DEPAUW UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2013 and 2012

DEPAUW UNIVERSITY
Greencastle, Indiana

FINANCIAL STATEMENTS
June 30, 2013 and 2012

CONTENTS

Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2013 and 2012, 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, 2013 and 2012, 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 27, 2013

DEPAUW UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 15,539,312	$ 15,437,608
Cash restricted for capital projects	13,955,867	4,543,248
Accounts receivable (net of allowance of $1,075,000 for 2013 and $1,198,000 for 2012)	919,499	977,872
Inventories	299,692	252,735
Prepaid expenses	2,145,313	1,895,196
Contributions receivable, (Note 2)	60,279,085	14,885,210
Student notes receivable (net of allowance for uncollectible notes of $509,000 for 2013 and $525,000 for 2012)	5,726,070	6,193,210
Other notes receivable, mortgages and promissory notes (net of allowance of $0 for 2013 and $287,000 for 2012)	1,112,429	1,306,220
Investments (Note 3)	524,711,187	477,848,033
Real estate held for resale	593,716	589,914
Other investments	886,942	886,942
Bond issue costs	1,462,482	1,518,905
Property, plant and equipment (Note 4)	210,694,885	207,224,320
Cash surrender value of life insurance	4,640,801	4,385,482
Beneficial interest in lead and remainder trusts (Note 5)	14,122,756	18,644,632
Beneficial interest in perpetual trusts (Note 6)	10,606,880	9,935,257
Total assets	$ 867,696,916	$ 766,524,784
LIABILITIES		
Accounts payable and other accruals	$ 6,204,555	$ 4,066,569
Interest payable	1,409,608	1,423,739
Deposits, prepayments and other liabilities	3,871,836	3,805,384
Advances from grants held for others	302,115	168,240
Fair value of interest rate swap (Note 11)	16,215,638	23,463,836
Annuity and trust liability (Note 7)	14,191,625	12,815,074
Advances from federal government for student loans	3,670,970	3,670,970
Accumulated postretirement benefit obligation (Note 8)	20,589,145	25,391,433
Bonds payable (Note 10)	119,035,000	119,410,000
Total liabilities	185,490,492	194,215,245
NET ASSETS		
Unrestricted	257,139,922	225,765,573
Temporarily restricted (Note 12)	119,473,089	77,564,741
Permanently restricted (Note 12)	305,593,413	268,979,225
Total net assets	682,206,424	572,309,539
Total liabilities and net assets	$ 867,696,916	$ 766,524,784

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	171,465,467
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
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Tuition and fees	$ 84,333,402	$ -	$ -	$ 84,333,402
Grants and scholarships	(46,721,089)	-	-	(46,721,089)
Net tuition and fees	37,612,313	-	-	37,612,313
Contributions	6,019,396	18,621,436	4,523,494	29,164,326
Investment return designated for current operations (Note 3)	13,522,255	13,441,796	-	26,964,051
Federal grants	761,379	-	-	761,379
Auxiliary services	14,993,634	-	-	14,993,634
Other income	4,126,848	85,690	-	4,212,538
Releases from restriction (Note 12)	16,645,350	(16,778,629)	133,279	-
	93,681,175	15,370,293	4,656,773	113,708,241
Expenses				
Instruction	42,478,403	-	-	42,478,403
Student services	13,798,589	-	-	13,798,589
Academic support and library	12,427,578	-	-	12,427,578
Management and general	9,763,769	-	-	9,763,769
Fundraising and alumni support	4,418,768	-	-	4,418,768
Auxiliary services	15,693,266	-	-	15,693,266
	98,580,373	-	-	98,580,373
Change in net assets from operations	(4,899,198)	15,370,293	4,656,773	15,127,868
Non-operating activities				
Loss on interest rate swap (Note 11)	(10,180,958)	-	-	(10,180,958)
Other changes in accumulated postretirement benefit obligations	(2,298,075)	-	-	(2,298,075)
Net assets released for capital projects (Note 12)	4,471,951	(4,471,951)	-	-
City of Greencastle grant expense (Note 1)	(2,007,312)	-	-	(2,007,312)
Change in value of split-interest agreements	-	953,293	(656,301)	296,992
Investment return after amounts designated for current operations (Note 3)	(14,941,235)	(9,484,235)	-	(24,425,470)
	(24,955,629)	(13,002,893)	(656,301)	(38,614,823)
Change in net assets before clarification of donor intent	(29,854,827)	2,367,400	4,000,472	(23,486,955)
Clarification of donor intent (Note 1)	1,530,063	1,883,515	(3,413,578)	-
Net assets at beginning of year	254,090,337	73,313,826	268,392,331	595,796,494
Net assets, end of year	$ 225,765,573	$ 77,564,741	$ 268,979,225	$ 572,309,539

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 109,896,885	$ (23,486,955)
Items not requiring (providing) cash		
Depreciation and amortization	8,547,404	8,243,307
Actuarial change in postretirement benefit obligation	(4,802,288)	2,516,252
Net realized/unrealized (gain) loss on sales of investments	(49,378,526)	3,194,003
Contributed stock	(15,035,909)	(3,419,967)
Contributions restricted for long-term investment	(15,206,314)	(6,193,510)
Contributions restricted for capital projects	(9,771,694)	(1,716,148)
Change in fair value of interest rate swap	(4,685,648)	12,757,790
Changes in		
Accounts receivable	58,373	530,251
Inventories, prepaid and other assets	(297,074)	268,396
Contributions receivable	(30,357,966)	(1,361,284)
Student notes receivable	467,140	170,108
Real estate held for resale	(3,802)	131,596
Net change in cash surrender value of life insurance	(255,319)	(279,393)
Beneficial interest in remainder and perpetual trusts	3,850,253	(2,715,563)
Accounts payable and other accruals	2,204,438	1,231,581
Interest payable	(14,131)	12,280
Advances from grants held for others	133,875	(132,247)
Annuity and trust liability	1,376,551	(954,804)
Net cash from operating activities	(3,273,752)	(11,204,307)
Cash flows from investing activities		
Stock contributions restricted for capital projects	(2,574,885)	(4,139,743)
Purchases of property, plant and equipment	(11,961,546)	(4,086,291)
Proceeds from sales of securities	248,456,654	86,002,154
Purchases of securities	(245,941,282)	(70,917,553)
Payments on notes receivable and other investing activities	193,791	313,533
Net cash from investing activities	(11,827,268)	7,172,100
Cash flows from financing activities		
Stock contributions restricted for capital projects	2,574,885	4,139,743
Proceeds from contributions restricted for investment	15,206,314	6,193,510
Proceeds from contributions restricted for capital projects	9,771,694	1,716,148
Net settlements on interest rate swaps	(2,562,550)	(2,576,831)
Payments on bonds payable	(375,000)	(325,000)
Net cash from financing activities	24,615,343	9,147,569
Net increase in cash and cash equivalents	9,514,323	5,115,363
Cash and cash equivalents, beginning of year	19,980,856	14,865,493
Cash and cash equivalents, end of year	$ 29,495,179	$ 19,980,856
Supplemental cash flows information		
Interest paid	$ 5,383,735	$ 5,559,219
In-kind contributions	1,662	26,920
Purchases of property, plant and equipment in accounts payable	3,703,308	42,305

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 2010. 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, 2013 and 2012. At June 30, 2013 and June 30, 2012, 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. The notes receivable are not readily marketable. The University has estimated their fair value to be the carrying value. Contributions receivable approximate fair value because of the present value discount included in the carrying amount. 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, 2013 and 2012, 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, 2013 and 2012 was approximately $135,814,000 and $140,741,000.

(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, and 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 its 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, 2013 and 2012, the University's cash accounts exceeded federally insured limits by approximately $28,200,000 and $8,300,000. 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, 2013 and 2012, 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
2013	$ 18,410	$ 35,697	$ 64,498	$ 95,846	$ 214,451
2012	19,115	22,237	49,539	94,625	185,516

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 and 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.

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, 2013 and 2012 amounted to $499,925 and $643,017, 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 $86,088,909 and $84,397,836 and total expenses were $101,077,586 and $98,580,373 for the years ended June 30, 2013 and 2012.

City of Greencastle Grant Expense: During the year ended June 30, 2012, the University contributed $2,007,312 to the City of Greencastle (the City) in support of the City's participation in the State of Indiana's Stellar Communities Pilot Program (the Program). Under the Program, the City was awarded up to $19M in grant funding to renovate properties and streetscapes on and around the City's courthouse square, including the connector streets between the University and the square. The grant also provided funding for improvements to the main entrance to the University's campus, construction of a campus bookstore and community room on the square and several other infrastructure initiatives aimed at creating "The Next Great College Town." The University's contribution to the City is restricted for use on Program initiatives.

Reclassifications: Certain prior year balances were reclassified to conform to current year presentation. The reclassification had no effect on the change in net assets or total net assets.

Clarification of Donor Intent: During 2013 and 2012, 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, 2013, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended June 30, 2013. Management has performed their analysis through September 27, 2013, the date the financial statements were issued.

(Continued)

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30:

	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

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 4,007,000	$ 575,200	$ 4,582,200
Due in one to five years	7,163,093	791,795	7,954,888
Due in more than five years	5,225,000	2,028,602	7,253,602
	16,395,093	3,395,597	19,790,690
Allowance for uncollectible contributions	(675,000)	(158,500)	(833,500)
	15,720,093	3,237,097	18,957,190
Discount for time value of money	(2,943,014)	(1,128,966)	(4,071,980)
	$ 12,777,079	$ 2,108,131	$ 14,885,210

Discount rates used to estimate the present value of future year receivables ranged from 1.2% to 6.0% for 2013 and 2012.

Contributions receivable designated for specific purposes are as follows:

	2013	2012
Faculty development	$ 602,847	$ 400,692
Scholarships	23,534,891	1,370,574
Campus and facilities	30,429,001	8,533,285
Other purposes	5,274,960	2,532,037
Any activity of the University	437,386	2,048,622
	$ 60,279,085	$ 14,885,210

(Continued)

NOTE 3 - INVESTMENTS

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

	2013	2012
Short-term investments	$ 82,973,570	$ 33,761,874
Government securities	18,129,645	2,735,057
Corporate bonds	8,938,740	136,359
Fixed income funds	10,020,972	41,944,142
Domestic common stocks	81,408,875	87,391,666
Foreign common stocks	63,931,229	72,038,688
Private equity		
Venture capital/buy-out	82,793,878	89,590,852
Special situations	11,067,803	11,494,404
Total private equity	93,861,681	101,085,256
Real assets		
Real estate	30,907,615	33,256,168
Natural resources	25,513,682	30,282,526
Total real assets	56,421,297	63,538,694
Diversifying assets		
Absolute return strategies	33,170,909	35,248,455
Equity long/short	45,561,191	21,045,922
Global macro	12,442,800	10,798,531
Distressed	16,601,286	6,316,269
Short credit	1,248,992	1,807,120
Total diversifying assets	109,025,178	75,216,297
Totals	$ 524,711,187	$ 477,848,033

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.

	2013	2012
Dividends and interest, net of investment expenses of $2,116,340 and $2,580,028 for 2013 and 2012	$ 4,889,033	$ 5,732,584
Net realized gains on investments	43,592,294	13,066,962
Net unrealized gains (losses) on investments	5,786,232	(16,260,965)
Total return on investments	54,267,559	2,538,581
Investment return designated for current operations	(26,724,907)	(26,964,051)
Investment return in excess of amounts designated for current operations	$ 27,542,652	$ (24,425,470)

(Continued)

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

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

	2013	2012
Campus grounds and buildings	$ 276,463,721	$ 271,584,275
Furnishings and equipment	36,929,725	35,652,097
Books and scientific apparatus	2,543,997	2,416,275
Inn at DePauw and Student Social Center	12,584,726	12,514,727
Other property held	10,273,619	9,517,653
	338,795,788	331,685,027
Accumulated depreciation	(149,101,610)	(140,670,961)
	189,694,178	191,014,066
Construction in progress	7,587,435	3,011,165
Collections	3,160,141	3,160,141
Land	10,253,131	10,038,948
	$ 210,694,885	$ 207,224,320

Construction in progress at June 30, 2013 primarily includes expenditures related to enhancements to the athletic campus and the Lilly Physical Education and Recreation Center expansion. At June 30, 2013 the University had committed $22,321,680 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 is actuarial assumptions during the term of the trust and discount rates based on current market conditions.

Discount rates of 1.2% were used for the years ended June 30, 2013 and 2012. The estimated fair value of these trusts as of June 30, 2013 and 2012 was $14,122,756 and $18,644,632, 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 $10,606,880 at June 30, 2013 and $9,935,257 at June 30, 2012, 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 $14,191,625 and $12,815,074 at June 30, 2013 and 2012, 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 2013 and 2012.

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 spouse 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 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 2013 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)

	2013	2012
Accumulated postretirement benefit obligation at beginning of year	$ 25,391,433	$ 22,875,181
Service cost	574,965	558,748
Interest cost	984,246	1,227,799
Plan Amendments	(4,945,130)	-
Actuarial (gains) losses – net	(824,446)	1,590,764
Benefits paid	(591,923)	(861,059)
Accumulated postretirement benefit obligation at end of year	20,589,145	25,391,433
Fair value of plan assets	-	-
Accrued postretirement benefit obligation at end of year	$ 20,589,145	$ 25,391,433

	2013	2012
Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consists of:		
Prior service cost	$ (11,388,079)	$ (7,640,892)
Net loss	4,662,608	5,786,725
Amount recognized	$ (6,725,471)	$ (1,854,167)

Employer contributions to the plan during 2013 and 2012, respectively, were $591,923 and $861,059.

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, 2013 and 2012, the net periodic postretirement benefit cost was $660,939 and $1,079,236, 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 $236,313. The estimated prior service credit 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 6.4% for 2014 and gradually decrease to 4.7%. Estimated benefit payments are based on the same assumptions used to measure the benefit obligation as of June 30, 2013, adjusted for benefits attributable to estimated future employee service. The discount rate used in determining the accumulated postretirement benefit obligations was 4.72% and 4.3% at June 30, 2013 and 2012, respectively. The discount rate to determine the post-retirement benefit costs was 4.3% and 5.5% at June 30, 2013 and 2012, 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:

2014	$ 974,640
2015	1,154,146
2016	1,213,976
2017	1,244,368
2018	1,402,053
Thereafter	8,235,067

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 $2,623,733 and $2,552,066 for the years ended June 30, 2013 and 2012.

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.

The 2008A and 2008B Bonds were issued for $84,555,000 and mature on July 1, 2036. The 2008 Bonds 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, 2013, and 2012, the University was under the weekly interest rate mode, and interest was stated at .07% and .15%, respectively. The 2008A Bonds are secured by an irrevocable letter of credit, which expires in May 2014 and was issued for $42,250,641 in May 2011, which represented the principal of the 2008A Bonds plus accrued interest at the time of issuance. The 2008B Bonds are secured by an irrevocable letter of credit, which expires in May 2014 and was issued in May 2011 for $33,344,324, which represents the principal of the 2008B 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; or (iv) the stated expiration date of the letter of credit. 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 plus 2% until the principal amount drawn has been repaid.

The 2008 bond issues are subject to certain covenants, primarily financial coverage ratios, with which the University has reported compliance.

(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 2009B Bonds and pay certain costs of issuance.

The 2009 Bonds mature 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.

Bond maturities are as follows:

2014	$ 610,000
2015	640,000
2016	2,290,000
2017	2,500,000
2018	2,605,000
Thereafter	110,390,000
	$ 119,035,000

Interest expense was approximately $2,800,000 and $3,000,000 for 2013 and 2012.

Additionally, the University has a $20,000,000 bank line of credit expiring in December 2013. Interest is set at LIBOR Flex plus 1.25%. There were no borrowings against the line of credit at June 30, 2013 and 2012.

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, 2013 and 2012. The average rate received during 2013 and 2012 was .15% and .16%, respectively, and the average interest rate paid for 2013 and 2012 was 4.24%. The interest rate swap matures in 2032. Total interest paid during 2013 and 2012 was $1,757,525 and $1,757,097, 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 $1,767,752.

(Continued)

NOTE 11 - INTEREST RATE SWAP AGREEMENTS (Continued)

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, 2013 and 2012, respectively. The average rate received during 2013 and 2012 was .15% and .17%, respectively, and the average interest rate paid for 2013 and 2012 was 3.57%. The interest rate swap matures in 2018. Total interest paid during 2013 and 2012 was $358,968 and $357,392, 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 $360,804.

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 3.63% on a notional amount of $12,925,000 and $13,450,000 at June 30, 2013 and 2012, respectively. The average rate received during 2013 and 2012 was .15% and .17%, respectively, and the average interest rate paid for 2013 and 2012 was 3.63%. The interest rate swap matures in 2036. Total interest paid during 2013 and 2012 was $446,057 and $462,343, 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 $469,570.

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 statements of activities. The valuation of the three interest rate swaps at June 30, 2013 and 2012 resulted in a liability of $16,215,638 and $23,463,836, respectively.

NOTE 12 - NET ASSETS

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

	2013	2012
Scholarship and student support programs	$ 31,981,736	$ 19,928,791
Building and equipment maintenance	39,123,455	15,490,911
Library and department support programs	19,098,000	12,351,300
Faculty and academic support	11,332,892	6,983,396
Annuity trust agreements	6,642,976	5,925,900
Timing restriction	7,831,057	8,730,235
Other	3,462,973	8,154,208
	$ 119,473,089	$ 77,564,741

(Continued)

NOTE 12 - NET ASSETS (Continued)

Permanently restricted net assets are restricted to:

	2013	2012
Scholarship and student support programs	$ 183,354,137	$ 153,186,530
Faculty and academic support	72,830,505	72,043,225
Library and department support programs	20,649,302	19,211,359
Split-interest agreements and perpetual trusts	22,807,414	18,716,016
Building and equipment maintenance	4,950,236	4,945,338
Unrestricted use	819,670	803,972
Other	182,149	72,785
	$ 305,593,413	$ 268,979,225

Net assets released from donor restrictions:

	2013	2012
Purpose restrictions accomplished - primarily scholarship and instructional support	$ 15,104,726	$ 15,259,458
Gifts and grants utilized for operations	992,769	368,706
Time restrictions expired - death of annuity beneficiary	1,316,793	1,150,465
Total restrictions released for operations	17,414,288	16,778,629
Released for capital projects	8,455,719	4,471,951
	$ 25,870,007	$ 21,250,580

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, permanently restricted pledges receivable, which total $25,560,580 and $2,108,131 for 2013 and 2012, and beneficial interest in perpetual trusts, which total $10,606,880 and $9,935,257 for 2013 and 2012, are not legally subject to SPMIFA as the University has not yet collected these amounts.

(Continued)

NOTE 13 - ENDOWMENT (Continued)

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, 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

The composition of net assets by type of endowment fund at June 30, 2012 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (7,358,472)	$ 27,784,316	$ 260,127,679	$ 280,553,523
Board-designated endowment funds	200,462,706	-	-	200,462,706
Total endowment funds	$ 193,104,234	$ 27,784,316	$ 260,127,679	$ 481,016,229

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

(Continued)

NOTE 13 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2012 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 210,781,423	$ 29,491,875	$ 258,617,072	$ 498,890,370
Investment income	8,619,998	9,409,330	-	18,029,328
Net realized/unrealized loss	(10,516,787)	(5,801,876)	-	(16,318,663)
Total investment return	(1,896,789)	3,607,454	-	1,710,665
Contributions received	103	-	4,442,390	4,442,493
Change in split-interest agreements	-	-	(448,316)	(448,316)
Appropriation of endowment assets for expenditure	(13,049,575)	(13,349,658)	-	(26,399,233)
Transfer of net assets	(2,730,928)	8,034,645	(2,483,467)	2,820,250
Endowment net assets, end of year	$ 193,104,234	$ 27,784,316	$ 260,127,679	$ 481,016,229

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 $2,754,106 and $7,358,472 at June 30, 2013 and 2012, 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.

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.

(Continued)

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.

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 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.

(Continued)

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

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.

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, 2013 and 2012:

(Continued)

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

	2013			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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)

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

	2012			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities				
Short-term investments	$ 33,761,874	$ 33,761,874	$ -	$ -
Government securities	2,735,057	2,735,057	-	-
Corporate bonds	136,359	-	136,359	-
Fixed income funds	41,944,142	41,944,142	-	-
Domestic common stocks	87,391,666	69,425,747	17,965,919	-
Foreign common stocks	72,038,688	14,196,011	57,842,677	-
Total securities	238,007,786	162,062,831	75,944,955	-
Private equity				
Venture capital/buy-out	89,590,852	-	-	89,590,852
Special situations	11,494,404	-	-	11,494,404
Total private equity	101,085,256	-	-	101,085,256
Real assets				
Real estate	33,256,168	-	-	33,256,168
Natural resources	30,282,526	-	-	30,282,526
Total real assets	63,538,694	-	-	63,538,694
Diversifying assets				
Absolute return strategies	35,248,455	-	22,556,924	12,691,531
Equity long/short	21,045,922	-	21,045,922	-
Global macro	10,798,531	-	10,448,646	349,885
Distressed	6,316,269	-	6,316,269	-
Short credit	1,807,120	-	1,807,120	-
Total diversifying assets	75,216,297	-	62,174,881	13,041,416
Other investments	886,942	-	886,942	-
Beneficial interest in lead and remainder trusts	18,644,632	-	-	18,644,632
Beneficial interest in perpetual trusts	9,935,257	-	-	9,935,257
	$ 507,314,864	$ 162,062,831	$ 139,006,778	$ 206,245,255
Liabilities				
Fair value of interest rate swap	$ (23,463,836)	$ -	$ -	$ (23,463,836)

(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:

	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)

	2012					
	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	$ 101,117,799	$ 69,574,074	$11,150,762	$ 16,032,368	$ 9,831,957	$ (13,282,878)
Total realized/unrealized gains	9,801,621	3,874,367	430,777	-	-	-
Payments received	-	-	-	(1,078,695)	-	-
Change in value of split-interest agreements	-	-	-	788,697	(448,316)	-
Gifts	-	-	-	2,902,262	551,616	-
Purchases	6,723,909	5,258,734	1,459,877	-	-	-
Settlements	(16,558,073)	(15,168,481)	-	-	-	-
Loss on interest rate swap	-	-	-	-	-	(10,180,958)
	$ 101,085,256	$ 63,538,694	$13,041,416	$ 18,644,632	$ 9,935,257	$ (23,463,836)

As of June 30, 2013 and 2012, the unrealized loss still held in Level III investments was $(6,256,365) and $(13,581,922), 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.

	2013			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 30,147,191	$ -	Daily to annually	1-60 days
Foreign common stocks (b)	37,168,376	-	Daily to monthly	5-30 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		

	2012			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 17,965,918	$ -	Daily to monthly	5 days
Foreign common stocks (b)	57,842,677	-	Daily to quarterly	1-60 days
Private equity (c)	101,085,256	23,575,543	Not available	-
Real assets (d)	63,538,694	8,086,735	Not available	-
Diversifying assets (e)	75,216,297	-	Monthly to 3 years	30-90 days
	$ 315,648,842	$ 31,662,278		

(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 typically 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 69% of the private equity exposure is via fund-of-funds, with the remaining 31% invested directly with limited partnerships.

(Continued)

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

Special situations fund contains 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 are 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 hedge funds and a direct lending fund. The underlying positions of these funds are made up of approximately 50% stressed/distressed corporates, 30% notional exposures from derivatives, 12% stressed/distressed structured products, and 8% other. Hedge funds consist of long/short equity funds, long/short credit funds, a short credit fund, global macro funds and multi-strategy funds. The hedge funds have redemption periods that range from monthly to rolling two-year periods, with various lock-up provisions.

Long/short equity funds are mostly diversified global equity funds. Managers can invest both long and short. Underlying equity positions are valued using market quotes or dealer pricing.

Long/short credit funds are hedged credit funds. Assets are priced based on market quotes and/or dealer marks. Approximately 55% of the portfolio is highly liquid, 10% cash, and 45% nonperforming credit opportunities.

The short credit fund is an unhedged credit fund investing short in cash bonds and credit default swaps. The fund has monthly redemptions. Underlying securities are typically priced daily on exchanges, but some are priced via dealer marks.

The global macro funds invest long and short in currencies, commodities, credit and interest rate securities and equities. Underlying securities are typically priced daily on exchanges, but some are priced via dealer marks.

The direct lending fund is a private limited partnership seeking to provide custom-structured secured debt financing to public companies in the technology and life sciences sectors. As of June 30, 2013, the University was not yet invested in this fund, but was committed for $10,000,000.