DEPAUW UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2014 and 2013

DEPAUW UNIVERSITY
Greencastle, Indiana

FINANCIAL STATEMENTS
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CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
DePauw University
Greencastle, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of DePauw University, which comprise the statements of financial position as of June 30, 2014 and 2013, 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DePauw University as of June 30, 2014 and 2013, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 19, 2014

DEPAUW UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 17,426,304	$ 15,539,312
Cash restricted for capital projects	6,854,941	13,955,867
Accounts receivable (net of allowance of $977,000 for 2014 and $1,057,000 for 2013)	1,080,798	919,499
Inventories	212,087	299,692
Prepaid expenses	1,899,888	2,145,313
Contributions receivable, net (Note 2)	58,541,617	60,279,085
Student notes receivable (net of allowance for uncollectible notes of $478,000 for 2014 and $509,000 for 2013)	5,539,731	5,726,070
Other notes receivable, mortgages and promissory notes	958,257	1,112,429
Investments (Note 3)	596,035,993	524,711,187
Real estate held for resale	598,530	593,716
Other investments	886,942	886,942
Bond issue costs	1,331,305	1,462,482
Property, plant and equipment (Note 4)	227,964,747	210,694,885
Cash surrender value of life insurance	4,896,933	4,640,801
Beneficial interest in lead and remainder trusts (Note 5)	17,740,681	14,122,756
Beneficial interest in perpetual trusts (Note 6)	11,690,422	10,606,880
Total assets	$ 953,659,176	$ 867,696,916
LIABILITIES		
Accounts payable and other accruals	$ 7,787,423	$ 6,204,555
Interest payable	1,395,055	1,409,608
Deposits, prepayments and other liabilities	4,369,162	3,871,836
Advances from grants held for others	-	302,115
Fair value of interest rate swap (Note 11)	16,312,324	16,215,638
Annuity and trust liability (Note 7)	14,857,394	14,191,625
Advances from federal government for student loans	3,670,970	3,670,970
Accumulated postretirement benefit obligation (Note 8)	18,405,739	20,589,145
Bonds payable (Note 10)	118,765,000	119,035,000
Total liabilities	185,563,067	185,490,492
NET ASSETS		
Unrestricted	300,226,607	257,139,922
Temporarily restricted (Note 12)	141,046,529	119,473,089
Permanently restricted (Note 12)	326,822,973	305,593,413
Total net assets	768,096,109	682,206,424
Total liabilities and net assets	$ 953,659,176	$ 867,696,916

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Tuition and fees	$ 90,808,941	$ -	$ -	$ 90,808,941
Grants and scholarships	(50,058,787)	-	-	(50,058,787)
Net tuition and fees	40,750,154	-	-	40,750,154
Contributions	12,179,585	6,157,241	20,150,201	38,487,027
Investment return designated for current operations (Note 3)	12,241,754	14,388,183	-	26,629,937
Federal grants	336,897	-	-	336,897
Auxiliary services	17,438,003	-	-	17,438,003
Other income	4,312,378	37,452	-	4,349,830
Releases from restriction (Note 12)	16,794,863	(17,023,618)	228,755	-
	104,053,634	3,559,258	20,378,956	127,991,848
Expenses				
Instruction	44,007,734	-	-	44,007,734
Student services	15,211,808	-	-	15,211,808
Academic support and library	12,845,271	-	-	12,845,271
Management and general	9,024,915	-	-	9,024,915
Fundraising and alumni support	5,115,935	-	-	5,115,935
Auxiliary services	16,505,266	-	-	16,505,266
	102,710,929	-	-	102,710,929
Change in net assets from operations	1,342,705	3,559,258	20,378,956	25,280,919
Non-operating activities				
Loss on interest rate swap (Note 11)	(96,686)	-	-	(96,686)
Other changes in accumulated postretirement benefit obligations	1,740,953	-	-	1,740,953
Net assets released for capital projects (Note 12)	16,423,727	(16,423,727)	-	-
Change in value of split-interest agreements	(137,642)	2,066,568	850,604	2,779,530
Loss on extinguishment of debt	(211,505)	-	-	(211,505)
Non-operating miscellaneous revenue	266,845	-	-	266,845
Investment return after amounts designated for current operations (Note 3)	23,758,288	32,371,341	-	56,129,629
	41,743,980	18,014,182	850,604	60,608,766
Change in net assets	43,086,685	21,573,440	21,229,560	85,889,685
Net assets at beginning of year	257,139,922	119,473,089	305,593,413	682,206,424
Net assets, end of year	$ 300,226,607	$ 141,046,529	$ 326,822,973	$ 768,096,109

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Tuition and fees	$ 87,703,692	$ -	$ -	$ 87,703,692
Grants and scholarships	(48,531,991)	-	-	(48,531,991)
Net tuition and fees	39,171,701	-	-	39,171,701
Contributions	6,345,611	39,846,735	38,184,243	84,376,589
Investment return designated for current operations (Note 3)	13,283,412	13,441,495	-	26,724,907
Federal grants	378,022	-	-	378,022
Auxiliary services	15,909,384	-	-	15,909,384
Other income	4,828,359	76,495	-	4,904,854
Releases from restriction (Note 12)	17,174,143	(17,414,288)	240,145	-
	97,090,632	35,950,437	38,424,388	171,465,457
Expenses				
Instruction	43,258,875	-	-	43,258,875
Student services	14,235,839	-	-	14,235,839
Academic support and library	12,613,881	-	-	12,613,881
Management and general	10,441,055	-	-	10,441,055
Fundraising and alumni support	4,547,622	-	-	4,547,622
Auxiliary services	15,980,314	-	-	15,980,314
	101,077,586	-	-	101,077,586
Change in net assets from operations	(3,986,954)	35,950,437	38,424,388	70,387,871
Non-operating activities				
Gain on interest rate swap (Note 11)	7,248,198	-	-	7,248,198
Other changes in accumulated postretirement benefit obligations	4,871,304	-	-	4,871,304
Net assets released for capital projects (Note 12)	8,455,719	(8,455,719)	-	-
Change in value of split-interest agreements	672,974	(1,305,461)	479,347	(153,140)
Investment return after amounts designated for current operations (Note 3)	14,061,584	13,481,068	-	27,542,652
	35,309,779	3,719,888	479,347	39,509,014
Change in net assets before clarification of donor intent	31,322,825	39,670,325	38,903,735	109,896,885
Clarification of donor intent (Note 1)	51,524	2,238,023	(2,289,547)	-
Net assets at beginning of year	225,765,573	77,564,741	268,979,225	572,309,539
Net assets, end of year	$ 257,139,922	$ 119,473,089	$ 305,593,413	$ 682,206,424

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 85,889,685	$ 109,896,885
Items not requiring (providing) cash		
Depreciation and amortization	8,774,418	8,547,404
Actuarial change in postretirement benefit obligation	(3,025,836)	(824,446)
Net realized/unrealized gain on sales of investments	(79,096,453)	(49,378,526)
Contributed stock	(5,585,608)	(15,035,909)
Contributions restricted for long-term investment	(11,810,521)	(15,206,314)
Contributions restricted for capital projects	(27,063,045)	(9,771,694)
Change in fair value of interest rate swap	2,664,256	(4,685,648)
Changes in		
Accounts receivable	(161,299)	58,373
Inventories, prepaid and other assets	333,030	(297,074)
Contributions receivable	7,323,076	(30,357,966)
Student notes receivable	186,339	467,140
Real estate held for resale	(4,814)	(3,802)
Net change in cash surrender value of life insurance	(256,132)	(255,319)
Beneficial interest in remainder and perpetual trusts	(4,701,467)	3,850,253
Accounts payable and other accruals	2,080,194	2,204,438
Interest payable	(14,553)	(14,131)
Advances from grants held for others	(302,115)	133,875
Annuity and trust liability	665,769	1,376,551
Accumulated postretirement benefit obligation	842,430	(3,977,842)
Net cash from operating activities	(23,262,646)	(3,273,752)
Cash flows from investing activities		
Stock contributions restricted for capital projects	(1,796,731)	(2,574,885)
Purchases of property, plant and equipment	(25,913,103)	(11,961,546)
Proceeds from sales of securities	177,034,326	248,456,654
Purchases of securities	(169,262,679)	(245,941,282)
Payments on notes receivable and other investing activities	154,172	193,791
Net cash from investing activities	(19,784,015)	(11,827,268)
Cash flows from financing activities		
Stock contributions restricted for capital projects	1,796,731	2,574,885
Proceeds from contributions restricted for long-term investment	11,810,521	15,206,314
Proceeds from contributions restricted for capital projects	27,063,045	9,771,694
Net settlements on interest rate swaps	(2,567,570)	(2,562,550)
Issuance of bonds payable	32,500,000	-
Payments on bonds payable	(32,770,000)	(375,000)
Net cash from financing activities	37,832,727	24,615,343
Net increase (decrease) in cash and cash equivalents	(5,213,934)	9,514,323
Cash and cash equivalents, beginning of year	29,495,179	19,980,856
Cash and cash equivalents, end of year	$ 24,281,245	$ 29,495,179
Supplemental cash flows information		
Interest paid	$ 4,649,449	$ 5,383,735
In-kind contributions	99,500	1,662
Purchases of property, plant and equipment in accounts payable	5,419,028	3,703,308

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: DePauw University (University), a privately endowed educational institution, derives its revenue from student tuition and fees, investments, gifts and grants, operation of auxiliary enterprises and various related activities. The University is a nonprofit organization exempt from the payment of federal income tax under the provisions of Internal Revenue Code Section 501(c)(3) as a corporation organized and operated for educational purposes and has been determined by the Internal Revenue Service not to be a private foundation.

Income Taxes: The University is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

The University is subject to guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit will be recorded.

The University is no longer subject to examination by taxing authorities for years before 2011. The University does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The University recognizes interest and/or penalties related to income tax matters in income tax expense. The University did not have any amounts accrued for interest and penalties at June 30, 2014 and 2013. At June 30, 2014 and June 30, 2013, the University has not recorded any expected tax benefits.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments: Cash and cash equivalents, notes receivable from students and others, and accounts payable approximate fair value because of the short maturity of these instruments. Accounts and notes receivable consist primarily of student loans through a government loan program, a mortgage note receivable and short-term receivables. Contributions receivable approximate fair value because of the present value discount included in the carrying amount. The notes receivable are not readily marketable. The University has estimated their fair value to be the carrying value. Beneficial interests in trusts approximate fair value because the receivables are based upon the fair value of the assets carried in the applicable trusts. Investments are carried at fair value based upon quoted market prices. The carrying amount of the annuity and trust liabilities approximates fair value based on life expectancies and the present value discount. The carrying value of accounts payable, accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations. The carrying values of all of the University’s financial instruments approximated their fair values at June 30, 2014 and 2013, except bonds payable. The fair value of the University’s bonds payable is estimated based on quoted market prices for the same or similar issues. The fair value of bonds payable for the bondholders at June 30, 2014 and 2013 was approximately $136,452,045 and $135,814,000.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair values of financial instruments other than investments and interest rate swaps, which include the items listed in the preceding paragraph, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future.

Net Asset Classifications: The financial statements have been prepared in accordance with GAAP. This requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, or permanently restricted.

The following classes of net assets are maintained:

Unrestricted Net Assets - The unrestricted net asset class includes general assets and liabilities of the University. The unrestricted net assets of the University may be used at the discretion of management to support the University's purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of the University related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets.

Permanently Restricted Net Assets - The permanently restricted net asset class includes assets of the University for which the donor has stipulated that they be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Cash and Cash Equivalents and Cash Restricted for Capital Projects: For purposes of reporting cash flows, the University considers all liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2014 and 2013, the University's cash accounts exceeded federally insured limits by approximately $23,100,000 and $28,200,000. Cash restricted for capital projects represents cash reserved for use on ongoing construction efforts related to the Master Plan.

Accounts Receivable: Student accounts receivable are stated at the amount billed for tuition and fees. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the student's bill. Interest is not charged on past due accounts.

Student Notes Receivable: Student notes receivable are reported at the outstanding principal balances. These loans have been issued to eligible students primarily under the Federal Perkins Loan Program. The repayment period begins after an initial grace period of either six or nine months after the student ceases to be at least a half-time student. Interest income is recorded as monthly payments are received. The University's share of any uncollectible accounts under the Federal Perkins Loan Program would not be material to the financial statements. Defaulted loans are handled in accordance with the guidelines of the Federal Perkins Loan Program.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At June 30, 2014 and 2013, the following amounts were past due under the loan programs:

June 30	1 – 270 Days Past due	270 Days - 2 Years Past due	2 - 5 Years Past due	5 + Years Past due	Total Past Due
2014	$ 9,538	$ 16,784	$ 118,657	$ 96,624	$ 241,603
2013	$ 18,410	$ 35,697	$ 64,498	$ 95,846	$ 214,451

Investments and Investment Returns: Marketable securities and other investments are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

The University has significant investments in stocks, bonds and mutual funds and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by the University and the investments are monitored for the University by an investment advisor. Although the market 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 University.

Assets held in hedge funds, real assets, venture capital, and private equity funds are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by fund trustees and general partners. The estimated fair value of certain of these other investments is based on valuations provided by the external investment managers, adjusted for cash receipts, disbursements and significant known valuation changes in market values of publicly held securities contained in the portfolio. Ongoing review and assessment is made to incorporate other transactions, activity and factors to estimate fair value at the financial statement date due to the latest information provided by the fund managers or the general partners not always being as of the financial statement date. Fair value estimation for these investments is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available. The University considers the carrying values of these investments to be a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to the withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

The University maintains pooled investment accounts for its endowments, quasi-endowments and other investable funds. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments. The allocation is based on the relationship of the fair value of the interest of each endowment or quasi-endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

The Board of Trustees designates only a portion of the University's cumulative investment return to support current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements is used to support current operations.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment: Expenditures for property, plant and equipment and items which substantially increase the useful lives of existing assets in excess of $10,000 are capitalized at cost, or fair value if donated. The University provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over their estimated useful lives as follows:

Campus grounds and buildings	10 – 50 years
Furnishings and equipment	3 – 10 years
Books and scientific apparatus	5 – 10 years
Inn at DePauw and Student Social Center	10 – 50 years
Other property held	3 – 30 years

The University has capitalized its collections since its inception. If purchased, items added to the collections are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the acquisition date. Gains or losses on the disposal of collection items are classified in the statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of the addition.

Long-Lived Asset Impairment: The University 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 it fair value. No impairment is thought to exist at June 30, 2014 or 2013.

Advances from Federal Agency for Student Loans: The University participates in the Federal Perkins Student Loan Program. The liability balance represents an accumulation of funds advanced to the University, net of the University's matching portion. If the University terminates the program, the net funds advanced are repayable to the program.

Cash Surrender Value of Life Insurance Policies: The University is the owner and beneficiary of several life insurance policies. These assets are recorded at the current cash surrender value of these policies, and are included on the statement of financial position.

Self-Insurance: The University maintains a self-funded medical insurance plan covering medical-related benefits for its employees. The plan includes individual and group stop loss coverage. The individual stop loss limit is $200,000. Claims payable at June 30, 2014 and 2013 amounted to $418,558 and $499,925, respectively, and are recorded as part of deposits, prepayments, and other liabilities on the statements of financial position. This estimate is based on projections of total costs versus actual costs incurred; therefore, actual claims outstanding could differ significantly.

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.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Government Grants: Support funded by grants is recognized as the University performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Expense Allocation: Expenses have been classified as program services (instruction, student services and academic support, library, and auxiliary services), management and general, and fundraising and alumni support based on the actual direct expenditures and cost allocations based upon square footage of occupancy. Total program expenses were $88,570,079 and $86,088,909 and total expenses were $102,710,929 and $101,077,586 for the years ended June 30, 2014 and 2013.

Clarification of Donor Intent: During 2013, the University performed a review of donor agreements. As a result, net assets were reclassified by restriction. The reclassification had no effect on the change in net assets or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended June 30, 2014. Management has performed their analysis through September 19, 2014, the date the financial statements were issued.

(Continued)

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30:

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 7,193,395	$ 9,468,913	$ 16,662,308
Due in one to five years	15,167,188	6,460,979	21,628,167
Due in more than five years	7,490,400	26,034,632	33,525,032
	29,850,983	41,964,524	71,815,507
Allowance for uncollectible contributions	(1,322,000)	(1,759,000)	(3,081,000)
	28,528,983	40,205,524	68,734,507
Discount for time value of money	(3,404,625)	(6,788,265)	(10,192,890)
	$ 25,124,358	$ 33,417,259	$ 58,541,617

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 12,737,000	$ 6,161,800	$ 18,898,800
Due in one to five years	19,632,331	8,273,053	27,905,384
Due in more than five years	7,350,000	16,154,272	23,504,272
	39,719,331	30,589,125	70,308,456
Allowance for uncollectible contributions	(1,827,000)	(1,345,000)	(3,172,000)
	37,892,331	29,244,125	67,136,456
Discount for time value of money	(3,173,826)	(3,683,545)	(6,857,371)
	$ 34,718,505	$ 25,560,580	$ 60,279,085

Discount rates used to estimate the present value of future year receivables ranged from 1.2% to 6.0% for 2014 and 2013.

Contributions receivable designated for specific purposes are as follows:

	2014	2013
Faculty development	$ 605,509	$ 602,847
Scholarships	24,853,140	23,534,891
Campus and facilities	19,849,935	30,429,001
Other purposes	12,095,232	5,274,960
Any activity of the University	1,137,801	437,386
	$ 58,541,617	$ 60,279,085

(Continued)

NOTE 3 - INVESTMENTS

The University's investments, at fair value, as of June 30, are as follows:

	2014	2013
Short-term investments	$ 54,169,067	$ 82,973,570
Government securities	18,641,210	18,129,645
Corporate bonds	9,612,599	8,938,740
Fixed income funds	10,510,219	10,020,972
Domestic common stocks	102,125,039	81,408,875
Foreign common stocks	126,205,708	63,931,229
Private equity		
Venture capital/buy-out	83,886,676	82,793,878
Special situations	9,926,698	11,067,803
Total private equity	93,813,374	93,861,681
Real assets		
Real estate	23,730,044	30,907,615
Natural resources	23,501,898	25,513,682
Total real assets	47,231,942	56,421,297
Diversifying assets		
Absolute return strategies	15,196,522	33,170,909
Direct lending	1,196,865	-
Equity long/short	87,855,255	45,561,191
Global macro	752,491	12,442,800
Distressed	27,875,607	16,601,286
Short credit	850,095	1,248,992
Total diversifying assets	133,726,835	109,025,178
Totals	$ 596,035,993	$ 524,711,187

The University engages professional investment managers to manage its investment portfolio. The University's investment policy allows the managers to utilize derivative financial instruments with the approval of the Investment Committee of the University's Board of Trustees. The use of derivatives must be consistent with the University's investment policy and objectives of maximizing the yield on invested funds in order to preserve and enhance inflation-adjusted purchasing power while providing a stable stream of earnings to meet spending needs. The University also invests in certain mutual funds that allow for the use of derivatives within guidelines established in the fund's investment policies.

The following schedule summarizes the investment return and the amounts designated to support current operations.

	2014	2013
Dividends and interest, net of investment expenses of $2,945,721 and $2,116,340 for 2014 and 2013	$ 3,663,113	$ 4,889,033
Net realized gains on investments	41,643,952	43,592,294
Net unrealized gains on investments	37,452,501	5,786,232
Total return on investments	82,759,566	54,267,559
Investment return designated for current operations	(26,629,937)	(26,724,907)
Investment return in excess of amounts designated for current operations	$ 56,129,629	$ 27,542,652

(Continued)

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The University's property, plant and equipment are as follows:

	2014	2013
Campus grounds and buildings	$ 278,763,501	$ 276,463,721
Furnishings and equipment	37,576,192	36,929,725
Books and scientific apparatus	2,667,555	2,543,997
Inn at DePauw and Student Social Center	12,907,016	12,584,726
Other property held	11,129,097	10,273,619
	343,043,361	338,795,788
Accumulated depreciation	(157,728,724)	(149,101,610)
	185,314,637	189,694,178
Construction in progress	29,401,214	7,587,435
Collections	3,160,141	3,160,141
Land	10,088,755	10,253,131
	$ 227,964,747	$ 210,694,885

Construction in progress at June 30, 2014 primarily includes expenditures related to enhancements to the athletic campus, Lilly Physical Education and Recreation Center expansion, and Hoover Dining Hall. Capitalized interest included in construction in progress at June 30, 2014 is $933,000. At June 30, 2014 the University had committed $41,161,956 for capital projects.

NOTE 5 - BENEFICIAL INTEREST IN LEAD AND REMAINDER TRUSTS

The University is a beneficiary of various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the estimated lifetime of the beneficiary). At the end of the trust's term, the remaining assets (or the designated portion thereof) are available for the University. The portion of the trust attributable to the beneficial interest of the University is recorded at the fair value, and classified as temporarily or permanently restricted contributions in the period the trust is established.

The University is also a beneficiary of various charitable lead trusts. A charitable lead trust is an arrangement in which the donor establishes and funds a trust with specific distributions to be made to the University over specified period. The distribution may be for a fixed dollar amount or a fixed percentage of the trust's fair market value. Upon termination of the trust, the remainder of the trust's assets is paid to the donor or beneficiaries designated by the donor. On an annual basis, the estimated fair value is adjusted to reflect the passage of time, revaluation of the present value of future payments, changes in actuarial assumptions during the term of the trust and discount rates based on current market conditions.

Discount rates of 2.2% and 1.2% were used for the years ended June 30, 2014 and 2013, respectively. The estimated fair value of these trusts as of June 30, 2014 and 2013 were $17,740,681 and $14,122,756, respectively.

(Continued)

NOTE 6 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The University is the beneficiary under several perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. Annual distributions from the trust are reported as investment income. The trusts are valued at $11,690,422 at June 30, 2014 and $10,606,880 at June 30, 2013, which represents the fair value of the trust assets at the respective year ends.

NOTE 7 - ANNUITY AND TRUST LIABILITY

The University is the recipient of several gift annuities and charitable remainder trusts, which require future payments to donors or their named beneficiaries. The University has recorded a liability in the amount of $14,857,394 and $14,191,625 at June 30, 2014 and 2013, which represents the present value of the future annuity and trust obligations. Discount rates ranging from 1.2% to 10.6% were used to calculate this liability for 2014 and 2013.

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION

The University provides a defined-benefit postretirement health care plan for eligible employees. Employees and their spouses hired before July 1, 2005, who are 55 years of age or older and have 15 or more consecutive years of full-time service and whose age plus years of service equals or exceeds 80 are eligible for this benefit. The University accrues the expected cost of providing defined benefit postretirement benefits for employees during the years the employees render service. The University's policy is to fund payments as claims are paid. Employees hired after July 1, 2005 are not eligible for this plan.

Post-retirement benefits between ages 55 and 65 include coverage for the retirees and covered spouses in DePauw's group medical plan, including medical, dental, prescription drug, and vision expenses. When retirees and covered spouses have attained the age of 65, they are placed in the University retiree health plan. Under the retiree health plan, retirees and covered spouses who retired before July 1, 2005 will continue to receive lifetime benefits paid by DePauw subject to a maximum per month established by the University. All eligible plan members who retire after January 1, 2005 will have benefits under the retiree health plan for a maximum of 25 years. The 25-year maximum is reduced by the number of years that the retiree is employed after July 1, 2005. After June 30, 2030, these retirees and covered spouses will be responsible for all insurance premiums. Payment amounts for 2014 vary based on retiree age and type of coverage and the plan design includes 3% increases annually. The retiree and covered spouse pay any premium above this amount.

GAAP requires recognition of the funded status of a defined benefit postretirement plan in the statements of financial position, recognition of the changes in funded status in the year in which the changes occur through net assets, and measurement of the funded status of a plan as of the date of its fiscal year-end, with limited exceptions.

The following table sets forth the University's accumulated postretirement benefit obligation, fair value of plan assets, and the accrued postretirement benefit obligation recognized in the statement of financial position at June 30:

(Continued)

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Continued)

	2014	2013
Accumulated postretirement benefit obligation at beginning of year	$ 20,589,145	$ 25,391,433
Service cost	520,103	574,965
Interest cost	948,806	984,246
Plan Amendments	-	(4,945,130)
Actuarial gains – net	(3,025,836)	(824,446)
Benefits paid	(626,479)	(591,923)
Accumulated postretirement benefit obligation at end of year	18,405,739	20,589,145
Fair value of plan assets	-	-
Accrued postretirement benefit obligation at end of year	$ 18,405,739	$ 20,589,145

	2014	2013
Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consists of:		
Prior service cost	$ (9,866,883)	$ (11,388,079)
Net loss	1,400,459	4,662,608
Amount recognized	$ (8,466,424)	$ (6,725,471)

Employer contributions to the plan during 2014 and 2013, respectively, were $626,479 and $591,923.

The net periodic postretirement benefit cost is comprised of service and interest costs as well as recognition of actuarial gains and losses. For the years ended June 30, 2014 and 2013, the net periodic postretirement benefit cost was $184,026 and $660,939, respectively. The estimated net loss for the defined-benefit postretirement health care plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $1,521,196.

The health care cost trend rate assumptions used in determining the accumulated postretirement benefit obligation begin at 5.9% for 2016 and gradually decrease to 4.3%. Estimated benefit payments are based on the same assumptions used to measure the benefit obligation as of June 30, 2014, adjusted for benefits attributable to estimated future employee service. The discount rate used in determining the accumulated postretirement benefit obligations was 4.29% and 4.72% at June 30, 2014 and 2013, respectively. The discount rate to determine the post-retirement benefit costs was 4.72% and 4.3% at June 30, 2014 and 2013, respectively. The impact on the liability of a 1% increase in rates or a 1% decrease in rates would be $1,638,684 or $(1,451,050), respectively.

(Continued)

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The projected benefit payments for the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

2015	845,658
2016	941,088
2017	1,025,943
2018	1,186,353
2019	1,309,427
Thereafter	7,790,289

Postretirement life insurance in the amount of $3,500 is provided for all retirees.

NOTE 9 - RETIREMENT BENEFITS

Faculty, administrative, and support staff employees of the University are participants in defined-contribution retirement plans. Under these plans, the University makes contributions which are immediately vested for the benefit of the participants. The University's contributions to these plans amounted to $2,713,846 and $2,623,733 for the years ended June 30, 2014 and 2013.

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT

On April 15, 2008, the Indiana Finance Authority issued $42,225,000 of Variable Rate Demand Educational Facilities Revenue Bonds, Series 2008A and $42,330,000 of Variable Rate Demand Rate Educational Facilities Revenue Bonds Series 2008B. The funds were loaned to the University for the purposes of financing the current refunding of the Indiana Educational Facilities Authority Adjustable Rate Educational Facilities Revenue Bonds, Series 2006 totaling $83,850,000; and to obtain credit enhancements and pay certain costs of issuance. On December 1, 2009, a portion ($8,810,000 in principal) of the Series 2008B Bonds was refunded and the remainder was refunded in whole with the Series 2014 Bonds ($32,160,000 in principal).

The 2008A Bonds mature on July 1, 2036 and bear interest in one of several different adjustable interest rate modes (which consist of daily, weekly or long-term) or at a fixed interest rate, depending on the University's election. At June 30, 2014, and 2013, the University was under the weekly interest rate mode, and interest was stated at .06% and .07%, respectively. The 2008A Bonds are secured by an irrevocable letter of credit, which expires in May 2019 and was issued for $41,739,830 in February 2014, which represented the principal of the 2008A Bonds plus accrued interest at the time of issuance. Should the University draw on the letter of credit, repayment of such amounts would be due on the earliest of (i) the date on which the bonds are redeemed or cancelled; (ii) the date on which the bonds are remarketed pursuant to the trust indenture; (iii) the date on which the letter of credit is replaced by a substitute letter of credit pursuant to the trust indenture; (iv) the stated expiration date of the letter of credit; or (v) repaid in four substantially equal quarterly principal payments with first principal payment due on the 367th day after the liquidity draw. The University would also be required to pay interest on the unpaid principal amount of the amount drawn on the letter of credit at a rate equal to the Prime Rate for the first 180 days and the Prime Rate plus 2% on the 181st day until the principal amount drawn has been repaid.

(Continued)

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT (Continued)

On December 1, 2009, the Indiana Finance Authority issued $29,845,000 of Educational Facilities Revenue Bonds Series 2009A and $15,155,000 of Educational Facilities Revenue Bonds Series 2009B. The funds were loaned to the University for the purpose of financing the current refunding of the Indiana Educational Facilities Authority Educational Facilities Revenue Bonds Series 1999 totaling $14,440,000, providing payment in full of the Northern Trust line of credit, the current refunding of a portion ($8,810,000 in principal) of the Series 2008B Bonds and pay certain costs of issuance.

The 2009 Bonds mature on July 1, 2039 and are subject to prior redemption. The 2009A Bonds bear interest at a fixed interest rate of 5.5% for $24,845,000 and 5.75% for $5,000,000. The 2009B Bonds bear interest at a fixed interest rate of between 4.0% and 4.75% based upon the majority of the Bonds.

On March 15, 2014, The Indiana Finance Authority issued $32,500,000 of Educational Facilities Revenue Refunding Bonds, Series 2014 as a Bond Purchase and Loan Agreement between the University and PNC Bank, National Association. The Funds were loaned to the University for the purpose of financing the current refunding of the Series 2008B Bonds ($32,160,000 in principal) and pay certain costs of issuance.

The Series 2014 Bonds mature on July 1, 2041 and are subject to prior redemption. The initial Bank Purchase Mode Term shall expire on July 1, 2019. Upon expiration, the Borrower may elect to convert the Bond to a new Mode (with weekly or flexible interest rate periods), a new Bank Purchase Mode Term (but not beyond the Maturity Date), or the bonds shall be subject to mandatory tender for purchase. The decision as to whether the Bond is converted to a new Bank Purchase Mode or a new Mode is the sole decision of the Borrower.

The Series 2014 Bonds bear interest during the initial Bank Purchase Mode Term at a variable bank rate equal to the sum of .70 times the one month LIBOR rate, plus 55 basis points. At June 30, 2014, the University interest rate was stated at .07%

The Series 2008A, 2009A, and 2009B Bonds are secured by loan agreements with the Authority. The Series 2014 Bonds are a direct purchase from PNC Bank, National Association and do not require a letter of credit. The bond issuances are subject to certain covenants, primarily financial coverage ratios, with which the University has reported compliance.

Bond maturities are as follows:

2015	-
2016	1,620,000
2017	1,685,000
2018	1,760,000
2019	2,095,000
Thereafter	111,605,000
	$ 118,765,000

Interest expense was approximately $2,600,000 for both 2014 and 2013.

Additionally, the University has a $20,000,000 bank line of credit expiring in December 2014. Interest is set at LIBOR Flex plus 1.25%. There were no borrowings against the line of credit at June 30, 2014 and 2013.

(Continued)

NOTE 11 - INTEREST RATE SWAP AGREEMENTS

As a strategy to maintain acceptable levels of exposure to the risk of interest rate fluctuations, the University entered into an interest rate swap agreement in January 2002. This interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 68% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 4.24% on a notional amount of $43,000,000 at June 30, 2014 and 2013. The average rate received during 2014 and 2013 was .12% and .15%, respectively, and the average interest rate paid for 2014 and 2013 was 4.24%. The interest rate swap matures in 2032. Total interest paid during 2014 and 2013 was $1,775,016 and $1,757,525, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $1,778,483.

In March 2003, the University entered into an additional interest rate swap agreement. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.57% on a notional amount of $10,500,000 at June 30, 2014 and 2013, respectively. The average rate received during 2014 and 2013 was .12% and .15%, respectively, and the average interest rate paid for 2014 and 2013 was 3.57%. The interest rate swap matures in 2018. Total interest paid during 2014 and 2013 was $356,989 and $358,968, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $363,502.

In February 2006, the University entered into a third interest rate swap agreement. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.59% on a notional amount of $12,375,000 and $12,925,000 at June 30, 2014 and 2013, respectively. The average rate received during 2014 and 2013 was .12% and .15%, respectively, and the average interest rate paid for 2014 and 2013 was 3.63%. The interest rate swap matures in 2036. Total interest paid during 2014 and 2013 was $435,566 and $446,057, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $431,135.

Under the agreements, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in the change in net assets in the statement of activities. The valuation of the three interest rate swaps at June 30, 2014 and 2013 resulted in a liability of $16,312,324 and $16,215,638, respectively.

(Continued)

NOTE 12 - NET ASSETS

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

	2014	2013
Scholarship and student support programs	$ 54,194,553	$ 31,981,736
Building and equipment maintenance	25,692,678	39,123,455
Library and department support programs	24,485,795	19,098,000
Faculty and academic support	20,914,166	11,332,892
Annuity trust agreements	7,895,502	6,642,976
Timing restriction	6,884,957	7,831,057
Other	978,878	3,462,973
	$ 141,046,529	$ 119,473,089

Permanently restricted net assets are restricted to:

	2014	2013
Scholarship and student support programs	$ 194,000,066	$ 183,354,137
Faculty and academic support	73,390,455	72,830,505
Library and department support programs	36,206,053	20,649,302
Split-interest agreements and perpetual trusts	16,766,003	22,807,414
Building and equipment maintenance	2,220,998	1,705,142
Unrestricted use	4,124,666	4,064,764
Other	114,732	182,149
	$ 326,822,973	$ 305,593,413

Net assets released from donor restrictions:

	2014	2013
Purpose restrictions accomplished - primarily scholarship and instructional support	$ 14,781,591	$ 15,104,726
Gifts and grants utilized for operations	784,177	992,769
Time restrictions expired - death of annuity beneficiary	1,457,850	1,316,793
Total restrictions released for operations	17,023,618	17,414,288
Released for capital projects	16,423,727	8,455,719
	$ 33,447,345	$ 25,870,007

(Continued)

NOTE 13 - ENDOWMENT

The University's endowment consists of approximately 1,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The University's governing body has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA.

In addition, the endowment includes permanently restricted pledges receivable, which total $33,417,259 and $25,560,580 for 2014 and 2013, and beneficial interest in perpetual trusts, which total $11,690,422 and $10,606,880 for 2014 and 2013, are not legally subject to SPMIFA as the University has not yet collected these amounts.

In accordance with SPMIFA, the University 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 University 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 University
7. Investment policies of the University

The composition of net assets by type of endowment fund at June 30, 2014 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (251,191)	$ 76,290,596	$ 319,201,552	$ 395,240,957
Board-designated endowment funds	232,505,290	-	-	232,505,290
Total endowment funds	$ 232,254,099	$ 76,290,596	$ 319,201,552	$ 627,746,247

The composition of net assets by type of endowment fund at June 30, 2013 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,754,106)	$ 42,809,275	$ 298,591,019	$ 338,646,188
Board-designated endowment funds	210,369,155	-	-	210,369,155
Total endowment funds	$ 207,615,049	$ 42,809,275	$ 298,591,019	$ 549,015,343

(Continued)

NOTE 13 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2014 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 207,615,049	$ 42,809,275	$ 298,591,019	$ 549,015,343
Investment income	18,539,977	26,009,508	-	44,549,485
Net realized/unrealized gain	16,759,024	20,522,623	-	37,281,647
Total investment return	35,299,001	46,532,131	-	81,831,132
Contributions received	704,857	-	19,999,019	20,703,876
Change in split-interest agreements	75,556	1,094,316	-	1,169,872
Appropriation of endowment assets for expenditure	(11,540,713)	(14,489,909)	-	(26,030,622)
Transfer of net assets	100,349	344,783	611,514	1,056,646
Endowment net assets, end of year	$ 232,254,099	$ 76,290,596	$ 319,201,552	$ 627,746,247

Changes in endowment net assets for the year ended June 30, 2013 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 193,104,234	$ 27,784,316	$ 260,127,679	$ 481,016,229
Investment income	20,292,407	27,452,834	-	47,745,241
Net realized/unrealized gain (loss)	6,484,242	(707,715)	-	5,776,527
Total investment return	26,776,649	26,745,119	-	53,521,768
Contributions received	68	-	38,176,762	38,176,830
Change in split-interest agreements	189,935	678,847	-	868,782
Appropriation of endowment assets for expenditure	(12,715,068)	(13,685,409)	-	(26,400,477)
Transfer of net assets	259,231	1,286,402	286,578	1,832,211
Endowment net assets, end of year	$ 207,615,049	$ 42,809,275	$ 298,591,019	$ 549,015,343

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $251,191 and $2,754,106 at June 30, 2014 and 2013, 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 University 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 University must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that earn an average annual total return, net of all fees and expenses over a rolling five-year period to equal the spending rate plus inflation. The University expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

(Continued)

NOTE 13 - ENDOWMENT (Continued)

To satisfy its long-term rate of return objectives, the University 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 University 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.

The University has a policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average fair value over the previous twelve quarters. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University'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 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

To maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, the University uses the fair value hierarchy. GAAP describes three levels of inputs that may be used to measure fair value:

> Level 1: Inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Inputs include significant other 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.
>
> Level 3: Inputs include significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investments: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include short-term investments, Government securities, fixed income funds, domestic common stocks, and foreign common stocks. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. For investments, other than alternative investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 securities include corporate bonds. As a practical expedient, fair value of alternative investments is determined using the net asset value (or its equivalent), using the market approach, provided by the fund provided the University can redeem its investment at the net asset value per share at June 30 or within the near term. These Level 2 alternative investments include domestic common stocks, foreign common stocks and diversifying assets. For alternative investments that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent), using the market approach, provided by the fund is utilized, as a practical expedient, to determine fair value and are classified within Level 3 of the valuation hierarchy. These Level 3 securities include foreign common stocks, private equity, real assets and diversifying assets.

Other Investments: The fair value is estimated using appraisals that are observable or that can be corroborated by observable market data, and therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial Interest in Lead and Remainder Trusts: Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trusts: The fair value of beneficial interest in perpetual trusts is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates assumptions that market participants would use in estimating future distributed income. The University is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. If not readily comparable to published data, then the University would have to develop a model similar to the above for a Level 3 input. Since the University does not have the ability to redeem these beneficial interests on a short-term basis, they are classified as Level 3 valuations.

Interest Rate Swap Agreement: The fair values of the interest rate swaps are based on third-party proprietary valuation models that calculate the values based on recognized financial principles and current market rates, and are thought to provide a reasonable estimate of fair value using the market approach. The interest rate swap is classified within Level 3 of the valuation hierarchy.

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following tables present 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, 2014 and 2013:

	2014			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Securities				
Short-term investments	$ 54,169,067	$ 54,169,067	$ -	$ -
Government securities	18,641,210	18,641,210	-	-
Corporate bonds	9,612,599	138,195	9,474,404	-
Fixed income funds	10,510,219	10,510,219	-	-
Domestic common stocks	102,125,039	63,748,864	38,376,175	-
Foreign common stocks	126,205,708	29,969,264	78,695,144	17,541,300
Total securities	321,263,842	177,176,819	126,545,723	17,541,300
Private equity				
Venture capital/buy-out	83,886,676	-	-	83,886,676
Special situations	9,926,698	-	-	9,926,698
Total private equity	93,813,374	-	-	93,813,374
Real assets				
Real estate	23,730,044	-	-	23,730,044
Natural resources	23,501,898	-	-	23,501,898
Total real assets	47,231,942	-	-	47,231,942
Diversifying assets				
Absolute return strategies	15,196,522	-	2,919,518	12,277,004
Direct lending	1,196,865	-	-	1,196,865
Equity long/short	87,855,255	-	51,005,479	36,849,776
Global macro	752,491	-	290,724	461,767
Distressed	27,875,607	-	24,453,681	3,421,926
Short credit	850,095	-	850,095	-
Total diversifying assets	133,726,835	-	79,519,497	54,207,338
Other investments	886,942	-	886,942	-
Beneficial interest in lead and remainder trusts	17,740,681	-	-	17,740,681
Beneficial interest in perpetual trusts	11,690,422	-	-	11,690,422
	$ 626,354,038	$ 177,176,819	$ 206,952,162	$ 242,225,057
Liabilities				
Fair value of interest rate swap	$ (16,312,324)	$ -	$ -	$ (16,312,324)

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2013			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Securities				
Short-term investments	$ 82,973,570	$ 82,973,570	$ -	$ -
Government securities	18,129,645	18,129,645	-	-
Corporate bonds	8,938,740	-	8,938,740	-
Fixed income funds	10,020,972	10,020,972	-	-
Domestic common stocks	81,408,875	51,261,684	30,147,191	-
Foreign common stocks	63,931,229	26,762,853	37,168,376	-
Total securities	265,403,031	189,148,724	76,254,307	-
Private equity				
Venture capital/buy-out	82,793,878	-	-	82,793,878
Special situations	11,067,803	-	-	11,067,803
Total private equity	93,861,681	-	-	93,861,681
Real assets				
Real estate	30,907,615	-	-	30,907,615
Natural resources	25,513,682	-	-	25,513,682
Total real assets	56,421,297	-	-	56,421,297
Diversifying assets				
Absolute return strategies	33,170,909	-	18,742,744	14,428,165
Equity long/short	45,561,191	-	41,493,883	4,067,308
Global macro	12,442,800	-	12,193,972	248,828
Distressed	16,601,286	-	16,601,286	-
Short credit	1,248,992	-	1,248,992	-
Total diversifying assets	109,025,178	-	90,280,877	18,744,301
Other investments	886,942	-	886,942	-
Beneficial interest in lead and remainder trusts	14,122,756	-	-	14,122,756
Beneficial interest in perpetual trusts	10,606,880	-	-	10,606,880
	$ 550,327,765	$ 189,148,724	$ 167,422,126	$ 193,756,915
Liabilities				
Fair value of interest rate swap	$ (16,215,638)	$ -	$ -	$ (16,215,638)

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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:

	2014			
	Securities	Private Equity	Real Assets	Diversifying Assets
Beginning balance	$ -	$ 93,861,681	$ 56,421,297	$ 18,744,301
Total realized/unrealized gains	3,541,300	17,197,013	4,968,436	9,702,350
Purchases	-	7,233,519	3,120,932	19,638,075
Settlements	-	(24,478,839)	(17,278,723)	(3,439,424)
Transfers	14,000,000	-	-	9,562,036
	$17,541,300	$ 93,813,374	$ 47,231,942	$ 54,207,338

	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts	Fair Value of Interest Rate Swap
Beginning balance	$ 14,122,756	$ 10,606,880	$ (16,215,638)
Additional gifts of trusts	5,901,183	-	-
Payments received	(1,783,552)	-	-
Change in value of split-interest agreements	(499,706)	1,083,542	-
Loss on interest rate swap	-	-	(96,686)
	$ 17,740,681	$ 11,690,422	$ (16,312,324)

	2013					
	Private Equity	Real Assets	Diversifying Assets	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts	Fair Value of Interest Rate Swap
Beginning balance	$ 101,085,256	$ 63,538,694	$13,041,416	$ 18,644,632	$ 9,935,257	$ (23,463,836)
Total realized/unrealized gains	9,210,831	2,702,736	1,981,242	-	-	-
Payments received	-	-	-	(1,838,747)	-	-
Change in value of split-interest agreements	-	-	-	(2,683,129)	671,623	-
Purchases	7,170,952	5,013,255	4,000,000	-	-	-
Settlements	(23,605,358)	(14,833,388)	(278,357)	-	-	-
Gain on interest rate swap	-	-	-	-	-	7,248,198
	$ 93,861,681	$ 56,421,297	$18,744,301	$ 14,122,756	$ 10,606,880	$ (16,215,638)

Transfer into securities represents cash awaiting investment that was invested during 2014 and transfers into diversifying assets represents a change in liquidity terms for an investment and remaining funds held within an illiquid side-pocket. The University recognizes transfers between levels at the beginning of the reporting period.

As of June 30, 2014 and 2013, the unrealized gain (loss) still held in Level III investments was $12,210,581 and $(6,256,365) respectively.

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents information regarding funds with fair value that is determined using the net asset value (or its equivalent) provided by the fund:

	2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 38,376,175	$ -	Monthly	5 days
Foreign common stocks (b)	96,236,444	-	Daily to quarterly	1-60 days
Private equity (c)	93,813,374	25,049,573	Not available	-
Real assets (d)	47,231,942	21,011,039	Not available	-
Diversifying assets (e)	133,726,835	15,762,500	Monthly to 3 years	30-90 days
	$ 409,384,770	$ 61,823,112		

	2013			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 30,147,191	$ -	Monthly	5 days
Foreign common stocks (b)	37,168,376	-	Daily to quarterly	1-60 days
Private equity (c)	93,861,681	25,471,963	Not available	-
Real assets (d)	56,421,297	21,253,429	Not available	-
Diversifying assets (e)	109,025,178	10,000,000	Monthly to 3 years	30-90 days
	$ 326,623,723	$ 56,725,392		

(a) Domestic common stock investments are held in separate accounts, mutual funds, and commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at net asset value (NAV) using the market approach. Separate accounts and mutual funds have T+3 liquidity while commingled funds are typically limited to monthly withdrawals.

(b) Foreign common stock investments are commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at NAV, using the market approach, and are often limited to monthly withdrawals.

(c) Private equity funds invest in venture capital and buyout opportunities and special situations. The venture capital and buyout opportunities funds have lives that range from 10 to 12 years and cannot be sold. Distributions are received as individual portfolio holdings are liquidated and are valued at NAV, using the market approach. Approximately 67% of the private equity exposure is via fund-of-funds, with the remaining 33% invested directly with limited partnerships.

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Special situations funds contain 12 funds that were primarily initiated in calendar year 2006 and 2007. These funds seek to exploit debt opportunities across several sectors and are geographically diversified, with 48% in the U.S., 19% invested in Europe, 8% Asia and 25% other or nondisclosed. The largest sectors are: financial services (25%), real estate (10%), and media and communication (10%). These funds have lives that range from 10 to 12 years and the University will receive distributions over the next 5 to 6 years from the underlying funds.

(d) Real assets funds consist of natural resource funds, real estate funds, and real estate debt funds. Natural resource funds primarily invest in mid-stream and down-stream oil and gas opportunities and power generation in traditional power plants, as well as solar and wind generation. These limited partnerships investments began in 2005. Most partnerships have a 10 to 12 year life and valuation techniques include, but are not limited to, the income approach and public market equivalents methods. Funds cannot be sold, but distributions received as underlying investments are liquidated.

Real estate funds invest across the major four categories of commercial real estate: office, industrial, multi-family, and retail. These are limited partnerships with 10 to 12 year lives and cannot be sold. The underlying investments in the real estate funds are valued using comparable sales, dividend discount, and income approach methods. Distributions are made as underlying investments are sold.

Real estate debt funds invest in commercial mortgage-backed securities (CMBS). The fund uses a net asset valuation approach based on market values for the various CMBS holdings that are priced using dealer quotes or observable market prices.

(e) Diversifying assets consist of long/short equity funds and hedge funds that invest across the capital structure or exclusively in credit. Diversifying assets maintains residual exposure to global macro funds that are in the process of being terminated. Underlying public equity positions are generally valued using market quotes and public credit positions are generally valued using dealer pricing. Private equity and credit positions are generally valued based on the respective manager's valuation policy. Investments within diversifying assets are generally structured as comingled funds with redemption periods ranging from monthly to rolling three-year periods, with various lock-ups, and illiquid limited partnerships.