,816
Contributions receivable	9,266,433	12,157,283
Student loans receivable held by endowment	7,311,954	7,151,135
Investments	336,775,678	360,224,337
Cash surrender value of life insurance	2,150,781	2,045,982
Charitable remainder trusts	19,114,316	15,620,821
Property and equipment, net	127,824,299	111,361,590
Beneficial interest in perpetual trusts	7,590,325	8,178,472
Total assets	$ 514,658,871	$ 520,401,226
Liabilities		
Accounts payable and accrued expenses	$ 6,185,021	$ 5,345,871
Line of credit	3,488,000	3,818,000
Interest rate swap agreement	1,923,800	2,020,564
Long-term debt	50,387,200	37,468,800
Accumulated postretirement benefit obligation	10,597,719	9,898,007
Annuities and trusts payable	4,286,477	4,732,134
Total liabilities	76,868,217	63,283,376
Net Assets		
Unrestricted	226,119,301	233,216,379
Temporarily restricted	87,731,980	101,154,924

Wabash College

Statements of Activities
Years Ended June 30, 2016 and 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Income and Other Support				
Student tuition and fees	$ 33,519,907	$ -	$ -	$ 33,519,907
Grants and scholarships	(18,763,433)	-	-	(18,763,433)
Net student tuition and fees	14,756,474	-	-	14,756,474
Contributions, gifts and bequests	13,280,945	7,270,796	2,055,783	22,607,524

Wabash College

Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Wabash College (College) was founded in 1832 as an independent, nonsectarian, liberal arts college for men. The mission of the College is to educate men to think critically, act responsibly, lead effectively and live humanely. This is accomplished through excellence in teaching and learning within a community built on close and

The College has significant investments in stocks, bonds and mutual funds, and is therefore subject to market, credit and interest-rate risk. Investments are made by investment managers engaged by the College and the investments are monitored by management, the College's Investment Committee and an outside investment advisor. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the College and its constituents.

Accounts Receivable

Student and fraternity accounts receivable are stated at the amounts billed for tuition and fees and rent. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Student accounts receivable are due on July 15 and December 15 of each year for the Fall and Spring semesters, respectively. Accounts past due more than one semester are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student. It is the policy of the College to pursue collection of accounts unless the debt is legally discharged, at which time, the account is written off.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The College provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

	Years
Buildings	25-50
Machinery and equipment	3-10
Vehicles	5-8

Long-Lived Asset Impairment

The College evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2016 and 2015.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions

In-Kind Contributions

In addition to receiving cash contributions, the College receives in-kind contributions of marketable securities and real estate from various donors. It is the policy of the College to record the estimated fair value of certain in-kind donations as an asset or expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2016 and 2015, approxi

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2016	2015
Cash equivalents	$ 31,912,106	$ 15,561,248
Domestic common stocks		
Large cap	31,406,740	46,138,773
Mid cap	-	92,888
Small cap	7,192,894	16,996,305
Foreign common stocks	54,545,890	67,491,357
Diversified strategies	52,388	5,426,067
Fixed income securities/funds	84,711,935	58,267,312
	209,821,953	209,973,950
Alternativeinvestments		
Hedge funds	59,597,795	78,361,378
Distressed debt securities	13,753,965	21,732,921
Private equity and venture capital	32,731,215	32,544,998
Real estate	4,208,180	4,583,165
Natural resources	16,662,570	13,027,925
	126,953,725	150,250,387
	$ 336,775,678	$ 360,224,337

The following schedules summarize the investment return and its classification in the statements of activities.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income (net of expenses of $1,120,760)	$ 5,934,699	$ 2,720,069	$ 41,388	$ 8,696,156
Net realized and unrealized losses	(8,351,908)	(10,892,103)	(412,826)	(19,656,837)
Total investment return	(2,417,209)	(8,172,034)	(371,438)	(10,960,681)
Investment return designated for current operations	(14,758,154)	(6,764,150)	(102,922)	(21,625,226)
Investment return less than amounts designated for current operations	$ (17,175,363)	$ (14,936,184)	$ (474,360)	$ (32,585,907)

Wabash College

Notes to Financial Statements
June 30, 2016 and 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income (net of expenses of $840,298)	$ 5,392,918	$ 2,029,579	$ 34,697	$ 7,457,194
Net realized and unrealized gains (losses)	(158,558)	(4,521,568)	338,027	(4,342,099)
Total investment return	5,234,360	(2,491,989)	372,724	3,115,095
Investment return designated for current operations	(15,468,613)	(5,821,483)	(99,521)	(21,389,617)
Investment return in excess of (less than) amounts designated for current operations	$ (10,234,253)	$ (8,313,472)	$ 273,203	$ (18,274,522)

Alternative Investments

The fair value of alternative investments presented in the tables above has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative investments				
Hedge funds	$ 59,597,795	$	Quarterly - annually	30 - 100 days
Distressed debt securities	13,753,965	1,065,024	Not eligible	n/a
Private equity and venture capital	32,731,215	16,773,771	Not eligible	n/a
Real estate	4,208,180	100,619	Not eligible	n/a
Natural resources	16,662,570	4,938,195	Not eligible	n/a

	June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative investments				
Hedge funds	$ 78,361,378	$ 2,378,883	Quarterly - annually	30 - 100 days
Distressed debt securities	21,732,921	-	Not eligible	n/a
Private equity and venture capital	32,544,998	14,920,180	Not eligible	n/a
Real estate	4,583,165	201,240	Not eligible	n/a
Natural resources	13,027,925	6,632,923	Not eligible	n/a

<u>Hedge Funds</u> includes investments in hedge funds that take both long and short positions across asset classes. Management of the funds has the ability to shift investments among differing investment strategies. The remaining restriction period for these investments ranged from six to twelve months at June 30, 2016.

Distressed Debt Securities includes investments in partnerships that purchase debt securities trading at a discount to their par value. The unofficial definition of distressed debt is any security yielding 10% points more than a U.S. Treasury bond with an equivalent maturity. Under the terms of the partnership agreements, capital is committed for seven to twelve years and may not be redeemed. Typically, the general partner requests capital during the initial three to five year period in order to fund investment activities. Distributions are made throughout and upon dissolution of the partnership.

Private Equity and Venture Capital includes several funds that invest primarily in the equity securities of public or private companies at various stages within their life cycle. These investments are either direct, fund of funds or secondary purchases across multiple strategies (growth equity, company buyout, venture capital, etc.) and are expected to significantly exceed performance of traditional equity indices.

Real Estate includes several real estate funds that invest in residential, multi-family, commercial and distressed properties in the U.S. Distributions from each fund will be made as the underlying investments of the funds are liquidated. It is estimated the underlying assets of the funds will be liquidated over the next one to twelve years.

Natural Resources includes investments in partnerships that invest primarily in oil and gas royalties and timber properties. Under the terms of the partnership agreements, capital is committed for seven to twelve years and may not be redeemed. Typically, the general partner requests capital during the initial three to five year period in order to fund investment activities. Distributions are made throughout and upon dissolution of the partnership.

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 2,803,966	$ 1,991,442	$ 4,795,408
Due in one to five years	4,809,569	436,387	5,245,956
Due after five years	202,000	330,000	532,000
	7,815,535	2,757,829	10,573,364
Less:			
Allowance for uncollectible contributions	(479,239)	(285,639)	(764,878)
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Wabash College

Notes to Financial Statements
June 30, 2016 and 2015

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 4,904,086	$ 1,286,814	$ 6,190,900
Due in one to five years	5,719,375	1,170,832	6,890,207
Due after five years	259,500	373,268	632,768
	10,882,961	2,830,914	13,713,875
Less:			
Allowance for uncollectible contributions	(821,180)	(197,680)	(1,018,860)
Unamortized discount	(395,663)	(142,069)	(537,732)
	$ 9,666,118	$ 2,491,165	$ 12,157,283

The College is the beneficiary under various charitable remainder trusts for which it is not the trustee. The College's beneficial interest in these trusts is recorded at fair value, measured by the present value of the estimated expected future benefits to be received when the trust assets are distributed. At June 30, 2016 and 2015, the College's beneficial interest in remainder trusts administered by outside parties is $13,110,797 and $9,288,907, respectively. During the years ended June 30, 2016 and 2015, the College received $3,465,821 and $0 of contributions under remainder trusts held by others

The College is also the beneficiary under various charitable trusts for which the College is the trustee. At June 30, 2016 and 2015, the value of these trusts was $6,003,519 and $6,331,914, respectively. At June 30, the underlying investments in these trusts included the following:

	2016	2015
Cash equivalents	$ 63,980	$ -
Exchange - traded funds	3,859,675	4,383,542
Other mutual funds	2,079,864	1,948,372
	$ 6,003,519	$ 6,331,914

Note 8: Derivative Financial Instrument

Note 10: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2016	2015
Scholarships	$ 13,817,531	$ 19,635,586
Research (including Center for Inquiry)	2,872,546	2,697,015
Public service (including Wabash Center)	9,978,293	12,343,878
Academic support and library	4,884,773	5,635,821

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2016	2015
Purpose restrictions accomplished		
Scholarships	$ 3,989,650	$ 3,538,449
Research (including Center for Inquiry)	1,248,325	1,184,344
Public service (including Wabash Center)	4,128,238	2,823,045
Academic support and library	1,851,498	1,459,596
Student services	1,157,057	1,006,547
Property and equipment acquired and placed in service	70,941	551,253
Other	232,167	69,310
	$ 12,677,876	$ 10,632,544

Note 11: Endowment

The College’s pooled endowment consists of dGAAP), ned fr llege’s pooled ey)7()8owTs of a

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

1. Duration and preservation of the fund
2. Purposes of the College and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the College
7. Investment policies of the College

The composition of net assets by type of pooled endowment fund at June 30, 2016 and 2015 was:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,652,827)	$ 46,098,185	$ 100,328,596	$ 142,773,954
Board-designated endowment funds	171,954,477		-	171,954,477
Total pooled endowment funds	$ 168,301,650	$ 46,098,185	$ 100,328,596	$ 314,728,431

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 190,985,679	$ 69,504,722	$ 93,154,751	$ 353,645,152
Investment return	1,392,313	1,194,360	-	2,586,673
Contributions received and board designations	301,233	-	1,138,266	1,439,499
Appropriation of endowment assets for expenditure	(11,148,693)	(9,563,624)	-	(20,712,317)
Other changes to endowment funds	28,757	22,523	295,038	346,318
Endowment net assets, June 30, 2015	181,559,289	61,157,981	94,588,055	337,305,325
Investment return	(6,196,466)	(5,245,328)	-	(11,441,794)
Contributions received and board designations	3,908,748	-	5,588,795	9,497,543
Appropriation of endowment assets for expenditure	(11,280,733)	(9,814,529)	-	(21,095,262)
Other changes to endowment funds	310,812	61	151,746	462,619
Endowment net assets, June 30, 2016	$ 168,301,650	$ 46,098,185	$ 100,328,596	$ 314,728,431

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015, consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	$ 100,328,596	$ 94,588,055
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	$ 15,751,226	$ 19,771,075
Without purpose restrictions	30,346,959	41,386,906
	$ 46,098,185	$ 61,157,981

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets and aggregated $3,652,827 and $923,038 at June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the College must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the College's policies, endowment assets are invested in a manner that is intended to produce results that exceed inflation, spending and the costs of asset management while assuming a prudent level of investment risk. The College expects its endowment funds to provide an average annual rate of return of approximately 6% plus the Consumer Price Index over time. Actual returns in any given year may vary from this amount.

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

Under the College's endowment spending policy, a percentage of the twelve quarter moving average of the fair value of the College's pooled endowment is appropriated to support current operations and debt service. For fiscal years 2016 and 2015, the College drew 5.2% and 5.0%, respectively, for operations, with a total draw of 6.3% and 6.4%, respectively, when incorporating the draw for debt service, early retirement payments, capital projects and marketing. This is consistent with the College's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 12: Pension Plans

The College provides noncontributory retirement plans through Teachers Insurance and Annuity Association and College Retirement Equities Fund

Note 13: Postretirement Plan

The following amounts have been recognized in the statements of activities for the years ended June 30, 2016 and 2015:

		2016		2015
Amounts reclassified as components of net periodic pension cost of the period:				
Net loss	$	1,276,209	$	1,159,357

Significant assumptions include:

	2016	2015
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.75%	4.50%
Medical trend rate	8.00%	8.00%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	3.75%	4.50%
Medical trend rate	8.00%	8.00%

For measurement purposes, an 8.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016 and 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30:

2017	$	465,177
2018		504,580
2019		516,489
2020		550,548
2021		573,647
2022 - 2026		2,891,465

Wabash College

Notes to Financial Statements
June 30, 2016 and 2015

Note 14: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Domestic Common Stocks and Foreign Common Stocks. Where quoted market prices are
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Charitable Remainder Trusts

The fair value of charitable remainder trusts held by others is estimated at the present value of future distributions expected to be received by

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Investments				
Cash equivalents	$ 31,912,106	$ 31,912,106	$ -	$ -
Domestic common stocks				
Large cap	31,406,740	31,406,740	-	-
Small cap	7,192,894	7,192,894	-	-
Foreign common stocks	54,545,890	54,545,890	-	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

		Private		
		Equity and	Charitable	Interest
	Distressed	V		

The fair value of the College's interest in charitable remainder trusts held by others is estimated at the present value of the estimated expected future benefits to be received and was $13,110,796 and $9,288,907 at June 30, 2016 and 2015, respectively. The fair value of the interest in charitable remainder trusts held by others is based on unobservable inputs such as mortality tables and a discount rate of 1.80%.

The fair value of the College's interest rate swap is based on the counterparty's proprietary model, which is based on forward-looking interest rate curves and discounted cash flows and is considered an unobservable input.

Note 15: Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis below. Certain costs have been allocated among the instruction, research, public service, academic support and library, student servi

Contingencies

The College is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the College.

Pension Benefit Obligations

The College has a defined-benefit postretirement health plan whereby it agrees to provide certain postretirement health benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability in the near term.

Related Parties

One member of the College's Board of Trustees h