INDEPENDENT CONSULTANT'S REPORT ON:

COMPLIANCE WITH BOND COVENANTS - ADDENDUM #5

FEBRUARY 25, 2016

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Dear Messers Birkholz and Mr. Shinn:

Please accept Longhouse Capital Advisors' Independent Consultant Report entitled "Report on Iowa Wesleyan University's Compliance with Bond Covenants" dated February 25, 2016. This report is an addendum to our earlier reports dated January 15, 2013; December 1, 2013; June 5, 2014; January 7, 2015; and August 21, 2015; all of which are posted on EMMA.

The goals of this addendum are as follows:

- To report on the University's compliance with intra-year covenant requirements for full-time enrollment and liquidity, as required under the Forbearance Agreements;
- To discuss the University's FY 2015 year-end financials, highlighting differences between its preliminary budget and its year-end performance;
- To report on the University's FY 2015 lack of compliance with the Debt Service Coverage Ratio covenant requirement as set out in the Forbearance Agreements; and to report on the Series 2006 and 2011 bondholders' subsequent waiver of that covenant violation;
- To highlight the institutional progress the University has made on many fronts over the past 3 years, while also pointing out risk factors and budget vulnerabilities;
- To discuss the University's current efforts to refinance the Series 2006 and Series 2011 bonds, along with other debt using a loan from the U.S. Department of Agriculture; and
- To outline the topics which will be discussed in the Independent Consultant's next Report.

Sincerely,

Michael Boisvert

Michael Boisvert, President
Longhouse Capital Advisors

REPORT ON IOWA WESLEYAN UNIVERSITY'S COMPLIANCE WITH BOND COVENANTS

RECAP OF EVENTS SINCE AUGUST 21, 2015 REPORT

As described in our January and December 2013 reports, Iowa Wesleyan University ("IWU" or "the "University") has failed to meet its required Debt Service Coverage Ratio of 1.10X for FY 2012 and FY 2013. In the June 5th, 2014 Independent Consultant Report, Longhouse reported that the University would likely fail to meet its required Debt Service Coverage Ratio of 1.1X for the 3rd year in a row, triggering an Event of Default under the Series 2006 and 2011 Loan Agreements. We also reported that, based on the University's projections in its Recovery Plan, non-compliance with the Coverage ratio would likely continue for the fiscal years ended May 31, 2015, 2016 and 2017.

Based on these projections, IWU requested that the Series 2011 Bank Group, led by Two Rivers Bank, and Wells Fargo, Bond Trustee for the Series 2006 bondholders, each enter into virtually identical Forbearance Agreements with the University. In these agreements the Bondholders and Bond Trustee would forbear from exercising remedies based upon the projected defaults. The University proposed initial terms for a forbearance agreement in June of 2014, and that proposal was discussed in our June 5, 2014 report. In subsequent negotiations with the 2011 bondholders and the Series 2006 Bond Trustee, the original proposal was amended, adding higher minimum debt service coverage ratios in each year and new enrollment and liquidity covenants. The final Agreement was outlined in our January 7, 2015 Report.

While the agreement of the 2011 bondholders to their version of the Forbearance Agreement was straightforward, the Series 2006 Bond Trustee's approval process was more involved. The Bond Trustee sought Series 2006 bondholder guidance on the final negotiated agreement, which was dated August 6, 2013, but received no comments. The Trustee then notified bondholders that it would file with the District Court of Hennepin County, MN a Verified Petition seeking instruction from the Court concerning the Trustee's entrance into the Forbearance Agreement. A September 24th Court hearing was set. No parties appeared at the hearing or expressed opposition to the Petition. On September 29, 2014, the Court handed down an order authorizing Wells Fargo Trust to enter into the Agreement. The University was in compliance with terms of the 2014 forbearance agreement at its 2/15/15 and 10/15/15 measurement dates.

In the months since the August 21, 2015 report, three key events transpired:

- The expected violation of the debt service coverage ratio threshold contained in the 2014 Forbearance Agreement has been confirmed by the University.
- The University sought a 1-year waiver of this violation from the Series 2006 and 2011 bondholders, and this waiver was granted in both cases.
- The University has begun steps to refinance its Series 2006 and 2011 bonds using a direct loan offered through the Community Facilities program of the U.S. Department of Agriculture.

Additional information on each of these events is provided in the paragraphs below.

PERFORMANCE ON FORBEARANCE TERMS SINCE AUGUST 21, 2015

Compliance with the enrollment and liquidity covenants over the past 6 months is described in the following two sections. In the section following that, we describe the University's FYE 2015 financial performance – performance which, as expected, led to a failure by the University to meet the Debt Service Coverage ratio thresholds as laid out in the Forbearance Agreements.

Minimum Enrollment Covenant

The University covenants that it will maintain enrollment of full-time students taking 12 or more credit hours (excluding any on-line or "Adult and Graduate Studies" students), for the following periods. As the table below illustrates, the University has been in compliance with this covenant for the last three semiannual periods, and based on final Spring numbers, remains in compliance in February 2016. As of February 15, 2016, the final count of registered student full-time enrollment for the spring semester was 321.

Enrollment Test Date	Minimum Full-Time Headcount	Actual Full-Time Headcount
10/15/14	329	361
2/15/15	263	314
10/15/15	342	375
2/15/16	274	321
10/15/16	371	
2/15/17	297	
10/15/17	446	
2/15/18	356	

Long-Term Liquidity Ratio

As of each August 31 and February 28th (or 29th), the University must maintain a liquidity ratio whereby its Unrestricted Cash and Investments *plus* Amounts on Committed Lines of Credit *divided by* all long-term debt payments coming due in the next 90 days will be greater than 1.5X. As shown below, the University was in compliance with its liquidity ratio at 8/31/2015. It should be noted that the calculations below do not include the Wells Fargo Debt Reserve Fund in the available cash balance. According to the University's auditors, this amount (currently approximately $374,000) may in fact be included as part of available liquidity, since its intent is to cover debt payments. Had it been included, the liquidity ratio would be approximately 2.6X.

Liquidity Covenant Compliance (as of 8/31/2015)

	Unrestricted Cash and Investments	$ 473,643
Plus:	Undrawn Amounts on Committed lines of credit	$ 299,391
Equals:	Total Available Liquidity	$ 773,034
Divided by:	All LT debt payments coming due w/i 90 days of measurement date	$ 432,553
Liquidity Ratio:		
	Total Available Liquidity / LT indebtedness payments due w/I 90 days	1.80X
	Required Minimum Ratio	1.50X

Minimum Debt Service Coverage Ratio

The University has agreed to maintain the following debt service coverage ratios, calculated in the way prescribed in the Series 2006 and 2011 Loan Agreements, as of the following fiscal year ends.

Fiscal Year	Debt Service Coverage Ratio (no lower than)
2014	(2.33X)
2015	(1.55X)
2016	(0.38X)
2017	0.69X
2018	1.10X

Based on the University's projection of year-end performance, IWU will not be in compliance with its debt service coverage ratio under the 2014 Forbearance Agreements.

Expected Debt Service Coverage Ratio (Projection based on FY 2015 audit)

	Change in Unrestricted Net Assets		($5,020,333)
Plus:	Interest Expense		$ 688,389
Plus:	Depreciation Expense		$ 1,022,944
Equals:	Net Revenues Available for Debt Service		$(3,309,000)
Divided By:	Total Long-term debt service		
	2006 Bonds	$381,893	
	2011 Bonds	$508,988	
	Other Debt Service	$163,928	
	Total		$1,054,809
Equals:	Debt Service Coverage Ratio for FY 2015		(3.14X)
Compare to:	Forbearance Agreement Minimum for FY 2015		(1.55X)

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The failure of the University to meet this threshold is a function of several significant variances from the University's preliminary FY 2015 budget, totaling approximately $1.4 mm. These variances include the following:

- In its initial salary estimates for FY 2015, the University mistakenly assumed that in FY 2015 it would get a half year of salary savings for faculty and other personnel who were terminated in the 2014 restructuring of the University. In fact, the University's handbook required those laid off to receive a full-year's severance after termination, meaning the University would get no salary benefits for FY 2015. The reduced salary savings amounted to $420,000.

- The University had a negative variance in adjunct salaries of $110,000 in FY 2015

- The University's Nursing program was significantly more costly in FY 2015 than expected. About $100,000 more was spent on the ultimately successful accreditation of the program than expected and $190,000 more in unanticipated program staff costs were needed to build out the program according to accreditor specifications

- The University spent $300,000 more out of its self-funded medical insurance program than anticipated.

- The University's tuition discount rate increased from 46% to 50%, which increased institutional aid by about $242,000

- At $1,122,000, gift revenue came in about $178,000 less than the expected $1,300,000.

The University expects most of these variances – especially those related to the terminated employees or the Nursing Program – to be one-time occurrences.

THE UNIVERSITY'S FY 2016 CASH BUDGET

Two versions of the University's FY 2016 Cash Budget are provided in Appendix I to this Report. The first plan from August 2015 estimates a net operating cash deficit for FY 2016 of ($1,316,648). This showed a $2.96 mm improvement over the FYE 2015 performance. This improvement was expected to come from:

- A $419,000 improvement in net tuition and fee revenue for the traditional undergraduate program;
- A $184,000 improvement in revenues for the Adult and Graduate, and International programs;
- A $922,000 improvement in residence hall, dining hall and bookstore revenues;
- An $827,000 reduction in staffing costs, as the full extent of the restructuring of the University takes effect;
- A $288,000 increase in gift revenues; and
- An increase of $460,000 in endowment cash transfers

Once the final Fall 2015 enrollment was received and eight fewer students than initially budgeted had matriculated, the University revised its budget. The new October cash budget – also shown in Appendix I -- had a net deficit position of $($1.496 mm), or about $180,000 worse than the August 2015 budget.

INSTITUTIONAL IMPROVEMENTS AND BUDGET VULNERABILITIES

The University has made a number of significant moves over the last 3 years as it has sought to eliminate its structural deficit. These include:

- Laying off over a quarter of its workforce and reducing majors with very few students.
- Increased residence hall occupancy from 49% in Fall 2014 to an expected 53% in Fall 2015;
- Filling key spots with new hires in positions of VP for Enrollment, VP for Academic Affairs, Head of the Adult and Graduate Studies and in the University CFO post;
- Adding 2 new online programs and gaining approval for its first graduate program,
- Completing 6 new articulation agreements and winning accreditation for the University's nursing program;

Perhaps the University's most impressive change remains its improved outreach and marketing to students. This outreach has widened the admissions funnel, raising year to date applications, acceptances and deposits over the same periods in December 2013 and 2014, as shown below.

Wk of Dec 20-26	Applications	Acceptances	Deposits
2013-14 Freshmen Transfers	 462 54	 212 18	 7 0
2014-15 Freshmen Transfers	 4,119 39	 1,850 14	 15 0
2015-16 Freshmen Transfers	 4,667 32	 2,155 13	 7 0

At the end of December 2015, freshman applications were up 13% over the same time in the prior year, and acceptances were up nearly 17%. Much of this increase can be traced to a partnership with the enrollment consulting firm of Royall and Company, which has helped the University to target better its marketing and recruiting efforts. In addition, to this widening of the admissions funnel, IWU continues to devote much time and energy to improving its admissions processes and to the retention of existing students. For example, the University reports that:

- Its application *completion* rate continues to rise. At the end of December, the freshmen "application completion rate" was about 48%, up about 5% over the same time in the prior year.
- The Fall-to-Spring retention rate was 83% for FY 2016, somewhat down in comparison to an 86% retention rate in Fall-to-Spring 2015;
- The V.P for Enrollment has realigned counselor workloads to improve efficiency, upgraded marketing materials and worked with academic and marketing staff to develop stronger relations with local high schools for dual enrollment and freshman recruiting.

In addition, the University reports significant activities in developing new domestic and international programs which are expected to draw additional students to IWU. In particular:

- In Fall 2015, the University launched its new criminal justice institute. As a result, the number of majors went from 0 to 35. IWU expects as many as 55 majors for Fall 2016.
- In Spring 2016, the University re-established its Bachelors in Sports Management. By Fall of 2016, it expects to have as many as 20 majors in this program.
- The University has developed a M.A. in Management and Leadership graduate program which is awaiting accreditation; 10 students are expected to populate the program once it is up and running.
- The Vice President for Academic Affairs has worked to put in place numerous new recruiting relationships with international partners, relationships which appear to be

paying off. While 10 new international students were budgeted for the Spring 2016 semester, 29 students have actually matriculated.

IWU believes that together these efforts will result in a growth in full-time student enrollment from 375 in the Fall of 2015 to 413 in the Fall of 2016.

Despite these positive steps, the University's current FY 2016 budget continues to face significant vulnerabilities. They include:

- *Continued challenges to the University's Adult and Graduate Student Division (AGS) and its online programs*. These areas have consistently underperformed budget expectations in recent years. In response, the University has undertaken a number of efforts to bring these areas under additional management scrutiny and to improve the number and quality of offerings. In particular:

    - Late in calendar 2015, IWU internally promoted an individual into the role of Director of AGS. It expects this person to bring added energy to this area. That notwithstanding, growth in this area is expected to continue to be incremental, and IWU expects to meet its revised and lowered enrollment projections of approximately 1,290 AGS credits for FY 2016.

    - IWU believes its prospects for growth in online enrollment are more promising. The University has recently entered into a revenue-sharing contractual arrangement with an outside partner to grow adult online programs. The partner, Significant Systems, specializes in marketing and recruitment of online programs, and it would focus on growing some of IWU's most popular programs including nursing, teacher education, and business. Significant Systems' market analysis shows the potential for growth in online adult headcount from 400 students to nearly 1,500 by 2020.

- *Financial Aid*. The University's financial aid discount is currently 52%, lower than the 55% projected in the revised Fall 2015 budget. Managing this discount will be important if the University is to see an improving financial trend. Projections for the future show maintenance of this rate at about 55%.

- *Fundraising.* The University's revised budget assumes $2.558 mm in unrestricted giving, or net assets released from restriction, for FY 2016. This represents a large increase over initial FY 2016 budget's assumed $1.4 mm figure. Currently, the University believes it is on track to raise around $2.0 mm, a very healthy increase over the prior year, but still about $558,000 less than budgeted. The University believes that favorable variances in the discount rate, international student enrollment, and summer program revenue will help to offset this shortfall. Expenses have also been carefully monitored throughout the year, and positive variances in salaries, benefits, and institutional support will also help with this offset.

- *Residence Hall Revenues.* In the preliminary FY 2016 budget, the single largest increase in revenues from FY 2015 to FY 2016 was expected to be a $922,000 increase in residence hall, dining hall and bookstore revenues. This represents a 41% increase over expected FYE 2015 performance, and pre-supposes that usage of these auxiliary facilities increases very significantly. In the revised October 2016 cash budget shown in Appendix I, the revenue expectation was revised downward by about $532,000. Management expects to meet this revised revenue expectation.

- *Liquidity Challenges.* While the University met its last liquidity covenant with ease at the last measurement date, it has used substantially more cash in FY 2015 than it expected. Some of this was due to a worse-than-expected operating year, and part was tied to the requirement of the Federal Department of Education that IWC post a Letter of Credit (LOC) in support of the Department's student loan obligations. To put this LOC in place, the University needed to draw on its Morgan Stanley line of credit in the amount of $530,000. It placed those funds as cash collateral with Two Rivers Bank and Two Rivers issued the Letter of Credit which was posted with the DOE.

  The University estimates that it will draw additional cash from the Morgan Stanley line of credit in the amount of $1.72 mm for FY 2016. Most will be used to fund the projected cash operating deficit of ($1.496 mm) with the rest reflecting an allowance for receivables and pledges. It expects to have an available cash balance (including Morgan Stanley line funds available to draw) of approximately $275,000 at the end of FY 2016.

COVENANT VIOLATION WAIVERS

Once the University's FY 2015 audit preparation process determined that it would indeed violate the Debt Service Coverage Ratio proscribed in the 2014 Forbearance Agreement, IWU asked both the Series 2006 and 2011 bondholders to:

- Waive compliance with the ratio for the FY 2015 period, and
- Defer delivery of the audited financial statements due October 31, 2015 to January 31, 2015.

On November 16, 2015, a notice was posted on EMMA and sent to Holders of the Series 2006 bonds by the Bond Trustee, Wells Fargo, N.A. The Notice made the Holders aware of the pending default and the University's request for the waiver. It asked Holders to provide comments within the following 30 days. After the comment period ended, the Bond Trustee granted the requested waiver on January 8, 2016. In parallel, the 2011 bondholders have also provided the waiver. Subsequent to the waivers being granted, the University released its FY 2015 audit and posted it on EMMA in January 2016.

PENDING REFINANCING OF SERIES 2006 AND 2011 BONDS

In November 2015, the University began a process to apply for a USDA Community Facilities Program direct loan. If ultimately approved, the Loan would allow IWU to pay off in their entirety the Series 2006 Bonds, the Series 2011 bonds, and other small loans, while replenishing a portion of funds the University has borrowed against its endowment. The University has already submitted its pre-application to the USDA's Area Office and is now finalizing a required feasibility study and appraisal.

The final application is expected to be sent to the USDA around the week of March 4, 2016. Following that, the final loan application must be approved by the USDA at both the State and federal levels. This review and approval process is expected to take about 1 month. If the loan is ultimately approved, a letter of conditions will be issued, listing the rate on the loan (expected to be about 3.0%), amortization parameters and other requirements of the lender. The University is optimistic the loan will be approved and expects to effect the refinancing of its bonded and other indebtedness prior to the end of its May 31, 2016 fiscal year.

NEXT INDEPENDENT CONSULTANT REPORT

According to the requirements of the Forbearance Agreement, the Independent Consultant is required to provide another report on or around July, 2016. At this time, we expect to provide:

- Projected Year-end operating performance for FY 2016
- Projected Fall 2016 enrollment
- Information on preliminary budgets for FY 2017

If the USDA loan is approved and the refinancing of the bondholders' debt is accomplished prior to July 2016, then, in lieu of a full report, a very short final memo to bondholders will be posted to EMMA.

APPENDIX I

Iowa Wesleyan University
FY 2016 Preliminary and Revised Cash Budget

	August Draft 2015-2016 Budget	Final Census 2015-2016 Budget	Variance
Day FTE	383 FTE	375 FTE	
Day Tuition and Fees	$9,771,253	$9,567,154	-$204,099
Less Institutional Aid	-$4,799,681	-$5,169,370	-$369,689
Adult and Graduate Studies	$1,037,288	$671,525	-$365,763
International Students	$69,415	$60,000	-$9,415
Residence/Dining/Bookstore	$3,154,530	$2,621,923	-$532,607
Other Revenue	$130,000	$130,000	$0
REVENUES	$9,362,805	$7,881,232	-$1,481,573
Staffing costs including benefits	$6,403,876	$6,407,016	-$3,140
Remaining operating expenses	$5,490,335	$5,368,519	$121,816
Operating Gain (Loss)	-$2,531,406	-$3,894,303	-$1,362,897
Gift Revenues	$1,400,000	$2,558,000	$1,158,000
Endowment Cash Transfers	$955,039	$955,039	$0
Perkins Funds	$40,000	$40,000	$0
Trust Distributions/Other Cash In	$0	$25,536	$25,536
Interest	-$625,225	-$625,225	$0
Capital equipment purchases	-$100,000	-$100,000	$0
Principal payments	-$455,056	-$455,056	$0
Non-Operating Cash Generation (Use)	$1,214,758	$2,398,294	$1,183,536
Net Operating Cash Impact	-$1,316,648	-$1,496,009	-$179,361