SOUTHERN METHODIST UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

We have audited the accompanying consolidated financial statements of Southern Methodist University (the University), which comprise the consolidated balance sheets as of May 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated 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 University'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Methodist University as of May 31, 2013 and 2012, and the changes of its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
September 6, 2013

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2013 and 2012
(Dollars in Thousands)

Assets	2013	2012
Cash and cash equivalents (restricted for capital projects: $173,205 in 2013 and $21,269 in 2012)	$ 290,622	$ 125,614
Accounts receivable, less allowance for doubtful accounts of $1,030 in 2013 and $699 in 2012	25,291	34,789
Pledges receivable, net	110,908	87,092
Investments:		
Short-term paper (restricted for debt retirement: $914 in 2013 and $969 in 2012)	$ 79,527	$ 83,716
Stocks	293,775	206,902
Bonds (restricted for debt retirement: $32,405 in 2013 and $50,732 in 2012; restricted for capital projects: $20,280 in 2013 and $90,935 in 2012)	154,126	243,218
Venture capital	40,401	39,682
Mortgage and other notes receivable, less allowance for doubtful accounts of $774 in 2013 and $853 in 2012	7,945	8,827
Real estate	112,508	126,672
Funds held in trust by others	19,795	18,056
Other	502,160	502,313
Total investments	$ 1,210,237	$ 1,229,386
Property, plant and equipment, at cost, net of accumulated depreciation	823,610	710,894
Other assets	13,732	9,906
Total Assets	$ 2,474,400	$ 2,197,681

Liabilities and Net Assets	2013	2012
Liabilities:		
Accounts payable and accrued expenses	$ 186,616	$ 169,098
Deposits and deferred income	27,018	25,680
Notes payable	352	777
Bonds payable	609,621	466,960
Advances for student loans	2,899	2,826
Total Liabilities	$ 826,506	$ 665,341
Net Assets:		
Unrestricted	$ 471,297	$ 465,729
Temporarily restricted	612,235	530,497
Permanently restricted	564,362	536,114
Total Net Assets	$ 1,647,894	$ 1,532,340
Total Liabilities and Net Assets	$ 2,474,400	$ 2,197,681

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Years Ended May 31, 2013 and 2012
(Dollars in Thousands)

	2013 Unrestricted	2013 Temporarily Restricted	2013 Permanently Restricted	2013 Total	2012 Unrestricted	2012 Temporarily Restricted	2012 Permanently Restricted	2012 Total
Revenue:								
Tuition and fees	$ 383,308	$ -	$ -	$ 383,308	$ 362,409	$ -	$ -	$ 362,409
Scholarship allowance - tuition and fees	(134,561)	-	-	(134,561)	(125,742)	-	-	(125,742)
Net tuition	$ 248,747	$ -	$ -	$ 248,747	$ 236,667	$ -	$ -	$ 236,667
Gifts	16,362	61,725	26,079	104,166	20,494	42,242	26,590	89,326
Endowment income, net of investment expenses	16,099	109	1,085	17,293	13,727	54	966	14,747
Net realized and unrealized gain (loss) on investments	5,484	75,861	1,084	82,429	(1,856)	18,026	(388)	15,782
Grants and contracts	26,591	-	-	26,591	28,242	-	-	28,242
Organized activities	7,884	-	-	7,884	8,728	-	-	8,728
Other sources	29,298	-	-	29,298	30,453	-	-	30,453
Auxiliary activities	44,418	1,556	-	45,974	41,249	5,868	-	47,117
Scholarship allowance - room and board	(2,942)	-	-	(2,942)	(2,829)	-	-	(2,829)
Independent operations	3,837	-	-	3,837	3,549	-	-	3,549
Total revenue	$ 395,778	$ 139,251	$ 28,248	$ 563,277	$ 378,424	$ 66,190	$ 27,168	$ 471,782
Net assets released from restrictions	57,513	(57,513)	-	-	77,185	(77,185)	-	-
Total adjusted revenue	$ 453,291	$ 81,738	$ 28,248	$ 563,277	$ 455,609	$ (10,995)	$ 27,168	$ 471,782
Expenses:								
Program expenses:								
Instructional	$ 158,948	$ -	$ -	$ 158,948	$ 154,930	$ -	$ -	$ 154,930
Academic support	55,596	-	-	55,596	53,305	-	-	53,305
Research	21,844	-	-	21,844	22,121	-	-	22,121
Organized activities	9,833	-	-	9,833	10,376	-	-	10,376
Student services	44,279	-	-	44,279	42,195	-	-	42,195
Auxiliary activities	68,330	-	-	68,330	59,144	-	-	59,144
Total program expenses	$ 358,830	$ -	$ -	$ 358,830	$ 342,071	$ -	$ -	$ 342,071
Institutional support	92,282	-	-	92,282	88,820	-	-	88,820
Independent operations	3,270	-	-	3,270	3,111	-	-	3,111
Total expenses	$ 454,382	$ -	$ -	$ 454,382	$ 434,002	$ -	$ -	$ 434,002
Postretirement plan changes other than net periodic postretirement benefit cost	(6,659)	-	-	(6,659)	6,844	-	-	6,844
Total expenses and actuarial adjustment	$ 447,723	$ -	$ -	$ 447,723	$ 440,846	$ -	$ -	$ 440,846
Change in net assets	$ 5,568	$ 81,738	$ 28,248	$ 115,554	$ 14,763	$ (10,995)	$ 27,168	$ 30,936
Net assets at beginning of year	465,729	530,497	536,114	1,532,340	450,966	541,492	508,946	1,501,404
Net assets at end of year	$ 471,297	$ 612,235	$ 564,362	$ 1,647,894	$ 465,729	$ 530,497	$ 536,114	$ 1,532,340

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Years Ended May 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 115,554	$ 30,936
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	28,449	29,658
Loss on disposal of property, plant and equipment	683	306
Increase in accounts and pledges receivable	(14,318)	(26,970)
(Increase) decrease in other assets	(3,826)	1,076
Increase in accounts payable and accrued expenses for operations	1,480	6,013
Increase in deposits and deferred income and advances for student loans	1,411	217
Contributions restricted for long-term investment	(42,624)	(29,240)
Noncash contributions	(3,401)	(5,618)
Net realized and unrealized gain on investments	(82,429)	(15,782)
Income restricted for long-term investment	(1,377)	(1,217)
Annuity obligation payments	559	731
Other adjustments	(1,983)	(2,128)
Net cash used for operating activities	$ (1,822)	$ (12,018)
Cash flows from investing activities:		
Purchase of property, plant and equipment	$ (141,123)	$ (55,398)
Proceeds from sales of property, plant and equipment	85	867
Purchase of investments	(345,969)	(346,116)
Proceeds from the sale of investments	449,256	381,524
Increase in accounts payable and accrued expenses for investments and property, plant and equipment	16,038	9,660
Disbursements of mortgage and other notes receivable	(1,020)	(1,661)
Principal payments received on mortgage and other notes receivable	1,902	2,689
Net cash used for investing activities	$ (20,831)	$ (8,435)
Cash flows from financing activities:		
Contributions restricted for long-term investment	$ 42,624	$ 29,240
Income restricted for long-term investment	1,377	1,217
Annuity obligation payments	(559)	(731)
Proceeds from notes payable	-	42
Payments on notes payable	(425)	(46)
Proceeds from bond issue	197,104	-
Long-term bond payments	(52,460)	(7,180)
Net cash provided by financing activities	$ 187,661	$ 22,542
Net increase in cash and cash equivalents	165,008	2,089
Cash and cash equivalents at beginning of year	125,614	123,525
Cash and cash equivalents at end of year	$ 290,622	$ 125,614
Supplemental data:		
Gifts of investments, real estate and other	$ 2,591	$ 2,436
Gifts of property, plant and equipment	810	3,182
Cash paid for interest	15,007	16,853

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

Southern Methodist University (the University) is a private higher education institution providing undergraduate, graduate, and continuing educational opportunities. In addition to the revenue generated by the tuition and fees charged for these educational services, the University receives support from donations, and revenue from investment earnings, sponsored research, athletic events and other auxiliary activities, and other sources.

The University currently has ten corporations under its control that are included in the consolidated financial statements. Peruna Properties, Inc., Pony Properties, Inc., Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation and Peruna East Corporation are corporations the University established to acquire, own and manage, on behalf of the University, real estate adjacent to or in the near vicinity of the University campus. The University also has established the Stadium Club, Inc. to operate a private club in the Gerald J. Ford Stadium, the Southern Methodist University Foundation for Research to support academic scholarship and scientific research in the public interest for the benefit of the University and to assist in fulfilling the educational and research purposes of the University, and SMU Corp. in connection with the location of the George W. Bush Presidential Library and Museum at the University.

Financial Reporting:

The consolidated financial statements have been prepared in accordance with accounting standards established to provide meaningful information about the financial resources and operations of the University as a whole and to present balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances have been classified into three categories of net assets:

Unrestricted net assets include funds that have no donor-imposed restrictions, time restrictions or whose restrictions have been satisfied. The University has determined that any donor-imposed restrictions for currently budgeted programs and activities generally are met within the operating cycle of the University. Therefore, the University's policy is to record these funds as unrestricted.

Temporarily restricted net assets include funds for which donor-imposed restrictions have not been met. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, annuities, and unconditional promises to give that are restricted by the donor to be invested or held in perpetuity. Only the income from these funds is made available for program operations specified by the donor.

Basis of Accounting:

The consolidated financial statements have been prepared on the accrual basis of accounting. The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation, interest, bond issue costs and the operation and maintenance of University facilities have been allocated among the functional categories. Fund-raising expenses of approximately $19,586,000 and $21,364,000 incurred by the University in fiscal years 2013 and 2012, respectively, are included primarily as institutional support expenses reported in the consolidated statements of activities.

Cash equivalents include operating cash investments, U.S. Treasury bills and short-term paper with maturities of three months or less from the date of purchase. However, such assets when purchased with endowment, loan, annuity and life income assets or trust funds are classified as investments.

Investments in short-term paper, stocks, bonds and funds held in trust by others with readily determinable fair values are recorded at fair value. Equity method investments are valued at the University's percentage of the net asset values reported by the fund managers, which are used as practical expedients to estimate the fair values. All other investments are recorded at cost, with disclosure of most recently reported fair values in Note 5, herein. Management monitors the managers and investment strategies of these and other investments to ascertain whether valuations are reasonable and whether the assets are permanently impaired. Permanent impairment losses are recognized when investments' fair values are below their carrying amounts and verifiable positive evidence does not exist to support the recoverability of the investments within a reasonable period of time. Permanent impairment losses were $23,595,000 and $770,000 as of May 31, 2013 and 2012, respectively. For the year ended May 31, 2013, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by $33,061,000 that are not reported as permanently impaired. The aggregate related fair value of these 34 investments is $134,383,000.

Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications in the consolidated statements of activities. Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as permanently restricted net assets. Refundable advances from the federal government for student loans are reported as long-term liabilities. University resources designated for student loans are reported as unrestricted net assets. Federally funded student loan programs consist of $2,899,000 and $2,826,000 of refundable government advances and $333,000 and $325,000 of matching University funds in fiscal years 2013 and 2012, respectively.

Property, plant and equipment (including art objects) are recorded at cost, if purchased, or at the fair value at the time of donation, if donated. During the period qualifying construction projects are in progress, net interest costs are capitalized as part of the basis of capital assets. Capital assets include property, plant and equipment that have an acquisition cost of $5,000 and over and have an estimated useful life of at least two (2) years, with the exception of software, where the cost must exceed $75,000 before the asset will be capitalized. Property, plant and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in 5 to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without such donor stipulations are reported as revenue of the temporarily restricted net asset class. The restrictions are considered to be released when the long-lived assets are placed in service.

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes amounts to be spent for the purposes intended by the donors based in part on an index of the prior year allocation for spending and in part on a stipulated percentage of the fair value of endowments participating in the investment pool. If the current income of the endowment investments is not sufficient to cover the authorized level of spending, the difference is taken from the market value in excess of the historical gift value, to the extent available.

The expiration of donor-imposed restrictions on contributions or endowment income is recognized in the period in which the restrictions are satisfied. At that time, the related resources are reclassified from temporarily restricted to unrestricted net assets. Restrictions expire when the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled. Endowment income and contributions received with donor-imposed restrictions that are satisfied in the same period as received are reported as unrestricted revenues.

Tuition revenue is recognized in the fiscal year in which the predominant portion of instruction occurs. Accordingly, deferred revenue as of May 31, 2013 includes the amount received from the students prior to May 31, 2013 for the 2013 summer session.

The University receives grant and contract revenue for research and other services it provides pursuant to arrangements with governmental and private entities. For financial statement purposes, grant and contract revenue is recorded at the time corresponding expenses have been incurred.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Certain fiscal year 2012 amounts have been reclassified to conform to the University's financial presentation in fiscal year 2013. On the consolidated statements of cash flows, proceeds from notes payable and cash paid for interest were revised. On the consolidated statements of activities, net realized and unrealized gain (loss) on investments reflected as temporarily restricted was reclassified to unrestricted, and the amounts released from restriction were revised. The University also reclassified bond interest expense from institutional support to other functional expense categories. On the fiscal year 2012 consolidated balance sheet, the University made a reclassification from unrestricted net assets to temporarily restricted net assets.

2. Accounting Pronouncements or Laws Affecting Current Year Financial Statements

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value, but rather provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. The adoption of ASU 2011-04 did not have a material effect on the University's consolidated financial statements.

3. Cash, Cash Equivalents, and Accounts Receivable

The fair value of cash, cash equivalents, and accounts receivable is estimated to be the same as carrying (book) value because of their short maturities. Operating funds invested in short-term paper are included as cash equivalents, the value of which may fluctuate based on the financial environment and the type of short-term investment. The fair value of cash equivalents is at market. The fair value of cash, cash equivalents, and accounts receivable totaled $315,913,000 and $160,403,000 of which $13,765,000 and $8,913,000 represent donations restricted for property, plant and equipment as of May 31, 2013 and 2012, respectively. The University reserves accounts receivable determined to be impaired or otherwise uncollectible.

4. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable with gifts reported in the appropriate net asset categories. Pledges receivable are initially recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 4% to 7%. The present value and the associated incremental income are reflected as gift revenue in the period the agreement is made and in the period accreted, respectively.

Unconditional pledges receivable as of May 31 are expected to be realized in the following periods (dollars in thousands):

	2013	2012
In one year or less	$ 35,579	$ 21,435
Between one year and five years	72,998	57,399
More than five years	31,696	35,846
Less discount	(29,365)	(27,588)
	$ 110,908	$ 87,092

Unconditional pledges receivable as of May 31 have the following restrictions (dollars in thousands):

	2013	2012
Endowment for departmental programs and activities	$ 13,074	$ 14,326
Endowment for scholarships	6,498	7,342
Construction projects	48,765	29,533
Scholarships, departmental programs and activities	35,433	28,554
Purpose restriction met	7,138	7,337
	$ 110,908	$ 87,092

Conditional promises to give are not recorded in the financial statements until the conditions on which they depend are substantially met. As of May 31, the University has received pledges contingent on the following conditions (dollars in thousands):

	2013	2012
Contingent on donor's earnings	$ 1,875	$ 3,125
Matching donation requirement	5,461	6,761
Other	1,750	3,250
	$ 9,086	$ 13,136

5. Investments

Total investments as of May 31 are as follows (dollars in thousands):

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	$ 79,527	$ 79,527	$ 83,716	$ 83,716
Stocks	293,775	293,775	206,902	206,902
Bonds	154,126	154,126	243,218	243,218
Venture capital	40,401	45,503	39,682	47,894
Mortgage and other notes receivable, net	7,945	7,945	8,827	8,827
Real estate:				
Real properties	$ 112,508	$ 107,700	$ 126,672	$ 114,627
Mineral rights	-	37,806	-	50,302
Total real estate	$ 112,508	$ 145,506	$ 126,672	$ 164,929
Funds held in trust by others	19,795	19,795	18,056	18,056
Other investments:				
Private equity	$ 200,697	$ 256,646	$ 219,734	$ 286,759
Absolute return	180,708	289,601	132,683	217,041
Equity funds without daily liquidity	92,802	109,848	95,548	90,246
Fixed income funds without daily liquidity	535	594	516	562
Equity method investments (carrying value is fair value)	27,418	27,418	53,832	53,832
Total other investments	$ 502,160	$ 684,107	$ 502,313	$ 648,440
Total investments	$ 1,210,237	$ 1,430,284	$ 1,229,386	$ 1,421,982

The fair value of short-term paper, stocks, bonds and funds held in trust by others is based on quoted market prices. The fair value of the University's interest in venture capital, real estate funds and other investments is based on the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's investment therein, unless it is probable that all or a portion of the value is different from NAV. The fair value of real estate mineral rights is estimated based on the income stream those assets generate. Where the fair value of mortgage and other notes receivable and University individually owned and managed real estate surface rights is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.

Investments include assets associated with split-interest agreements. The University's split-interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts, and annuity trusts. Perpetual trusts held and administered by others are recorded at the current fair value of the University's interest in the trust assets.

Under split-interest agreements, the University has the right to receive income distributions that are reported as revenue. The gains associated with split-interest agreements were $1,988,000 and $1,107,000 in fiscal years 2013 and 2012, respectively. The fair value of split-interest agreements were $32,364,000 and $29,645,000 in fiscal years 2013 and 2012, respectively.

Assets associated with gift annuities, unitrusts and annuity trusts held by the University are included in the applicable investment classifications. Under these split-interest agreements, the University makes periodic payments to named beneficiaries in return for assets received. Liabilities associated with split-interest agreements are recorded as accounts payable and accrued expenses on the consolidated balance sheets at current fair value by discounting the anticipated future payments to the income beneficiaries based on their life expectancies determined from the actuarial tables published by the Internal Revenue Service using discount rates of 4.12% and 3.70% per annum in fiscal years 2013 and 2012, respectively. As of May 31, 2013 and 2012, the present values of the University's financial obligations to beneficiaries were $6,669,000 and $6,662,000, respectively.

The University also owns foreign investments that are included in the applicable investment classifications on the consolidated balance sheets. To mitigate foreign exchange risk, the investment managers may purchase foreign currency futures contracts which result in unrealized gains and losses that are reflected in the fair values of appropriate investment categories.

Investment return is comprised of investment income and net realized and unrealized gains. Investment income of $22,042,000 and $23,041,000 for the years ended May 31, 2013 and 2012, respectively, is net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately $9,532,000 and $8,943,000 for the years ended May 31, 2013 and 2012, respectively. Net realized and unrealized gains on investments totaled $82,429,000 and $15,782,000 for the years ended May 31, 2013 and 2012, respectively. Included in these amounts are realized and unrealized gains attributed to assets reported at fair value of approximately $47,548,000 for the year ended May 31, 2013 and realized and unrealized losses of $22,064,000 for the year ended May 31, 2012, and realized gains attributed to assets reported at cost of approximately $34,881,000 and $37,846,000 for the years ended May 31, 2013 and 2012, respectively.

The University applies the guidance in Accounting Standards Codification (ASC) 970-323, *Investments - Equity Method and Joint Ventures*, on the equity method of accounting for its noncontrolling interests in a for-profit real estate partnership and other limited partnerships, a limited liability company, and similar entities unless those investments are reported at fair value. The University has determined those investments in which it holds an interest equal to or greater than 5% will be reported using the equity method of accounting. The University has noncontrolling interests in various entities for investment purposes that meet this 5% threshold and have been recorded using the equity method. All disclosures and unrealized gain (loss) adjustments are based on the most recently reported fair values and financial statements of the investment companies.

The University's percentage ownership and the fair value of its ownership using the most recent (unaudited) financial information of the investment companies as of May 31, 2013 and 2012 are reflected in the table below (dollars in thousands):

	2013		2012	
Investment Companies	Percentage of Ownership	Fair Value	Percentage of Ownership	Fair Value
Venture capital:				
Silver Creek Ventures III, L.P.	16.1%	$ 3,823	16.1%	$ 3,326
Pinnacle Ventures Equity Fund I	14.3	5,541	14.3	5,909
Knightsbridge III	-	-	9.9	876
Silver Creek Ventures II, L.P.	8.5	1,308	8.5	1,890
Commonfund Capital New Leaders II, L.P.	5.0	1,260	5.0	1,626
Real estate properties:				
Sustainable Woodlands Fund, L.P.	5.4	9,279	5.4	9,423
Private equity:				
Amberbrook IV, LLC	5.9	3,190	5.9	4,314
Private Advisors Small Company Buyout Fund, L.P.	5.7	3,017	5.7	4,614
Absolute return:				
Whippoorwill Offshore Distressed Opportunity Fund, Ltd.	-	-	7.9	21,854
Total		$ 27,418		$ 53,832

6. Endowment Fund

The University applies the provisions of ASC 958-205, *Endowments of Not-for-Profit Entities - Presentation of Financial Statements*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA or the Act) and also requires disclosures about endowment funds, including both donor-restricted endowment funds and funds functioning as endowment funds.

The University's endowment consists of approximately 1,500 individual donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments established for a variety of purposes,. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law:

Based on the interpretation of the UPMIFA by the Board of Trustees of the University, absent explicit donor stipulations to the contrary, 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 the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until it is appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources
7. The investment policies of the University

Temporarily restricted and permanently restricted donor-restricted endowment funds were \$469,776,000 and \$538,702,000, respectively, as of May 31, 2013 and \$437,673,000 and \$511,151,000, respectively, as of May 31, 2012. Funds functioning as endowment funds were \$69,556,000 and \$64,605,000 as of May 31, 2013 and 2012, respectively, and are included in unrestricted net assets.

Changes in endowment net assets for the years ended May 31 are as follows (dollars in thousands):

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	$ 64,048	$ 437,673	$ 511,151	$ 1,012,872	$ 65,416	$ 468,309	$ 483,796	$ 1,017,521
Gifts	-	-	25,829	25,829	-	-	26,386	26,386
Investment return:								
Investment income, net of distributions	$ 369	$ -	$ 1,075	$ 1,444	$ 345	$ -	$ 966	$ 1,311
Net realized and unrealized gains	5,574	77,168	-	82,742	1,457	15,961	-	17,418
Total investment return	$ 5,943	$ 77,168	$ 1,075	$ 84,186	$ 1,802	$ 15,961	$ 966	$ 18,729
Endowment gains transferred for spending	(3,544)	(43,852)	-	(47,396)	(3,634)	(45,933)	-	(49,567)
Funds functioning as endowment net transfers	2,552	-	-	2,552	51	-	-	51
Other revenues and transfers	557	(1,213)	647	(9)	413	(664)	3	(248)
Net assets at end of year	$ 69,556	$ 469,776	$ 538,702	$ 1,078,034	$ 64,048	$ 437,673	$ 511,151	$ 1,012,872

Changes in endowment net assets split between donor-restricted and funds functioning as endowment for the years ended May 31 are as follows (dollars in thousands):

	2013			2012		
	Donor-Restricted Endowment	Funds Functioning as Endowment	Total	Donor-Restricted Endowment	Funds Functioning as Endowment	Total
Gifts	$ 25,829	$ -	$ 25,829	$ 26,386	$ -	$ 26,386
Investment return						
Investment income, net of distribution	$ 1,075	$ 369	$ 1,444	$ 966	$ 345	$ 1,311
Net realized and unrealized gains	77,168	5,574	82,742	15,961	1,457	17,418
Total investment return	$ 78,243	$ 5,943	$ 84,186	$ 16,927	$ 1,802	$ 18,729
Endowment gains transferred for spending	(43,852)	(3,544)	(47,396)	(45,933)	(3,634)	(49,567)
Funds functioning as endowment net transfers	-	2,552	2,552	-	51	51
Other revenues and transfers	(9)	-	(9)	(248)	-	(248)
Total change in endowment funds	$ 60,211	$ 4,951	$ 65,162	$ (2,868)	$ (1,781)	$ (4,649)

Endowment funds classified as permanently restricted net assets of $538,702,000 and $511,151,000 as of May 31, 2013 and 2012, respectively, represent the portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation.

Endowment funds classified as temporarily restricted net assets and subject to a time restriction under UPMIFA as of May 31 are as follows (dollars in thousands):

	2013	2012
With purpose restrictions	$ 149,593	$ 144,387
Without purpose restrictions	320,183	293,286
Total endowment funds classified as temporarily restricted net assets	$ 469,776	$ 437,673

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. There were no deficiencies of this nature as of May 31, 2013. Deficiencies of this nature that are reported in unrestricted net assets were $557,000 as of May 31, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the permanently restricted contributions. Subsequent gains that restored the fair value of the assets of the endowment fund to the required level were classified as increases to unrestricted net assets.

Return Objectives and Risk Parameters:

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods, as well as funds functioning as endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to outperform over the long term (defined as rolling three and five year periods) a blended benchmark composed of 75% of the Russell 3000 and 25% of Barclay's Government/Credit Index. The University expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually (or 5.5% after an expected average rate of University inflation of 3.5% per year), net of all costs of management fees, trading expenses and custody services over the long term. Actual returns in any given year may vary from this target.

The principal risk to the endowment is the possibility of prolonged or severe asset depreciation that impairs the ability of the fund to preserve the value of the corpus after inflation, fees, and the yearly spending distribution. The endowment's broadly diversified portfolio is designed to reduce the volatility of returns. Also, the endowment is invested in asset classes that are projected to perform well and act as a hedge in environments that could cause prolonged or severe asset deprecation such as high inflation or deflation. Risk management is a dynamic process that takes into account general market developments, the proliferation of new investments, and the changing nature of correlation across asset classes. The University and its Investment Committee are responsible for this process, monitoring and managing the factors pertaining to credit, liquidity, market, and operational risks.

Strategies Employed for Achieving Objectives:

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on global equities, absolute return, private markets, real assets and fixed income strategies to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and the Investment Objectives Relationship to Spending Policy:

University Administration is authorized to distribute for spending from all endowment funds invested in the Investment Pool that have sufficient realized and unrealized capital gains, an amount equal to seventy percent (70%) of the spending calculated for the previous fiscal year increased by an inflation factor to be determined each fiscal year (1% for fiscal year 2013), and a percent determined for each fiscal year (4.75% for fiscal year 2013) of thirty percent (30%) of the four-quarter average of the per share market value for the preceding calendar year multiplied by the number of shares outstanding at the end of that calendar year. In establishing this policy, the University considers 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 maintain its purchasing power by growing at a rate at least equal to planned payouts and inflationary increases. Additional real growth will be provided through new gifts and excess investment returns.

7. Fair Value of Financial Instruments

The University complies with ASC 820, *Fair Value Measurement*. This codification provides a definition for fair value, as well as establishing a framework for measuring it and expanding disclosures about fair value measurements. The financial assets recorded at fair value on a recurring basis primarily relate to investments. ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entities (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entities' own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Additional disclosures are required under ASC 820, including segregating asset values among three levels that identify how investments are valued. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices for comparable assets, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the assets and include situations where there is little, if any, market activity for the assets.

ASC 825, *Financial Instruments*, permits entities to choose to measure financial instruments and other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected would be classified as revenue. For financial statement purposes (balance sheets), the University reports marketable securities, funds held in trust by others and equity method investments at fair value. Venture capital, real estate and other investments (other than equity method investments) are carried on the cost basis.

The following table presents information about the University's investments at fair value as of May 31, 2013, including the fair value hierarchy to determine such fair value, as well as the strategies, liquidity, and unfunded commitments related to them (dollars in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Unfunded Commitments	Investment Redemption Frequency	Investment Redemption Notice Period (Days)
Short-term paper	$ 79,527	$ -	$ -	$ 79,527	$ -		
Stocks	293,775	-	-	293,775	10,000		
Bonds	105,178	48,948	-	154,126	-		
Venture capital	-	-	45,503	45,503	9,130	Illiquid	N/A
Mortgage and other notes receivable	-	7,945	-	7,945	-		
Real estate:							
Real properties							
Directly held real estate	-	5,288	290	5,578	-	Illiquid	N/A
Real estate funds	-	-	80,177	80,177	12,077	Illiquid	N/A
Timber funds	-	-	21,945	21,945	36	Illiquid	N/A
Mineral rights	-	37,806	-	37,806	-		
Funds held in trust by others	-	14,561	5,234	19,795	-	Illiquid	N/A
Other investments:							
Private equity	-	-	256,646	256,646	66,012	Illiquid	N/A
Absolute return:							
Single strategy hedge funds	-	-	75,289	75,289	-	Annually	45 to 90
Single strategy hedge funds	-	-	17,668	17,668	-	Semi-annual	45
Single strategy hedge funds	-	-	25,365	25,365	-	Quarterly	30 to 90
Single strategy hedge funds	-	-	15,691	15,691	-	Locked up (1)	45
Single strategy hedge funds	-	-	17,032	17,032	-	Locked up (2)	60
Single strategy hedge funds	-	-	16,532	16,532	-	Locked up (3)	90
Multi strategy hedge funds	-	-	21,314	21,314	-	Annually	90
Multi strategy hedge funds	-	-	95,249	95,249	-	Quarterly	45 to 90
Multi strategy hedge funds	-	-	1,899	1,899	-	Illiquid	N/A
Side pockets/private-like hedge funds	-	-	3,562	3,562	-	Illiquid	N/A
Equity funds without daily liquidity:							
International equities emerging markets	-	-	19,433	19,433	-	Quarterly	90
International equities emerging markets	-	-	198	198	-	Illiquid	N/A
International equities developing markets	-	-	871	871	-	Illiquid	N/A
International equities developing markets	-	-	782	782	-	Quarterly	90
International equities developing markets	-	-	24,239	24,239	-	Monthly	6 business days
International equities developing markets	-	-	48,086	48,086	-	Monthly	15 business days
Multi strategy equity funds	-	-	16,239	16,239	-	End of Month	5
Fixed Income funds without daily liquidity	-	-	594	594	-	End of Month	5
Equity method investments:							
Venture capital	-	-	11,931	11,931	4,087	Illiquid	N/A
Private equity	-	-	6,208	6,208	586	Illiquid	N/A
Timber funds	-	-	9,279	9,279	-	Illiquid	N/A
Total investments	$ 478,480	$ 114,548	$ 837,256	$ 1,430,284	$ 101,928		

(1) Quarterly liquidity after completion of lockup expiring March 31, 2014.

(2) Annual liquidity after completion of lockup expiring August 31, 2014.

(3) Quarterly liquidity after completion of lockup expiring December 31, 2014.

The following table presents information about the University's investments at fair value as of May 31, 2012, including the fair value hierarchy to determine such fair value, as well as the strategies, liquidity, and unfunded commitments related to them (dollars in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Unfunded Commitments	Investment Redemption Frequency	Investment Redemption Notice Period (Days)
Short-term paper	$ 83,716	$ -	$ -	$ 83,716	$ -		
Stocks	206,902	-	-	206,902	-		
Bonds	195,556	47,662	-	243,218	-		
Venture capital	-	-	47,894	47,894	13,390	Illiquid	N/A
Mortgage and other notes receivable	-	8,827	-	8,827	-		
Real estate:							
Real properties							
Directly held real estate	-	5,538	290	5,828	-	Illiquid	N/A
Real estate funds	-	-	85,679	85,679	16,606	Illiquid	N/A
Timber funds	-	-	23,120	23,120	24	Illiquid	N/A
Mineral rights	-	50,302	-	50,302	-		
Funds held in trust by others	-	13,397	4,659	18,056	-	Illiquid	N/A
Other investments:							
Private equity	-	-	286,759	286,759	70,823	Illiquid	N/A
Absolute return:							
Single strategy hedge funds	-	-	64,629	64,629	-	Annually	45 to 90
Single strategy hedge funds	-	-	15,184	15,184	-	Locked up (1)	45
Single strategy hedge funds	-	-	21,701	21,701	-	Quarterly	30 to 90
Multi strategy hedge funds	-	-	22,989	22,989	-	Annually	90
Multi strategy hedge funds	-	-	76,464	76,464	-	Quarterly	60 to 90
Multi strategy hedge funds	-	-	3,719	3,719	-	Monthly	60
Multi strategy hedge funds	-	-	6,975	6,975	23,000	Locked up (2)	45 to 60
Multi strategy hedge funds	-	-	883	883	-	Illiquid	N/A
Side pockets/private-like hedge funds	-	-	4,497	4,497	-	Illiquid	N/A
Equity funds without daily liquidity:							
International equities emerging markets	-	-	16,472	16,472	-	Quarterly	90
International equities emerging markets	-	-	319	319	-	Illiquid	N/A
International equities developing markets	-	-	1,358	1,358	-	Illiquid	N/A
International equities developing markets	-	-	20,757	20,757	-	Quarterly	90
International equities developing markets	-	-	26,871	26,871	-	Monthly	6 business days
International equities developing markets	-	-	23,788	23,788	-	Monthly	15 business days
Multi strategy equity funds	-	-	681	681	-	End of Month	5
Fixed Income funds without daily liquidity	-	-	562	562	-	End of Month	5
Equity method investments:							
Venture capital	-	-	13,628	13,628	5,987	Illiquid	N/A
Private equity	-	-	8,928	8,928	655	Illiquid	N/A
Single strategy hedge funds	-	-	21,853	21,853	-	Quarterly	30 to 90
Timber funds	-	-	9,423	9,423	-	Illiquid	N/A
Total investments	$ 486,174	$ 125,726	$ 810,082	$ 1,421,982	$ 130,485		

(1) Semiannual liquidity after completion of 2 year lockup expiring December 31, 2012. (2) Quarterly liquidity after completion of 1 year lockup expiring April 30, 2013.

For fiscal years 2013 and 2012, fair value for assets in the previous table using significant unobservable inputs (Level 3) is as follows (dollars in thousands):

	2013					
	Opening Balance	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	$ 47,894	$ 5,636	$ (3,109)	$ (12,602)	$ 7,684	$ 45,503
Real estate	109,089	(7,032)	7,307	(12,230)	5,278	102,412
Funds held in trust	4,659	142	371	(3)	65	5,234
Other investments	648,440	32,771	42,989	(125,280)	85,187	684,107
Total	$ 810,082	$ 31,517	$ 47,558	$ (150,115)	$ 98,214	$ 837,256

	2012					
	Opening Balance	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	$ 44,028	$ 1,195	$ 3,386	$ (5,264)	$ 4,549	$ 47,894
Real estate	107,695	1,809	859	(12,021)	10,747	109,089
Funds held in trust	5,140	(263)	(222)	-	4	4,659
Other investments	685,379	32,721	(37,326)	(96,002)	63,668	648,440
Total	$ 842,242	$ 35,462	$ (33,303)	$ (113,287)	$ 78,968	$ 810,082

The fair values of annuity obligations, notes payable and bonds payable measured using Level 2 valuation techniques were $6,669,000, $297,000 and $653,720,000, respectively, as of May 31, 2013 and $6,662,000, $720,000 and $519,444,000, respectively, as of May 31, 2012. Annuity obligations, notes and bonds payable were valued at the present value of future payments discounted at the prevailing interest rates for comparable debt instruments.

The University's policy is to recognize transfers among levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 during fiscal years 2013 and 2012.

8. Property, Plant and Equipment

Plant assets include net interest expense of $4,297,000 and $3,933,000 capitalized for construction bond projects during fiscal years 2013 and 2012, respectively, and included in property, plant and equipment in the following table (dollars in thousands):

	2013	2012
Land	$ 169,095	$ 156,262
Land improvements	72,717	50,732
Buildings	661,716	654,727
Equipment	83,369	83,281
Art	40,035	38,032
Construction in progress	141,267	47,307
Total property, plant and equipment	$ 1,168,199	$ 1,030,341
Less accumulated depreciation	(344,589)	(319,447)
Total, net of accumulated depreciation	$ 823,610	$ 710,894

The fair value of a liability for the legal obligation for asbestos and lead paint abatement associated with the retirement of long-lived assets is recognized in the period in which it is incurred, at the present value of expected future cash flows and is added to the carrying value of the associated asset to be depreciated over the asset's useful life.

The following table summarizes the change in the asset retirement obligation for fiscal years ended May 31, 2013 and 2012 (dollars in thousands):

	2013	2012
Asset retirement obligations at beginning of year	$ 14,332	$ 13,858
Disposal of asset retirement obligations	(198)	(311)
Increase (decrease) in property, plant and equipment, net of accumulated depreciation	23	(72)
Current year accretion and depreciation expense	1,295	857
Asset retirement obligations at end of year	$ 15,452	$ 14,332

9. Accounts Payable and Accrued Expenses

The University has $186,616,000 and $169,098,000 reported as accounts payable and accrued expenses as of May 31, 2013 and 2012, respectively. Included in these amounts is the present value of conditional asset retirement obligations and performance on a long-term lease obligation, which are adjusted annually. Due to the use of present value calculations or the short maturity of the obligations included in accounts payable and accrued expenses, the carrying values reflected on the consolidated financial statements approximate their fair values.

10. Notes and Bonds Payable

Notes payable as of May 31 consist of the following (dollars in thousands):

	2013	2012
Total notes payable include notes due at various dates through 2021, with average interest rates of 0.00% and 1.57% as of May 31, 2013 and 2012, respectively, with $32 and $417 secured by equipment and property as of May 31, 2013 and 2012, respectively. The University did not draw on its $25,000 line of credit as of May 31, 2013 or May 31, 2012	$ 352	$ 777

Bonds payable as of May 31 consist of the following (dollars in thousands):

	2013	2012
Bonds payable due serially at various dates through 2013, with a fixed interest rate of 3.50%; collateralized by certain revenue	$ -	$ 320
1985 Refunding Series; weekly demand put bonds due 2015 with a variable interest rate of 0.16% on May 31, 2013; secured by unrestricted receivables supported by self liquidity	19,200	19,200
2002 Serial Bonds; maturing in 2012 with fixed interest rates of 5.50% and Serial and Term Bonds with fixed interest rates of 5.00% to 5.50% that were refunded from escrow funds in 2012; secured by unrestricted receivables and escrow investments in state and local government bonds	-	47,375
2003 Serial Bonds; maturing from 2012 through 2024 with fixed interest rates ranging from 3.50% to 4.60% and Term Bonds maturing in 2029 and 2033 with fixed interest rates of 4.50% and 4.75%, respectively, $24,430 of which will be refunded from escrow in 2013; secured by unrestricted receivables	25,185	25,915
2007 Serial Bonds; maturing from 2012 through 2029 with fixed interest rates ranging from 4.00% to 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	90,610	92,215
2009 Serial Bonds; maturing from 2012 through 2029 with fixed interest rates ranging from 3.00% to 5.00% and Term Bonds maturing in 2032 and 2036 with fixed interest rates of 4.25% and 5.00%, respectively; secured by unrestricted receivables	141,170	143,600
2010 Serial Bonds; maturing from 2014 through 2030 with fixed interest rates ranging from 3.00% to 5.00% and Term Bonds maturing in 2035 and 2041 with a fixed interest rate of 5.00%; secured by unrestricted receivables	116,330	116,330
2013A Serial Bonds; maturing from 2029 through 2033 with fixed interest rates ranging from 3.25% to 5.00% and Term Bonds maturing in 2038 with a fixed interest rate of 5.00% and maturing in 2042 with fixed interest rates of 4.00% and 5.00%; secured by unrestricted receivables	99,195	-
2013B Serial Bonds; maturing from 2013 through 2028 with fixed interest rates ranging from 0.35% to 3.62% and Term Bonds maturing in 2033 with a fixed interest rate of 4.16%; secured by unrestricted receivables	90,090	-
Total bonds payable prior to unamortized net premium	$ 581,780	$ 444,955
Unamortized net premium	27,841	22,005
Total bonds payable	$ 609,621	$ 466,960

The proceeds of the University's Series 2007 bonds were used to refund portions of the Series 1999A bonds and the Series 2002 bonds. Proceeds from the Series 2007 bonds in escrow refunded $43,645,000 of Serial and Term bonds of the Series 1999A bonds in 2008. Proceeds from the Series 2007 bonds in escrow were used to refund $44,470,000 of Serial and Term bonds of the Series 2002 bonds in 2012.

On October 28, 2010, the University issued Series 2010 bonds totaling $116,330,000. The proceeds are being used to construct the new Residential Commons and related projects and to renovate existing educational facilities and housing facilities. As of May 31, 2013, the $32,054,000 of proceeds not expended was invested in cash and cash equivalents and bonds.

On April 16, 2013, the University issued Series 2013A and Series 2013B bonds totaling $189,285,000. The proceeds of the Series 2013A tax-exempt bond are being used to complete the construction of the new Residential Commons and related projects, renovate existing educational facilities and housing facilities, replace the PBX system, rebuild what will be the Dr. Bob Smith Health Center, and purchase property on the east side of North Central Expressway for future University growth. The proceeds of the Series 2013B taxable bond are being used to partially fund the building of the SMU Tennis Center, renovate Moody Coliseum, equip a distributed antenna system, refund a portion of the Series 2003 bonds, and purchase property on the east side of campus. As of May 31, 2013, $102,051,000 of proceeds from the Series 2013A bonds and $45,615,000 of proceeds from the Series 2013B bonds are invested in cash and cash equivalents, and $24,965,000 of the proceeds of the Series 2013B bonds is in an escrow account with investments in state and local government bonds to refund $24,430,000 of the Series 2003 bonds in October 2013.

Bond issuance costs of $4,992,000 and $3,423,000 as of May 31, 2013 and 2012, respectively, are capitalized. Series 2003 and 2007 bond issuance costs are amortized using the effective interest method over the life of the bonds. Other bonds are amortized using the straight-line method over the lives of the bonds.

As required by bond indenture agreements, the University has cash and securities that have fair values totaling $6,107,000 on deposit with the trustee bank as of May 31, 2013 relating to the $19,200,000 bonds payable due in 2015. These assets are restricted for the payment of principal and interest on the related indebtedness. The University also has cash and securities on deposit with the trustee bank as of May 31, 2013, with a fair value totaling $24,965,000 that will be used to refund $24,430,000 of bonds payable in 2013, as required in the escrow agreement. In addition, the University has cash and securities in escrow with the trustee bank as of May 31, 2013, with a fair value totaling $2,247,000 that relates to a donor gift that will be applied to bond principal on the Series 2007 bonds.

Interest expense on notes and bonds payable was $13,173,000 and $14,677,000 for the fiscal years ended May 31, 2013 and 2012, respectively. As of May 31, 2013, scheduled principal maturities are $33,567,000, $15,752,000, $35,517,000, $18,432,000 and $18,979,000 for the years ending May 31, 2014 through 2018, respectively, and $459,885,000 for 2019 and thereafter.

Included in long-term debt is $19,200,000 of general obligation demand bonds maturing in fiscal year 2016. In the event that the University’s agents are unable to remarket the bonds, the bonds become demand notes and will be funded through self-liquidity.

11. Related Party Transactions

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling $3,142,000 and $3,270,000 in fiscal years 2013 and 2012, respectively, with one investment firm with which a board member is affiliated.

12. Postemployment Benefits

The University accrues obligations for certain other future postemployment benefits payable to former or inactive employees, if they are determinable. The University has post-employment benefit obligations of $911,000 in fiscal year 2013 and $657,000 in fiscal year 2012.

13. Postretirement Healthcare Benefits

The University provides postretirement healthcare benefits for employees who meet minimum age and service requirements and retire from the University. These benefits are provided by an insured Medicare supplement product with no lifetime maximum. The funding for the premium of this product is shared between the University and plan participants.

The University accrues the expected cost of providing postretirement benefits, other than pensions, during the years that employees render services. The accumulated postretirement benefit obligation (APBO) initially recognized in fiscal year 1994 is being amortized over twenty years.

Actuarial assumptions used to determine the value of the APBO and the benefit costs included discount rates of 4.12% and 3.70% per annum for fiscal years 2013 and 2012, respectively. Health care cost trends are graded from 9.5% in 2014 to 5.0% in 2023.

ASC 715, *Compensation - Retirement Benefits*, requires the funded status of the postretirement benefit plan to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). ASC 715 also requires disclosure of the incremental effect of adopting the standard on certain individual line items of the consolidated balance sheet.

The components of the net periodic benefit cost for the years ended May 31 are as follows (dollars in thousands):

	2013	2012
Service cost	$ 1,096	$ 935
Interest cost	1,644	1,773
Amortization:		
Transition obligation	307	307
Prior service cost	132	132
Unrecognized loss	1,776	799
Net periodic benefit cost	$ 4,955	$ 3,946

The transition obligation, prior service cost and unrecognized loss for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $4,000, $132,000 and $982,000, respectively.

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2013 and 2012 are as follows (dollars in thousands):

	2013	2012
Net periodic benefit cost recognized	$ 4,955	$ 3,946
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial (gain) loss	(6,220)	7,283
Prior service cost	(132)	(132)
Transition obligation	(307)	(307)
Total recognized in unrestricted net assets	(6,659)	6,844
Total recognized in net periodic benefit cost and unrestricted net assets	$ (1,704)	$ 10,790

The accrued postretirement benefit obligations recognized in the University's consolidated balance sheets as of May 31 pursuant to the recognition provisions of ASC 715 are as follows (dollars in thousands):

	2013	2012
Benefit obligation, beginning of year	$ 45,216	$ 36,290
Service cost	1,096	935
Interest cost	1,644	1,773
Plan participants' contribution	1,061	1,097
Benefit payments	(2,881)	(2,961)
Actuarial (gain) loss	(4,444)	8,082
Benefit obligation, end of year	$ 41,692	$ 45,216

The accumulated postretirement benefit includes a current liability of $1,783,000 for the claims and expenses that are expected to be paid out in the coming year and $39,909,000 of noncurrent postretirement benefit liabilities.

Healthcare cost trend assumptions have a significant impact on the amounts reported. A one percentage point increase in the assumed healthcare cost trend rate would result in a $209,000 increase in the net periodic postretirement benefit cost recognized in fiscal year 2013 and a $3,051,000 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2013. A one percentage point decrease in the assumed healthcare cost trend rate would result in a $194,000 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2013, and a $2,832,000 decrease in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2013.

As of May 31, 2013, the University has expected benefit payments through fiscal year 2023 of $24,373,000. Of these commitments, $1,783,000, $1,845,000, $1,984,000, $2,133,000 and $2,294,000 are the expected payments in the fiscal years ending 2014 through 2018 and $14,334,000 in the fiscal years ending 2019 through 2023.

The University also has a defined contribution retiree medical plan intended to replace the University's defined benefit retiree medical plan. Under this program, both the University and employees contribute monthly to the employees' retiree medical benefit. The University contributed $1,125,000 and $1,201,000 to this program in fiscal years 2013 and 2012, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

14. Retirement Plan

Full-time and part-time benefits-eligible employees are eligible for the 403(b) Retirement Plan at age 21. Full-time employees are required to enroll if age 36 or older. Retirement benefit expenses under this plan were approximately $15,575,000 and $14,510,000 in fiscal years 2013 and 2012, respectively.

15. Net Assets Released from Restrictions

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors were as follows (dollars in thousands):

	2013	2012
Acquisition of buildings and equipment	$ 2,763	$ 9,915
Instruction, research, departmental support, scholarships and other	54,750	67,270
	$ 57,513	$ 77,185

16. Restrictions and Limitations on Net Asset Balances

Temporarily and permanently restricted net assets as of May 31 consist of the following (dollars in thousands):

	2013		2012	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	$ 469,776	$ 538,702	$ 437,673	$ 511,151
Annuity trust and unitrust	208	5,381	190	4,794
Student loan funds	-	20,279	-	20,169
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	73,670	-	42,336	-
Instruction, research, departmental support, scholarships and other	68,581	-	50,298	-
	$ 612,235	$ 564,362	$ 530,497	$ 536,114

17. Commitments and Contingencies

The University is contractually obligated for approximately $96,940,000 as of May 31, 2013 for construction projects with scheduled completion dates through fiscal year 2015.

The University incurred $863,000 and $1,013,000 in operating lease expenses for facilities and equipment in the fiscal years ended May 31, 2013 and 2012, respectively. As of May 31, 2013, the University has lease commitments for future periods totaling approximately $2,495,000. Of these commitments, $787,000, $741,000, $592,000, $148,000, and $72,000 are due in the fiscal years ending 2014 through 2018, respectively, and $155,000 is due in the fiscal year 2019 and thereafter.

The University also has rights to revenues from long-term leases it holds related to independent operations. The University received $3,401,000 and $3,202,000 in rental revenue from these leases in the fiscal years ended May 31, 2013 and 2012, respectively. As of May 31, 2013, the total of the future rental revenues due from these leases is approximately $15,236,000. Of these commitments, $3,039,000, $2,402,000, $2,114,000, $1,959,000, and $1,760,000 are due in the fiscal years ending 2014 through 2018, respectively, and $3,962,000 is due in the fiscal year 2019 and thereafter.

Accounts payable and accrued expenses include $44,622,000, reflecting the fair value of a ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Library Center facilities at the University as of May 31, 2013. This balance is being accreted over the 249 years of the lease, including extensions.

The University has committed to capital draws totaling $760,092,000 for venture capital, real estate funds and other investments, of which $658,164,000 had been drawn as of May 31, 2013. The University has committed to pay draws as required for the remaining $101,928,000 through fiscal year 2025.

The University participates in the federal Title IV student financial aid programs and must fulfill federal requirements to qualify for these programs. Management is of the opinion that the University is in compliance with the federal requirements.

The University enters into contracts with vendors, some of which may have penalties for early termination. It is the University's practice when entering into such contracts to not cancel the contracts prior to the end of their term. If, from a business standpoint, including consideration of the cancellation penalty, the University does cancel any such contract, it does not believe there would be any material adverse effect on the University's consolidated financial statements.

The University is a defendant in several legal actions. The outcomes of these actions cannot be determined at this time, but management is of the opinion that liability, if any, from these actions will not have a material effect on the University's financial position.

The University has entered into three agreements with banks to guarantee the construction loan debt for sorority houses built on University land. Under these agreements if the debtors default on their obligations, the University may be required to satisfy all or part of the remaining obligation.

As of May 31, 2013 and 2012, the total guarantees are approximately $3,182,000 and $1,223,000, respectively. As of May 31, 2013 and 2012, the guarantee for Pi Beta Phi debt is approximately $891,000 and $1,223,000, respectively, and is in place until 2017 unless the debt is retired earlier. As of May 31, 2013, the guarantee for Tri-Delta debt is $2,291,000. The guarantee is an amount not to exceed the lesser of one half of the total cost of construction of the Approved Improvements or $3,400,000 of the construction indebtedness until 2027, unless the debt is retired earlier. As of May 31, 2013, the University has committed to guarantee Chi Omega debt up to $4,000,000 through 2028 unless the debt is retired earlier. A liability for guarantees of Pi Beta Phi and Tri-Delta debt have been recorded as accounts payable and accrued expenses with an offsetting amount recorded as other assets.

18. Tax Status

The University has received a determination letter from the Internal Revenue Service indicating it is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3). Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, The Stadium Club, Inc., and SMU Corp. are controlled corporations included in the University's consolidated financial statements and exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Sections 501(c)(3) and 501(c)(7). The University, Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, and SMU Corp. have been classified as organizations that are not private foundations under Sections 509(a)(1) and 509(a)(3), and as such, contributions to these entities qualify for deduction as charitable contributions. Peruna East Corporation, another controlled corporation, has filed an application to be recognized as a tax-exempt supporting organization under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code, but has not yet received a determination from the Internal Revenue Service. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income.

The University complies with the requirements of ASC 740, *Income Taxes,* which prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification, and accounting in interim periods and disclosure requirements for uncertain tax provisions. The University and its controlled corporations do not have any uncertain tax positions and, therefore, have recorded no liability or benefit for such positions for the years ended May 31, 2013 and 2012.

19. Subsequent Events

The University has evaluated subsequent events from the balance sheet date through September 12, 2013, the issue date of the financial statements, and determined that there are no other items to disclose.