PORTER-GAUD SCHOOL

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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Independent Auditors' Report

To the Board of Trustees
Porter-Gaud School
Charleston, South Carolina

We have audited the accompanying consolidated financial statements of Porter-Gaud School and Subsidiary (the School), a not-for-profit organization, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Legare, Bailey & Hinske, LLC

Mt. Pleasant, South Carolina
October 14, 2014

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A LIMITED LIABILITY COMPANY

PORTER-GAUD SCHOOL
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 5,725,604	$ 5,531,044
Investments, unrestricted	7,555,911	6,477,683
Accounts receivable, net of allowance for doubtful accounts	707,015	407,222
Pledges receivable, net of allowance for doubtful accounts	39,988	21,672
Deposits	-	213,968
Prepaid expenses	260,253	200,259
Inventory	21,836	4,543
Cash surrender value of life insurance	32,964	41,494
Restricted cash and cash equivalents	112,655	162,766
Investments held for restricted purposes	7,820,911	6,690,107
Goodwill, net of accumulated amortization	4,676,042	4,676,042
Property and equipment, net of accumulated depreciation	37,402,848	31,578,661
Deferred charges, net of accumulated amortization	246,448	262,264
TOTAL ASSETS	$ 64,602,475	$ 56,267,725
LIABILITIES AND NET ASSETS		
Accounts payable	$ 226,869	$ 516,076
Advance tuition payments and deposits	4,161,965	3,676,793
Accrued compensation	881,958	837,108
Accrued expenses	362,514	425,342
Extracurricular activities and other funds	34,928	36,733
Charitable remainder unitrust liability	85,077	73,135
Other liabilities	82,487	5,636
Long-term debt	6,106,667	-
Interest rate swap	1,147,950	1,367,434
Bonds payable	20,305,000	20,660,000
Total liabilities	33,395,415	27,598,257
Net assets		
Unrestricted		
Capital investment, net of related debt	14,683,234	14,483,897
Designated	9,662,225	8,609,236
Undesignated	(1,071,965)	(1,276,538)
Total unrestricted	23,273,494	21,816,595
Temporarily restricted	2,631,613	1,794,028
Permanently restricted	5,301,953	5,058,845
Total net assets	31,207,060	28,669,468
TOTAL LIABILITIES AND NET ASSETS	$ 64,602,475	$ 56,267,725

See independent auditors' report and accompanying notes.

PORTER-GAUD SCHOOL
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	For the Years Ended June 30, 2014	2013
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and gains (losses)		
Tuition and fees, net of scholarships and financial aid	$ 20,329,532	$ 19,754,137
Gain on interest rate swap	219,484	492,322
Contributions	583,554	472,429
Rental income	414,243	407,336
Gains on investments	828,994	404,423
Athletics and activity fees	246,064	239,926
Investment income, net of management fees of $10,564 and $6,251	186,607	200,520
Fundraising by other supporting organizations	369,379	173,781
After school and extended day	162,087	162,300
Miscellaneous	55,277	131,288
Summer camps	91,070	94,015
Gain (loss) on disposal of property and equipment	-	(90,600)
Donor restricted funding restoration	1,079	102,207
Total unrestricted revenues and gains (losses)	23,487,370	22,544,084
Net assets released from restrictions	400,239	293,641
Total unrestricted revenues, gains (losses) and other support	23,887,609	22,837,725
Expenses		
Program	18,866,408	18,080,231
Administrative	2,719,622	2,745,190
Fundraising	844,680	690,199
Total expenses	22,430,710	21,515,620
Increase in unrestricted net assets	1,456,899	1,322,105
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	93,619	133,802
Gains on investments	945,086	480,752
Investment income, net of management fees of $15,051 and $9,577	200,198	200,713
Donor restricted funding deficiency	(1,079)	(102,207)
Total temporarily restricted support and gains (losses)	1,237,824	713,060
Net assets released from restriction	(400,239)	(293,641)
Increase in temporarily restricted net assets	837,585	419,419
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	243,108	113,972
Increase in permanently restricted net assets	243,108	113,972
Increase in net assets	2,537,592	1,855,496
NET ASSETS BEGINNING OF YEAR	28,669,468	26,813,972
NET ASSETS END OF YEAR	$ 31,207,060	$ 28,669,468

See independent auditors' report and accompanying notes.

PORTER-GAUD SCHOOL
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Program Services					For the Years Ended June 30,	
	Instruction and Activities	Plant	Total Programs	Administrative	Fundraising	2014	2013
COMPENSATION RELATED EXPENSES							
Salaries and wages	$ 8,908,198	$ 799,001	$ 9,707,199	$ 1,613,385	$ 336,595	$ 11,657,179	$ 11,173,127
Retirement plan contributions	755,369	56,925	812,294	156,617	28,800	997,711	989,421
Insurance and other benefits	1,396,229	108,224	1,504,453	224,854	24,842	1,754,149	1,598,499
Payroll taxes	640,163	58,503	698,666	107,382	24,415	830,463	811,443
Total	11,699,959	1,022,653	12,722,612	2,102,238	414,652	15,239,502	14,572,490
OTHER EXPENSES							
Materials, supplies and fees	1,239,172	-	1,239,172	21,544	51,743	1,312,459	1,334,638
Contracted services	735,497	-	735,497	-	-	735,497	698,163
Insurance	82,650	458,535	541,185	-	-	541,185	492,283
Repairs and maintenance	-	619,627	619,627	-	-	619,627	550,475
Utilities	-	416,105	416,105	-	-	416,105	418,540
Interest	-	840,683	840,683	-	-	840,683	735,747
Professional fees	-	-	-	109,639	21,898	131,537	216,930
Miscellaneous	26,430	-	26,430	141,397	24,845	192,672	193,530
Professional development	64,408	-	64,408	45,412	3,465	113,285	93,092
Rental property operating expenses	-	10,004	10,004	49,563	-	59,567	225,195
Capital expenditures under $5,000	152,796	49,945	202,741	4,230	-	206,971	98,154
Entertainment and events	-	-	-	24,317	53,945	78,262	79,461
Summer camps	30,888	-	30,888	-	-	30,888	30,713
Postage and printing	-	-	-	7,238	58,962	66,200	75,970
Telephone and internet	-	-	-	49,080	-	49,080	46,341
Dues, memberships and subscriptions	-	-	-	56,065	2,588	58,653	54,779
Staff recruitment	-	-	-	27,675	-	27,675	26,330
Bond expenses	-	5,350	5,350	-	-	5,350	5,150
Bad debt	30,885	-	30,885	-	20,000	50,885	37,715
Board of Trustees expenses	-	-	-	7,532	-	7,532	9,649
Total expenses before depreciation and amortization	14,062,685	3,422,902	17,485,587	2,645,930	652,098	20,783,615	19,995,345
Depreciation and amortization	-	1,292,033	1,292,033	73,692	-	1,365,725	1,338,300
Total before parent and alumni associations	14,062,685	4,714,935	18,777,620	2,719,622	652,098	22,149,340	21,333,645
Parent and alumni associations	88,788	-	88,788	-	192,582	281,370	181,975
Total expenses, year ended June 30, 2014	$ 14,151,473	$ 4,714,935	$ 18,866,408	$ 2,719,622	$ 844,680	$ 22,430,710	
Total expenses, year ended June 30, 2013	$ 13,413,816	$ 4,666,415	$ 18,080,231	$ 2,745,190	$ 690,199		$ 21,515,620

See independent auditors' report and accompanying notes.

PORTER-GAUD SCHOOL
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	For the Years Ended June 30, 2014	2013
OPERATING ACTIVITIES		
Increase in net assets	$ 2,537,592	1,855,496
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,365,725	1,338,300
Gain on investments	(1,774,080)	(885,175)
Gain on interest rate swap	(219,484)	(492,322)
(Gain) loss on disposal of property and equipment	-	90,600
Bad debt	50,885	37,715
Changes in operating assets and liabilities:		
Accounts receivable, net	(350,678)	(96,177)
Pledges receivable, net	(18,316)	50,632
Prepaid expenses	(59,994)	101,095
Inventory	(17,293)	1,485
Cash surrender value of life insurance	8,530	(8,255)
Accounts payable	(289,207)	(258,361)
Advance tuition payments and deposits	485,172	493,709
Accrued compensation	44,850	(4,040)
Accrued expenses	(62,828)	271,274
Extracurricular activities and other funds	(1,805)	1,068
Charitable remainder unitrust liability	11,942	5,654
Other liabilities	76,851	5,636
Net cash provided by operating activities	1,787,862	2,508,334
INVESTING ACTIVITIES		
Purchase of investments	(2,226,840)	(11,062,496)
Proceeds from sale of investments	1,814,611	10,473,845
Expenditures for capital assets	(560,128)	(1,165,489)
Deposit for purchase of land	-	(213,968)
Net cash used in investing activities	(972,357)	(1,968,108)
FINANCING ACTIVITIES		
Release (receipt) of cash for restricted purposes	27,388	(23,184)
Principal payments on long-term debt	(293,333)	-
Principal payments on bonds payable	(355,000)	(340,000)
Net cash used in financing activities	(620,945)	(363,184)
Net increase in cash and cash equivalents	194,560	177,042
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,531,044	5,354,002
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,725,604	$ 5,531,044
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 841,236	$ 687,375
Noncash investing and financing activities:		
Purchase of investments with restricted cash and cash equivalents	$ 22,723	$ 99,657
Property and equipment directly financed	$ 6,400,000	$ -
Property and equipment deposits placed in service	$ 213,968	$ -

See independent auditors' report and accompanying notes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Principles of Consolidation- The consolidated financial statements include the accounts of Porter-Gaud School and supporting organizations and its subsidiary, O'Quinn Schools of Porter-Gaud, Inc. (collectively, the School). The primary supporting organization is the Porter-Gaud Foundation, and other supporting organizations include the Parents Guild, Fathers' Association, Alumni Association, Porter Military Academy Alumni Association, and the O'Quinn PTO/Booster Clubs. All material inter-organization transactions have been eliminated.

Nature of Organization- The School is an independent coeducational college preparatory day school for pre-school and grades kindergarten through twelve located in Charleston, South Carolina and surrounding areas. The School is a not-for-profit corporation established under the laws of the State of South Carolina. The major sources of revenue for the School are tuition, fees and contributions.

Basis of Presentation- The consolidated financial statements of the School have been prepared on the accrual basis of accounting and follow the recommendations of the Financial Accounting Standards Board (FASB) in Financial Statements of Not-for-Profit Organizations. The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets include cash and investments in endowment restricted by donors for designated purposes (primarily scholarships and memorials), as well as contributions receivable not expected to be received within one year. Permanently restricted net assets consist of cash and investments in endowment, with income earned on these assets either restricted or unrestricted, depending on donor intent.

Reclassifications- Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Cash and Cash Equivalents- Cash and cash equivalents include all highly liquid investments with initial maturities of three months or less, as well as certain other highly liquid investments with short term maturities. Cash equivalents consist primarily of certificates of deposit and money market funds in the School's investment accounts.

Investments/Endowment Funds- Investments are carried at fair value based on quoted market prices, except for life insurance policies carried at their cash surrender value. The School records donated securities at their fair market value on the date of the donation. It is the School's policy to liquidate donated securities immediately upon receipt. Gains and losses on investments are reflected in the change in net assets. Investment income on restricted investments is maintained in the restricted funds in order to protect the purchasing power of the endowment.

Certain of the School's investments have been designated by donors as endowment funds. The School follows Endowments of Not-for-Profit Organizations, which defines more stringent guidelines on prudent management of endowment funds. South Carolina has also adopted the State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Trustees of the School has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of this interpretation, the School classifies in permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) 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 School in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the School 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 organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effects of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the School
(7) The investment policies of the School

Return Objectives and Risk Parameters
The School has adopted investment and spending policies for endowment assets that attempt to provide predictable streams of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results comparable to the price and yield results of broad market measures of return on investments.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the School 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 School targets a diversified asset allocation that places an emphasis on equity-based and fixed-income investments to achieve its long-term return objectives within prudent risk constraints. The desired investment objective is a long-term rate of return on assets that is at least 3% greater than the rate of inflation.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The School has a policy of appropriating for distributions as needed to cover any shortfall in operating funds. In applying this policy, the School considers the long-term expected return on its endowment. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow annually. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Annual transfers from endowment to operating funds are permitted in an aggregate amount not to exceed 5% of the three-year moving average of the market value of the fund at each fiscal year end. However, the Board of Trustees has voted to forgo withdrawals from the board designated endowment. This policy may be adjusted as deemed necessary by the Board.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable- Tuition and fees are recognized in the period that the educational instruction is performed. The School utilizes the allowance method for estimating bad debts. The allowance is based upon management's analysis of specific tuition receivables, which are written off when accounts are deemed uncollectible. Tuition receivables more than 60 days old are considered delinquent. An allowance for uncollectible amounts of $78,127 and $57,639 as of June 30, 2014 and 2013, respectively, has been provided for doubtful tuition receivables. Bad debt expense related to tuition receivables was $30,885 and $37,715 for the years ended June 30, 2014 and 2013. Accounts receivable include finance charges accrued on outstanding balances at the rate of 1.5% each month. The School utilizes a tuition refund program whereby a fee is charged for guaranteed tuition payment in the event a student withdraws or is dismissed from the School. The fee is 1.2% of the tuition charges for which the student is responsible. New students, students on academic or disciplinary probation, and students on the ten-month or 60/40 payment plan are required to participate in the tuition refund program.

Pledges Receivable- Pledges receivable include promises to give for annual giving (to support operations), capital expenditures, and scholarships. Pledges are recorded as contributions at the time the promises to give are made and are, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges are recorded as temporarily or permanently restricted contributions based on their purpose and/or time restrictions. When the restrictions are met, the amounts are recorded in the Consolidated Statements of Activities as releases from restrictions. Pledges expected to be collected within one year are recorded at their net realizable value. Pledges expected to be collected in future years are recorded at the present value of their estimated future cash flows using discount rates that range from 2-5%. An allowance for doubtful pledges has been recorded for $26,228 and $6,228 as of June 30, 2014 and 2013, respectively. Bad debt expense related to uncollectible pledges was $20,000 and $- for the years ended June 30, 2014 and 2013.

Inventory- Inventory consists of required accessory uniform items on hand that are not available from the outside uniform vendor, and include neckties and sweatshirts. Inventory is stated at the lower of cost or market on a first-in, first-out basis.

Goodwill- Goodwill was originally recorded as a result of the purchase of the O'Quinn Schools in June 2008. In June 2009, the FASB issued Not-for-Profit Entities - Mergers and Acquisitions, which changed the method of accounting for goodwill by not-for-profits. This statement was effective for the fiscal year beginning July 1, 2010, at which time the School ceased amortizing goodwill and began testing annually for impairment instead. Goodwill at June 30, 2014 and 2013 totaled $5,025,000. Accumulated amortization related to goodwill, recorded prior to the implementation of Not-for-Profit Entities - Mergers and Acquisitions, was $348,958 as of June 30, 2014 and 2013.

The School is required to complete an impairment test for goodwill and annually record any resulting impairment losses. Changes in market conditions, among other factors, may have an impact on these estimates. At June 30, 2014 and 2013, management believes that no impairment to goodwill exists.

Property and Equipment- The School capitalizes expenditures for property and equipment with a cost over $5,000 and an estimated useful life greater than one year. Purchased property and equipment are carried at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation, less accumulated depreciation, and reported as unrestricted support unless the donor has restricted the asset's use. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets, ranging from 5 to 50 years.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Maintenance and repairs which do not improve or extend the lives of the respective assets are charged to operations when incurred. Betterments and renewals that extend the useful lives of property and equipment are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation accounts are reduced, and any gain or loss is included in the Consolidated Statements of Activities.

Deferred Charges- Deferred charges consist of bond issuance costs of $219,086 and acquisition start-up costs of $100,298 at June 30, 2014 and 2013, net of accumulated amortization of $72,936 and $57,120, respectively. These costs are being amortized over the estimated useful lives of the assets, or the related period of debt, as appropriate. Amortization expense of $15,816 and $15,815 has been recognized in the accompanying statements for the years ended June 30, 2014 and 2013. Estimated amortization expense related to these deferred charges was scheduled to be approximately $15,815 over each of the next five years. Subsequent to year end the net bond issuance costs of $146,150 were fully amortized upon refinance of the bonds. See also Note J.

Advance Tuition Payments and Deposits- Tuition revenue, including enrollment fees, is recognized for the school year to which it relates, which corresponds to the fiscal year. Installments or fees paid in advance of the following school year are recorded as deferred revenue until the school year begins. Summer camp deposits are recorded as deferred revenue and recognized in the fiscal year the camps are held.

Revenue Recognition- Contributions that are received or unconditionally pledged are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. The School reports contributions as restricted support if they are received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restriction. Grants and contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. The School reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Scholarships and Financial Aid- Net tuition and fees reflect the School's normal tuition rates for all students, net of scholarships awarded on the basis of financial need. Dependents of School employees are eligible to receive reduced tuition rates subject to certain limitations. Revenue under these arrangements is included in tuition and fees, while the reduction is included as a benefit expense in the Consolidated Statements of Functional Expenses.

Advertising- Advertising costs are expensed as incurred. Total advertising expense was $76,949 and $40,213 for the years ended June 30, 2014 and 2013.

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

Fair Value of Financial Instruments- FASB's Fair Value Measurements establishes a framework for measuring fair value, and expands disclosures about fair value measurement. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this standard, fair value measurements are disclosed by level within that hierarchy. The School utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments- The School utilizes derivative instruments to reduce interest rate risk on its debt, not for trading or speculative purposes. Interest rate swap agreements are used to convert the School's floating rate long-term debt to fixed rates. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the principal amount upon which the payments are based, and are recorded as an adjustment of interest expense. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest when appropriate.

The School does not use hedge accounting and therefore records the derivative instruments at fair market value at year-end as reflected on the Consolidated Statements of Financial Position in an interest rate swap liability, and included in current earnings within gain or loss on interest rate swap. The School is exposed to credit risk in the event of nonperformance by the counterparties. However, management does not consider this probable or likely.

Use of Estimates- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the School's financial position and results of operations, and disclosure of contingent assets and liabilities. Areas requiring significant estimates include the determination of any goodwill and other long-lived asset impairment, the estimated useful lives of property and equipment, the estimated fair value of the School's investments and the related unrealized gains or losses on investments, the estimated fair value of the School's interest rate swap and the related gains or losses, and the allocation of expenses by function. It is at least reasonably possible that the estimates used will change within the near term.

Income Taxes- Porter-Gaud School qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified by the IRS as other than a private foundation under Section 509(a)(2). Porter-Gaud School is exempt from filing an annual information return with the IRS under Section 501(a)(3).

O'Quinn Schools of Porter-Gaud, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified by the IRS as other than a private foundation under Section 509 (a)(2).

The School previously created a separate nonprofit Foundation (the Foundation), the purpose of which is to maintain the School's endowment and support and generate funds for the School and the endowment, and transferred all of its endowment funds to the Foundation. The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified by the IRS as a supporting organization under Section 509(a)(3).

The School has adopted Accounting for Uncertainty in Income Taxes in its financial statements. Accordingly, management evaluates the School for any uncertain tax positions or unrecognized tax benefits or liabilities that may exist. Management does not believe that any uncertain tax positions or unrecognized tax benefits or liabilities exist as of June 30, 2014 and 2013. The School's policy is to report accrued interest related to unrecognized tax benefits, if any, as interest expense and to report penalties, if any, as other expense.

With few exceptions, the School is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years ending prior to 2010.

Donated Services- The School pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific assistance programs, campaign solicitations, and various committee assignments. These donated services do not meet the criteria for recognition under Accounting for Contributions Received and Contributions Made and accordingly no amounts have been reflected in the consolidated financial statements for donated services.

B. CONCENTRATIONS OF RISK

Accounts that potentially subject the School to credit risk include cash and pledges receivable. Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at June 30, 2014 and 2013, and non-interest bearing accounts had unlimited coverage until December 31, 2012. Bank deposits in excess of FDIC coverage totaled $4,495,732 and $4,371,194 at June 30, 2014 and 2013, respectively. Pledges receivable are stated at net realizable value.

The School is dependent upon contributions from donors and tuition and fees from students, most of whom are located in the Charleston, South Carolina geographic area.

The School extends unsecured credit to parents of students that participate in either of two extended payment plans for tuition and fees. Finance charges are recorded monthly for accounts that are considered past due. Full payment of tuition for the fiscal year may not be collected from some students by the end of the school year.

The School has significant investments and cash equivalents held by investment managers and is thereby subject to concentrations of credit risk. Balances are insured up to $500,000, including a limit of $250,000 for cash and cash equivalents, by the Securities Investor Protection Corporation (SIPC). As of June 30, 2014 and 2013, the School had investments and cash equivalents held by investment managers with market values of approximately $14,169,179 and $12,020,881 in excess of SIPC limits, respectively. As of June 30, 2014, approximately 90% of the School's investments are held in ten different Vanguard mutual funds.

The School's investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position. The School may invest in securities with contractual cash flows, such as asset backed securities, interest rate swaps, and mortgage backed securities.

The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

C. INVESTMENTS

Investments are stated at market value based upon quoted market prices. During the year ended June 30, 2013, the School changed investment advisors managing the primary endowment fund accounts and invested the funds entirely in mutual funds issued by Vanguard. As of June 30, 2014 and 2013, all of the School's investments were held in mutual funds.

C. INVESTMENTS (Continued)

The reported net gain (loss) on investments in the Consolidated Statements of Activities is comprised of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Unrestricted		
Unrealized gain	$ 789,846	$ 366,274
Realized gain	39,148	38,149
Subtotal	828,994	404,423
Restricted		
Unrealized gain	895,585	450,294
Realized gain	49,501	30,458
Subtotal	945,086	480,752
Total gain on investments	$ 1,774,080	$ 885,175

D. SPLIT INTEREST AGREEMENTS

The School administers a charitable remainder unitrust (CRUT) which provides for the payment of distributions to the grantor over the trust's term (in this case, the grantor's lifetime). At the end of the trust's term, the remaining assets are available for the School's use. The portion of the trust attributable to the present value of the future benefits to be received by the School was recorded in the Consolidated Statements of Activities as a temporarily restricted contribution of $40,000 for the year ended June 30, 2009, the year the trust was established. Assets held in the charitable remainder trust totaled $125,077 and $113,135 at June 30, 2014 and 2013 and are reported at fair market value with restricted investments in the Consolidated Statements of Financial Position. On an annual basis, the School revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is $85,077 and $73,135 at June 30, 2014 and 2013, and is calculated using a discount rate of 6% and applicable mortality tables.

E. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements 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 between market participants on the measurement date. Fair Value Measurements also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the School performs an analysis of the assets and liabilities that are subject to Fair Value Measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The fair value of the School's investment in corporate bonds is estimated using various market approaches, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (when observable), and bond spreads, and are classified as Level 2.

E. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the School's investment in cash surrender value of life insurance is estimated using various market approaches, based upon the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, and dividend accumulations, and is classified as Level 3.

The fair value of the School's CRUT liability is calculated based upon an income approach using actuarial assumptions and other unobservable inputs, and is classified as Level 3. The valuation technique used is a calculation of the discounted present value of the expected future cash flows using unobservable inputs including a projected annual earnings/growth rate on the trust assets of 10%, a projected annual payout to the grantor of 6% of the trust assets, and a present value discount rate of 6%.

The fair value of the School's interest rate swap is estimated using various market approaches, derived from models based on certain assumptions and observable pricing inputs regarding past, present and future market conditions, and is classified as Level 2.

Fair values of assets (liabilities) measured at fair value on a recurring basis at June 30, 2014 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Mutual funds	$ 15,376,822	$ 15,376,822	$ -	$ -
Cash surrender value, life insurance	32,964	-	-	32,964
CRUT liability	(85,077)	-	-	(85,077)
Interest rate swap	(1,147,950)	-	(1,147,950)	-

Fair values of assets (liabilities) measured at fair value on a recurring basis at June 30, 2013 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Mutual funds	$ 13,167,790	$ 13,167,790	$ -	$ -
Cash surrender value, life insurance	41,494	-	-	41,494
CRUT liability	(73,135)	-	-	(73,135)
Interest rate swap	(1,367,434)	-	(1,367,434)	-

The following table presents additional information about the activity of Level 3 assets and liabilities measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the School has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., change in actuarial models) inputs.

	Cash Value Life Insurance	CRUT Liability
Beginning balance July 1, 2012	$ 33,239	$ 67,481
Total gain	8,255	12,132
Settlements	-	(6,478)
Ending balance June 30, 2013	41,494	73,135
Total gain	484	18,937
Settlements	(9,014)	(6,995)
Ending balance June 30, 2014	$ 32,964	$ 85,077

E. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The total gains and losses on the cash value life insurance are unrealized and included in the gains (losses) on investments in the Consolidated Statements of Activities. The total gains and losses on the CRUT liability are included in investment income and gains (losses) on investments in the Consolidated Statements of Activities, of which $14,773 and $7,265 is unrealized for the years ended June 30, 2014 and 2013.

Transfers among levels are recognized at the end of the reporting period. There were no such transfers during the years ended June 30, 2014 and 2013.

Management reviews the fair value measurements periodically and considers any changes necessary based on market and other factors. With the adoption of ASU 2011-04, there were no changes in valuation technique and related inputs resulting from the adoption of the new requirements.

F. ENDOWMENTS

As explained in Note A, the School follows Endowments of Not-for-Profit Organizations, which governs the accounting and disclosure requirements for endowments. The School's endowments consist of several individual funds established for a variety of purposes. As required by generally accepted accounting principles, 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. The following tables present information for the endowments:

Endowment net asset composition and corresponding changes as of and during the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 2,524,845	$ 5,301,953	$ 7,826,798
Board designated endowment funds	6,226,480	-	-	6,226,480
Total funds	$ 6,226,480	$ 2,524,845	$ 5,301,953	$ 14,053,278
Changes in endowment net assets:				
Endowment net assets, beginning of year	$ 5,304,640	$ 1,659,873	$ 5,058,845	$ 12,023,358
Investment return:				
Investment income, net	157,445	200,198	-	357,643
Net gains (realized and unrealized)	740,465	945,086	-	1,685,551
Total investment return	897,910	1,145,284	-	2,043,194
Contributions/designations	22,851	-	243,108	265,959
Restoration of previous donor restricted funding deficiency	1,079	(1,079)	-	-
Board approved withdrawals	-	(279,233)	-	(279,233)
Endowment net assets, end of year	$ 6,226,480	$ 2,524,845	$ 5,301,953	$ 14,053,278

F. ENDOWMENTS (Continued)

Endowment net asset composition and corresponding changes as of and during the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 1,659,873	$ 5,058,845	$ 6,718,718
Board designated endowment funds	5,304,640	-	-	5,304,640
Total funds	$ 5,304,640	$ 1,659,873	$ 5,058,845	$ 12,023,358
Changes in endowment net assets:				
Endowment net assets, beginning of year	$ 4,525,655	$ 1,213,637	$ 4,944,873	$ 10,684,165
Investment return:				
Investment income, net	157,222	200,713	-	357,935
Net gains (realized and unrealized)	371,806	480,752	-	852,558
Total investment return	529,028	681,465	-	1,210,493
Contributions/designations	147,750	25,000	113,972	286,722
Restoration of previous donor restricted funding deficiency	102,207	(102,207)	-	-
Board approved withdrawals	-	(158,022)	-	(158,022)
Endowment net assets, end of year	$ 5,304,640	$ 1,659,873	$ 5,058,845	$ 12,023,358

The endowment balances are included in the following accounts at June 30, 2014 and 2013:

	2014	2013
Cash and cash equivalents	$ 5,887	$ 33,613
Investments	14,132,468	12,062,880
CRUT liability	(85,077)	(73,135)
Total	$ 14,053,278	$ 12,023,358

G. PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30, 2014 and 2013:

	2014	2013
Gross pledges receivable	$ 66,216	$ 27,900
Less: allowance for doubtful accounts	(26,228)	(6,228)
Pledges receivable, net	$ 39,988	$ 21,672

All pledges receivable as of June 30, 2014 are expected to be collected during the year ended June 30, 2015.

H. PROPERTY AND EQUIPMENT

Property and equipment include the following at June 30, 2014 and 2013:

	2014	2013
Construction in progress	$ 310,509	$ 384,587
Land - O'Quinn School James Island	3,445,528	3,445,528
Land - O'Quinn School Mt. Pleasant	2,768,549	2,768,549
Land - School	231,476	231,476
Land - Warehouse building	800,000	800,000
Land - 202 Albemarle	193,000	193,000
Land - 39 Folly Road	6,471,871	-
Land improvements	1,163,249	1,163,249
Buildings - School	17,900,560	17,900,560
Buildings - O'Quinn School James Island	2,234,683	2,202,855
Buildings - O'Quinn School Mt. Pleasant	4,821,765	4,821,765
Warehouse building and improvements	1,489,348	1,489,348
Building and improvements - 202 Albemarle	337,027	337,027
Athletic fields	4,251,898	4,229,693
Athletic equipment	212,101	212,101
Classroom equipment	947,935	1,019,513
Furniture, fixtures and office equipment	1,017,779	1,029,027
Technology equipment - instructional	809,777	734,920
Library equipment	35,667	35,667
Chapel equipment	15,514	15,514
Plant equipment	1,288,835	1,008,565
Grounds equipment	148,088	148,088
Playground equipment	39,979	39,979
Kitchen equipment	266,479	73,122
Vehicles	237,588	228,440
Capitalized interest	242,242	242,242
Total property and equipment	51,681,447	44,754,815
Less: Accumulated depreciation	(14,278,599)	(13,176,154)
Property and equipment, net	$ 37,402,848	$ 31,578,661

Depreciation expense for the years ended June 30, 2014 and 2013 was $1,349,909 and $1,322,485, respectively.

The school owns a warehouse building that is used for investment purposes and for possible future use by the School in operations. Land, building, and improvements at a cost of $2,289,348 are included in property and equipment, but are not used for operating purposes. The building is being depreciated over an estimated life of 50 years. The improvements are being depreciated over the original lease life of 13 years. Accumulated depreciation on the building with improvements amounts to $555,074 and $503,622 at June 30, 2014 and 2013, respectively. See also Note K.

The School also owns a residential property adjacent to School land. This property is being held for possible future expansion needs of the School and will be rented out until such time as it is needed. Land, building, and improvements at cost of $530,027 are included in property and equipment but are not being used for operating purposes. The building is being depreciated over an estimated life of 50 years, and improvements over 15 years. Accumulated depreciation on the building is $62,005 and $53,553 at June 30, 2014 and 2013, respectively.

H. PROPERTY AND EQUIPMENT (Continued)

During the year ended June 30, 2014, the School purchased approximately 5.2 acres of land adjacent to the Porter-Gaud campus for investment purposes and possible future use by the School in operations. Land and other costs of $6,471,871 are included in property and equipment, but are not used for operating purposes.

I. FINANCIAL INSTRUMENTS

On December 24, 2001, the School entered into an interest rate swap with a notional amount of $5,000,000 and a termination date of December 1, 2018. This swap was entered into to hedge $5,000,000 of long-term bond debt. The School pays interest at a fixed rate of 4.105% and receives interest at a floating rate that is 67% of 3-month LIBOR. The bond that the outstanding notional amount was tied to was refinanced in November 2010. This swap agreement survived the refinancing. The outstanding notional amount was $2,050,000 and $2,400,000 as of June 30, 2014 and 2013, respectively.

On September 25, 2008, the School entered into an interest rate swap with a notional amount of $8,300,000 and a termination date of December 1, 2010. This swap was entered into to hedge $8,300,000 of variable-rate bond debt. This swap agreement was reset to a new rate effective December 1, 2010, with a new outstanding notional amount of $8,900,000. The School pays interest at a fixed rate of 3.31% and receives interest at 67% of 1-month LIBOR under this swap agreement. The bond that the outstanding notional amount was tied to was refinanced in November 2010. The outstanding notional amount was $9,255,000 and $9,260,000 as of June 30, 2014 and 2013, respectively. This swap agreement and the pre-existing swap agreement noted above hedge $12,000,000 of the total $21,000,000 in Series 2010 tax-exempt bonds issued in November 2010.

At June 30, 2014 and 2013, the estimated fair value of these swap agreements was a negative value of $1,147,950 and $1,367,434, respectively. These amounts have been reported as a liability and the change has been reported as a gain on interest rate swaps in the consolidated financial statements.

J. BONDS PAYABLE AND LONG-TERM DEBT

On September 25, 2008 Porter-Gaud issued an obligation for $12,000,000 in tax-exempt bonds, receiving net proceeds of $11,783,545 after underwriting and other fees. The bonds were issued by the South Carolina Jobs-Economic Development Authority (SCJEDA) and the proceeds loaned to the School, with re-payment secured by a direct-pay letter of credit with Wachovia Bank. The bonds were used for payment of Series 2001 bonds, payment of bond issuance costs, payment of outstanding amounts on the line of credit, payment of liabilities from the acquisition of the O'Quinn Schools on June 5, 2009, and various other capital projects to improve and expand the current School facilities. Redemption payments began in 2012, and the bonds mature on December 1, 2033. The bonds require monthly interest at a SIFMA municipal swap index rate. Interest on the direct-pay letter of credit with Wachovia is payable monthly at the bank's prime rate plus 1.0%.

On November 30, 2010 Porter-Gaud issued an obligation for $21,000,000 in tax-exempt bonds. The bonds were issued by SCJEDA. The bond proceeds were used to refinance the outstanding $12,000,000 balance of the Series 2008 bonds and to provide an additional $9,000,000 for payment of bond issuance costs, the acquisition of land in Mt. Pleasant for the construction of a new O'Quinn School facility, and to acquire, improve, and expand the existing O'Quinn School and adjacent property on James Island. The residual funds were held in escrow and used to partially fund construction of the new O'Quinn Mt. Pleasant facility. Redemption payments began on December 1, 2012, and the bonds mature on December 1, 2033. The bonds require monthly interest at a rate of 65.7% of 1-month LIBOR plus 1.49%.

J. BONDS PAYABLE (Continued)

The bond agreement requires certain affirmative and negative covenants, including maintenance of a cash flow ratio of not less than 1.2 : 1.0. At June 30, 2014 and 2013, the School was not aware of any bond covenant violations. The bond also carries a sinking fund requirement, whereby the School is required to deposit 25% of the next succeeding annual principal payment with respect to the bonds by the first business day of each calendar quarter. The cash balance in the sinking fund was $851,348 and $606,961 at June 30, 2014 and 2013, respectively.

During the year ended June 30, 2013, the School entered into an agreement to purchase approximately 5.2 acres of land adjacent to the Porter-Gaud campus. Preacquisition costs and earnest money in the amount of $213,968 are included in deposits in the Consolidated Statements of Financial Position as of June 30, 2013. On July 21, 2013, the School purchased the property for $6,400,000. The purchase was funded with a loan from Wells Fargo which has a 65 month term, bears interest at 30-day LIBOR plus 2%, and has repayment terms of principal plus interest based on a 20-year amortization schedule, with all remaining interest and principal due at maturity. The loan is secured by new property purchased, along with the land, building and improvement properties at the O'Quinn School James Island, the O'Quinn School Mt. Pleasant, and the warehouse property.

The bonds and long-term debt are scheduled to be redeemed with annual principal payments in the following amounts for years ending June 30:

2015	$ 1,000,000
2016	1,025,000
2017	1,060,000
2018	1,090,000
2019	1,125,000
Thereafter	21,111,667
	$ 26,411,667

Subsequent to the year ended June 30, 2014, the School issued new tax-exempt bonds totaling $35,649,000. The bonds were issued by SCJEDA. Proceeds from the new bonds were used to refinance the outstanding balances on the previously existing bonds and long-term debt, fund the new bond issuance costs, and provide approximately $8,800,000 of additional funds for use in future construction and improvements to School property. Redemption payments are scheduled to begin on September 1, 2014, and the bonds mature on December 1, 2045.

K. LEASING ACTIVITIES: WAREHOUSE BUILDING

The School executed a lease with the warehouse building tenant that began December 1, 2006. The lease requires tenant reimbursement of operating costs including insurance, repairs and maintenance, and taxes. The lease was amended on February 16, 2012 to extend the term to March 31, 2017. Base rents are $30,469 monthly through March 31, 2014, increasing to $31,383 thereafter.

Future minimum rents expected to be received under the terms of the operating lease are as follows for the years ending June 30:

2015	$ 376,598
2016	376,598
2017	282,448
Total	$ 1,035,644

L. LEASING ACTIVITIES: O'QUINN

The School entered into a leasing agreement for the O'Quinn property located at 955 Houston Northcutt Boulevard. The agreement was effective beginning June 5, 2009, and expired on June 4, 2013. It called for monthly rental payments beginning at $14,043, increasing by 3% each year. The premises were vacated when the new Mount Pleasant facility was completed. Rent expense under this agreement was $- and $175,973 for the years ended June 30, 2014 and 2013, respectively.

M. LINE OF CREDIT

The School has a line of credit with a $750,000 limit with Wells Fargo, secured by the warehouse real estate. Interest on the line is payable monthly at the bank's prime rate minus 0.25%. The line matures in January 2015. There was no outstanding balance on the line at June 30, 2014 and 2013.

N. RESTRICTED NET ASSETS

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

	2014	2013
Temporarily restricted:		
Scholarships, financial aid, and awards	$ 2,524,845	$ 1,659,873
Expendable grants and contributions	106,768	134,155
Total temporarily restricted net assets	2,631,613	1,794,028
Permanently restricted:		
Scholarships, financial aid, and awards	5,301,953	5,058,845
Total restricted net assets	$ 7,933,566	$ 6,852,873
Restricted investments	$ 7,820,911	$ 6,690,107
Restricted cash and cash equivalents	112,655	162,766
Total restricted net assets	$ 7,933,566	$ 6,852,873

O. UNRESTRICTED NET ASSETS

The School's Board of Trustees has chosen to place the following limitations on otherwise unrestricted net assets as of June 30, 2014 and 2013:

	2014	2013
Plant - maintenance and debt service	$ 2,758,095	$ 2,677,265
Development	376,222	377,592
Short-term disability	50,199	50,199
Supporting organizations	251,229	199,541
Endowment - unrestricted, board designated	6,226,480	5,304,639
Total designated net assets	$ 9,662,225	$ 8,609,236

O. UNRESTRICTED NET ASSETS (Continued)

Unrestricted net assets as of June 30, 2014 and 2013 includes the School's investment in capital assets, net of related debt, as follows:

	2014	2013
Goodwill, net	$ 4,676,042	$ 4,676,042
Property and equipment, net	37,402,848	31,578,661
Deferred charges, net	246,448	262,264
Other liabilities	(82,487)	(5,636)
Long-term debt	(6,106,667)	-
Interest rate swap	(1,147,950)	(1,367,434)
Bonds payable	(20,305,000)	(20,660,000)
Total capital investment, net of related debt	$ 14,683,234	$ 14,483,897

P. EMPLOYEE BENEFITS

The School sponsors a defined contribution pension plan for the benefit of its employees. The Teachers Insurance and Annuities Fund (TIAA) administers the plan. The School contributes 8% of each full time employee's eligible compensation as well as a matching contribution ranging from 2% to 3% based on years of service. Employees can contribute the maximum amount allowed by law. The School contributed $997,711 and $989,421 to the plan for the years ended June 30, 2014 and 2013, respectively.

The School sponsors a cafeteria plan, which qualifies under Section 125 of the Internal Revenue Code, and permits tax deferral of compensation for health benefits. The School also sponsors medical and dental savings accounts. Qualified employees may contribute the maximum amount allowed by law on a pre-tax basis. Amounts contributed may be used to cover eligible medical or dental expenses not covered by a health insurance plan. In accordance with IRS regulations, at the end of the plan year, an employee forfeits any unused contributions. The School may also be required to pay eligible expenses in excess of employee contributions at the date the expenses are submitted for payment. The excess of medical expenses paid over employee contributions was immaterial to the financial statements taken as a whole as of June 30, 2014 and 2013.

Q. RELATED PARTY TRANSACTIONS

The School has engaged a company owned by a member of the Board of Trustees for various information technology services, maintenance and consulting. The School paid $19,121 and $24,430 during the years ended June 30, 2014 and 2013, respectively for these services.

The School has engaged a company owned by a member of the 2012-2013 Board of Trustees for various fundraising and development consulting services. The School paid $20,877 and $31,573 during the years ended June 30, 2014 and 2013, respectively for these services.

R. FUND RAISING EXPENSES

Fund raising expenses are disclosed in the Consolidated Statements of Functional Expenses. Including supporting organizations' revenues, contributions of approximately $1,251,344 and $944,716 were collected in 2014 and 2013. These contributions were determined on the basis of cash collections. Fund raising expenses totaled $844,680 and $690,199 in 2014 and 2013 including other supporting organizations, or 67.50% and 73.06% of contributions collected. Fund raising expenses totaled $652,098 and $575,769 in 2014 and 2013 excluding other supporting organizations, or 52.11% and 60.95% of contributions collected. Total fund raising expenses including other supporting organizations were 3.77% and 3.21% of total expenses for the years ending June 30, 2014 and 2013, respectively.

S. FINANCIAL AID

Porter-Gaud offers a financial aid program to support its goal that the ability to pay full tuition not be a deciding factor in determining a student's attendance. Expenditures for financial aid amounted to $1,921,900 and $1,945,970 during the years ended June 30, 2014 and 2013, respectively. Tuition remission amounted to $743,335 and $561,542 during the years ended June 30, 2014 and 2013, respectively.

T. IMPAIRMENT OF LONG-LIVED ASSETS

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an individual asset or asset group may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount is not deemed recoverable and exceeds its fair value, an impairment loss is recognized and the asset is written down to fair value. Long-lived assets are reviewed for impairment at the individual asset group level for which the lowest level of independent cash flows can be identified.

During the year ended June 30, 2014, the School purchased property adjacent to the Porter-Gaud campus. In connection with financing the purchase, an independent appraisal of the land, building and improvements of the James Island O'Quinn School campus was obtained. The appraised value of the property was less than the carrying value. However, management believes the carrying value is recoverable based upon the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Accordingly, no impairment loss has been recognized in the Consolidated Financial Statements.

U. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 14, 2014, the date which the financial statements were available to be issued.