THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

June 30, 2013

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Management's Discussion and Analysis

Highlights from 2012-13

- Total endowment net assets and funds held in trust by others ended the fiscal year at new high water mark of $1.345 billion.
- Endowment (including funds held in trust by others) per Student increased to approximately $585,000 from $575,000.
- University approved second smallest percentage increase in tuition and fees in last fifty years with an increase of just 2.70%.
- Completed the renovation of Washington Hall, the third of the five Colonnade Buildings to be renovated during this Campaign.
- Annual Fund reached new highs in both total raised, $8.72 million, and undergraduate alumni participation, 53.9%.
- The capital campaign, *Honor Our Past, Build Our Future,* reached the $424 million mark toward the $500 million goal with two years remaining.
- Set new highs for enrollment with 1,836 FTE undergraduates and 464 Law students yielding net tuition and fees revenues of $59.4 million, an increase of $3.5 million from 2011-12.
- University grants and scholarships were awarded to 49% of the undergraduates with thirty more awards than in 2011-12. The percentage of undergraduates with University grants or scholarships has increased from 39% to 49% over the last five years.
- Faculty compensation which has been strongly supported through the Lenfest Challenge stands at 93% of the mean of the Top 25 peer group of schools.

A Complex Industry with Complex Issues

One only needs to read articles within the popular press to understand the challenges facing colleges and universities today. Shrinking enrollment demand and demographic changes coupled with limited pricing power as tuition and fee levels reach a tipping point hinder the traditional source of revenue growth for most colleges and universities. Volatility in the investment marketplace and growing reliance on endowment and philanthropic support generates a challenging conundrum for management as it weighs the questions of intergenerational equity of the endowment against the potential of a lower return environment. Questions of industry transformation continue to emerge as MOOCs (Massive Open Online Courses) dominate the storylines of newspapers and professional journals. The questions of where revenue growth is going to come from and how an institution is going to manage expenses are key questions for individual schools and the industry as a whole. Moody's Investor Services has become concerned enough that they recently issued a negative outlook for all of higher education.

But just as the issues are complex, the industry is also very complex. While often discussed as a homogeneous population of schools, in fact, higher education is made up of schools that have very different profiles and missions. From community colleges to research universities, individual institutions serve very different constituent groups and appeal to very different audiences of students and support. It is within this context that Washington and Lee University must balance the pressures of the external environmental factors while preserving and enhancing those internal values that have been a hallmark of its success for well over 250 years. The strong demand for admission to the University as measured by applications and entering qualitative measures of our students along with the tremendous support of alumni and friends in one of the most ambitious fundraising efforts of a liberal arts college are endorsements that the University will continue to prosper and thrive even in challenging times. As we look at the financial picture of the University, both our financial position and operating performance continue to strengthen.

The following discussion provides a snapshot of Washington and Lee's financial picture and outlines how fiscal resources are utilized to provide a rich and rewarding experience for students and faculty.

<u>Assets</u>

Washington and Lee University experienced continued growth in assets over the past year. From $1.636 billion as of June 30, 2012, the University's assets grew to $1.74 billion by June 30, 2013. Since fiscal year 2009, the University's assets have grown by $400 million. Two areas have led this growth: endowment and plant (physical facilities) (see Fig. 1).

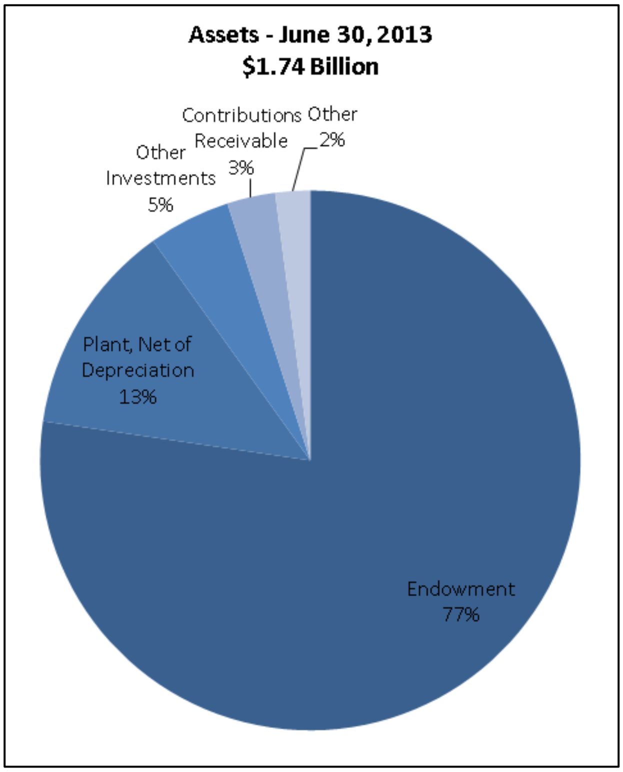

Figure 1

Endowment: Our endowment comprises two elements: gifts to the University held in the investment pool and Trusts Held by Others. The University's aggregate endowment grew to $1.345 billion in 2013 (See Fig. 2).

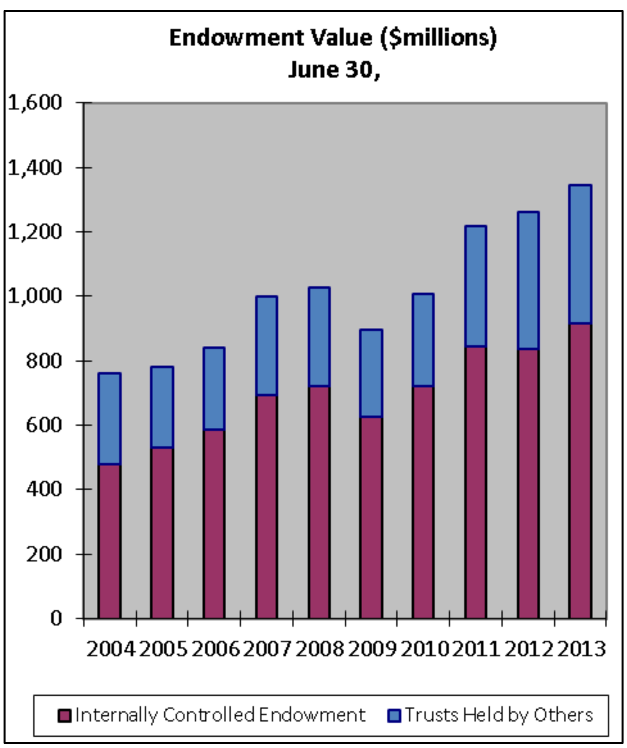

Figure 2

This was an increase from $1.262 billion as of June 30, 2012. Strong investment markets which yielded returns on the internally managed endowment funds in excess of 10% and inflows of gifts more than offset the allocation of endowment to operating support of $49.8 million. Trusts Held by Others increased by $5 million while the internally held endowment grew by $78 million.

Changes in endowment value reflect gifts and additions, distributions for spending and appreciation from the underlying investment funds. For 2012-13, gifts and appreciation accounted for an increase in funds available of $117.3 million while distributions for spending totaled $38.95 million within the internally-controlled portion of the endowment. For Trusts Held by Others, appreciation accounted for $16.3 million and distributions for spending totaled $10.87 million.

Returns on a nominal basis for endowment funds with external managers exceeded the University's long-term expected return (11.5 percent versus 7.5 percent). While strong from a nominal basis, early benchmarks of other endowments reflect that one-year performance will lag the mean returns and fall into the 60th percentile of returns. Looking over a longer horizon, however, the University's annual return of 8.65% over the ten-year period ended June 30, 2013 will place the endowment in the top quartile of endowment performance (as measured by the Mellon Trust Endowment Universe).

Physical Facilities: The University's physical facilities represent the second largest financial investment. Unlike the endowment and trusts, the University's physical plant does not appreciate over time but requires constant upkeep and preservation. At the same time, the investment in facilities is necessary to continue to create stimulating learning and social environments for our students and faculty.

Over the 2012-13 year, the University finished the renovation of Washington Hall, completing the third phase of the five phase renovation of the iconic Colonnade. We also began the renovation of Robinson Hall in early summer 2013. Other significant projects either started or significantly completed during the year include the IQ Center, an HHMI and gift funded project for the sciences, the renovation of Belfield to a Guest House and small conference facility, renovation of Lee-Jackson

House to accommodate the Dean of the College offices, conversion of the International House to the Global Service Learning House and home of Campus Kitchens, phase one of the renovation of Gaines Hall as part of the updated first-year housing complex and the refurbishment of three of the fraternity houses, the first of a five phase project to reinvest in these important living and social spaces.

Looking ahead, continued investment in facilities will be structured to meet the University's strategic objectives. Among projects that are anticipated to take place over the next five years are: the final Colonnade projects including renovations to Tucker and Stemmons Plaza, the Center for Global Learning including the renovation of a portion of DuPont Hall along with a new structure to be built and connected to DuPont, a new Natatorium facility that will replace the pool in Warner/Doremus, a completely rebuilt Warner facility with significant improvements made to Doremus to help accommodate the additional sports teams, student populations and increases in intramural and recreational activity that have occurred on campus since Warner was constructed in the early 1970s, alterations to the Law School to improve spaces to better meet the changing curricular demands of the third-year program but also improve student-centered spaces, and finally , we are exploring options for expanded upper class student housing.

Our approach to funding these significant projects will rely on the success of the capital campaign and the University's ability to secure more debt. It is an ambitious plan, but one that continues to build on the University's strengths and attention to our core mission.

Contributions Receivable: As the *Honor Our Past, Build Our Future c*ampaign continues to generate new commitments and gifts, many are made in the form of multi-year pledges. These play a vital role in aiding our planning efforts to ensure that we can match timing of implementation of a strategic initiative with the funding that will support it. As of June 30, 2013, contributions receivable were valued at $50.1 million. This is down from $53.9 million as of June 30, 2012 reflecting strong pledge payment receipts over the year.

Other Investments: The last major asset within the University's financial structure is categorized as "Other Investments". These are primarily split interest arrangements by which a donor gives the University a sum of money to invest and manage. The donor receives an income interest from these investments for a specified period of time after which Washington and Lee receives the remainder of the invested funds to support University operations. These investments totaled $70.9 million at the end of this most recent fiscal year.

Liabilities

On the other side of the ledger, the University has liabilities totaling $207.3 million. Three types of liabilities comprise 91 percent of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

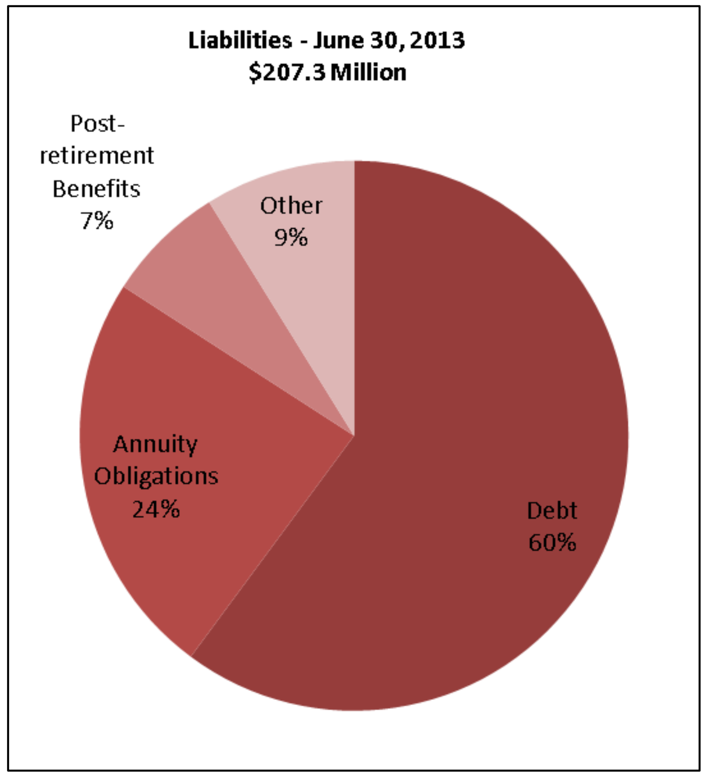

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been secured over the years to support capital building projects and has held fairly constant at $120 to $135 million over the last decade (see Fig. 4). This liability fell by $2.88 million to $124.7 million as of June 30, 2013. As of this date, the University's outstanding debt was composed of six different instruments; five of them tax-exempt issues through either the Virginia College Building Authority or one of the local Industrial Development Authorities. The balance of the sixth, a small taxable note through Bank of America, has declined to $0.35 million.

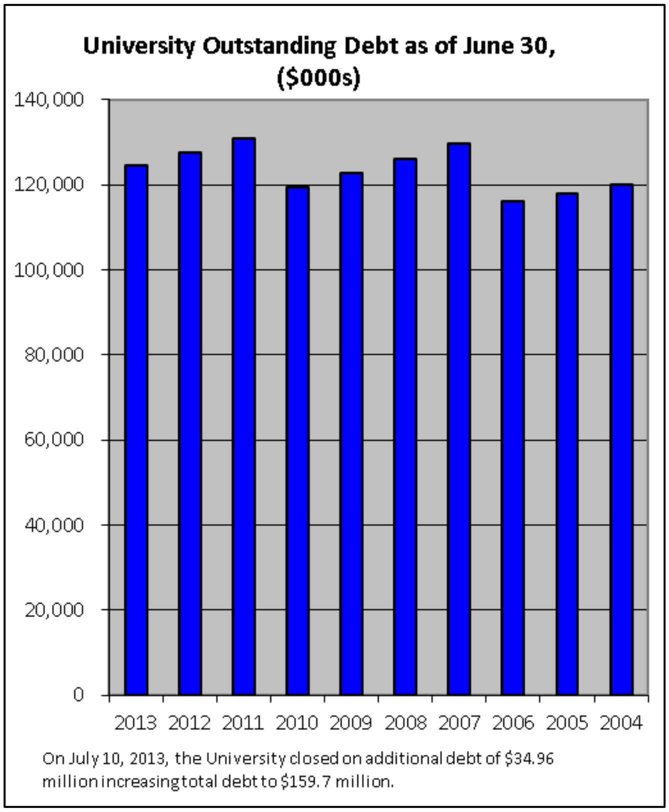

Figure 4

It should be noted that in July 2013, the University issued additional tax-exempt debt of $34.96 million that is not reflected in the financial statements for June 30, 2013. This debt will support the renovation and improvements for Gaines and Graham-Lees Halls to serve as the first-year housing precinct. In addition, the debt will be utilized to fund three years of annual capital projects across the campus.

As part of the debt issuance process, the University sought and maintained ratings with Moody's Investor Services and S&P. Currently, the University's debt is rated Aa2 and AA by Moody's and S&P, respectively. Both of these ratings reflect a "Stable" outlook from the agencies. These strong ratings reflect independent evaluations of the University's financial health and its ability to repay its obligations.

It is likely that the University will look to additional debt in the coming years in support of the capital program. We will continue to assess appropriate debt levels and potential new debt within the context of our Debt Policy which was adopted by the Board of Trustees in 2006 to ensure that we act prudently relative to amount and structure of the debt portfolio.

Future Annuity Payments: The split interest instruments mentioned above create a liability based upon expected future payments to the donor. As of June 30, 2013, this liability was recorded at $49.7 million. It is safe to say that the University welcomes an increasing liability in this area, since it reflects a growing deferred-giving program, which will lead to greater financial support in the future.

Postretirement Benefits: Finally, the University has maintained a postretirement health benefits plan for those employees who serve 10 years or more and retire from the University. This commitment creates an annual expense for the program as well as a future obligation. This obligation, as actuarially calculated, now stands at $14.6 million, down modestly from $15.1 million at June 30, 2012. The University has altered this plan for employees hired after April 1, 2003, to shift to a defined contribution plan for employees. This will lead to an elimination of this obligation over the very long-term.

Net Assets

In the corporate world, assets minus liabilities reveal the enterprise's equity. Within higher education this "equity" is referred to as net assets which are broken down into three components: Unrestricted Net Assets, Temporarily Restricted Net Assets, and Permanently Restricted Net Assets.

Unrestricted Net Assets: These funds can be expended for any institutional purpose if necessary, and as such, they carry the greatest level of flexibility for the University to meet its long-term obligations. The build-up of these funds results from operating surpluses, the creation of quasi-endowments from large unrestricted gifts and the development of reserves over the years. With good investment markets, the University saw this class of net assets increase by nearly $25 million to $298.1 million at June 30, 2013.

Temporarily Restricted Net Assets: These funds are fully expendable but restricted by either a purpose, time frame for use or accumulated gains of permanently restricted endowments. Examples are gifts restricted for support of student financial aid, gifts to support building projects, deferred giving arrangements under which the University has an obligation to make payments to beneficiaries before receiving the remainder value to meet the donor's intent and unspent endowment allocations intended for programmatic purposes. These net assets also benefitted from a strong year of growth and finished at $370.2 million, an increase of 11% from 2012.

Permanently Restricted Net Assets: These funds are given by a donor with the express condition that the original value of the gift not be expended by the University. Instead, the funds are invested and the University benefits from the investment return on the funds. At Washington and Lee, these funds are the underpinnings of the endowment and include many of the outside trusts that were established to be managed in perpetuity for the University's benefit. Over the past year, the value of this net asset component increased by $39.0 million to $864.4 million.

See Table 1 for a summary of the University's Statement of Financial Position.

Table 1

Summary Statement of Financial Position June 30, 2013 ($000s)	
Assets:	
Cash and Cash Equivalents	$ 9,719
Accounts and Notes Receivables	11,752
Contributions Receivable, net	50,121
Inventories	1,254
Investments	1,001,512
Funds Held in Trust by Others	429,586
Land, Buildings and Equipment, net	222,537
Assets Restricted to Investment in Plant	12,697
Other Assets	876
Total Assets	$ 1,740,054
Liabilities:	
Accounts and Other Payables	$ 7,989
Accrued Compensation	3,430
Student and Other Deposits	843
Deferred Revenue	2,461
U.S. Government Grants Refundable	2,021
Annuity Obligations	49,707
Asset Retirement Obligations	1,040
Postretirement Benefit Obligations	14,561
Capital Lease Obligations	580
Debt	124,707
Total Liabilities	207,339
Net Assets:	
Unrestricted	298,093
Temporarily Restricted	370,204
Permanently Restricted	864,418
Total Net Assets	1,532,715
Total Liabilities and Net Assets	$ 1,740,054

Sources and Uses

The depth of University resources translates into the programs and services provided to students. As noted above, Endowment and Trusts Held By Others make an enormous contribution to the revenue stream of the University and provide Washington and Lee the ability to invest in the education program. Figure 5 depicts the sources of revenues for the University.

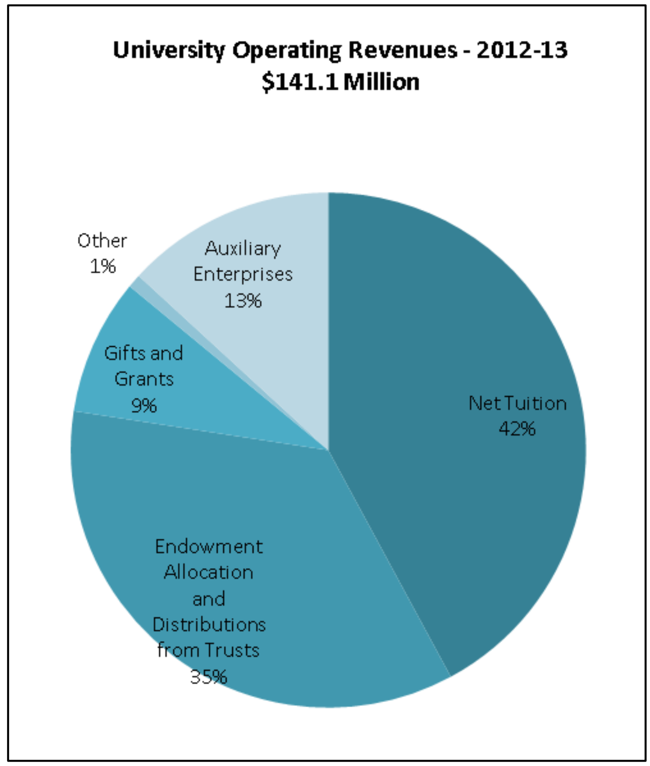

Figure 5

Tuition and fees remain the single largest source of operational support. After a period of catching up with peers on tuition, the last four years have reflected more modest increases in the "sticker price" for tuition at the University. And as a significant component of the Strategic Plan, we have increased financial aid to ensure that W&L can recruit the very best students without regard to geography, race, ethnicity or ability to pay.

In 2012-13, net tuition revenues grew to $59.4 million, an increase of $3.5 million from the prior year. A significant portion of this growth resulted from the unusually large first-year Law class, but undergraduate enrollment also contributed to this growth as an already high retention rate improved. Financial Aid continues to be significantly funded through endowment and gifts (48.0 percent in 2012-13) and provides access for students who otherwise may not be able to attend and allows the University to continue to attract the very best students.

In reading the operating results of the University (See Table 2), one must look at three pieces to understand the full commitment to Financial Aid at the University. Within revenues, Financial Aid is shown as a reduction of tuition ($38.0 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $1.1 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $4.7 million. On a combined basis, student financial aid awarded by the University in 2012-13 increased 13.6 percent to $43.8 million.

Table 2

Summary Statement of Activities June 30, 2013 ($000s)	
Revenues:	
Gross Tuition	$ 97,427
Less donor funded student financial aid	(21,052)
Less institutionally funded student aid	(16,956)
Net Tuition	59,419
Endowment Return Allocated to Operations	38,954
Income from Funds Held in Trust by Others	10,867
Contributions and Grants	12,067
Auxiliary Enterprises (net of $1,113 of aid)	18,581
Other	1,196
Total	**141,084**
Expenses:	
Instructional	64,820
Academic Support	16,573
Student Services	12,757
Institutional Support	19,441
Financial Aid	4,704
Auxiliary Enterprises	19,090
Other	3,389
Total	**140,774**
Operating Surplus	310
Increase in Net Assets from Non-Operating Activities	100,396
Change in Net Assets	**$ 100,706**

Endowment allocation, whether from the defined payout formula or through distributions from Trusts Held by Others, accounted for 35.3 percent of the operating revenues in 2012-13, at $49.8 million. This source has grown in importance as a portion of the revenue stream (See Fig. 6), and as a result the diligence of management of the underlying assets and considerations of payout allocation models are as important, if not more important than a decade ago.

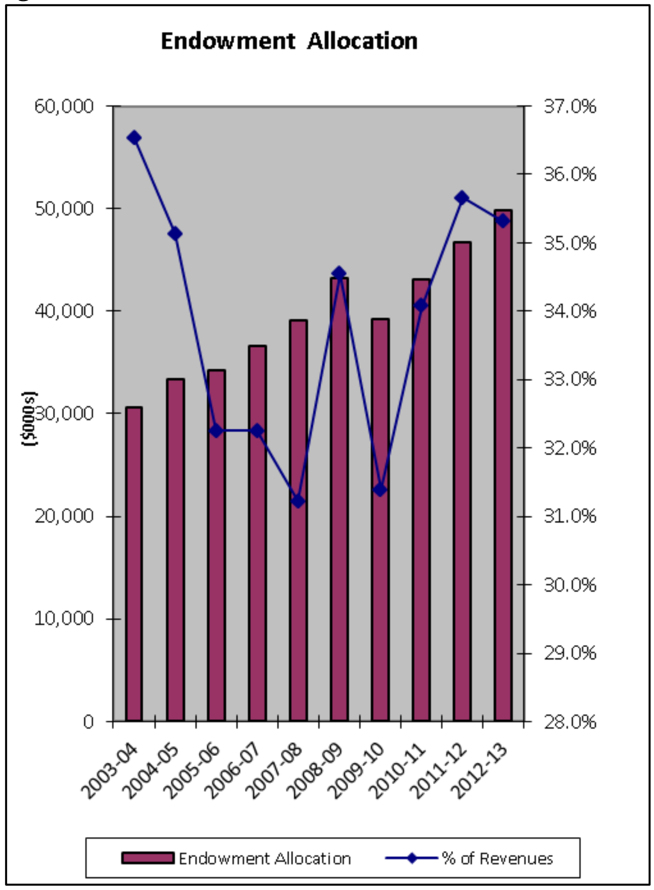

Figure 6

Current gifts and grants also play a significant role in the University's ability to provide a world-class educational program. For instance, in 2012-13, the Annual Fund exceeded $8.7 million in total commitments for the first time and reflected an increase of nearly $800 thousand from 2011-12. In addition, the University established new highs in undergraduate alumni participation with 53.9 percent making gifts. These unrestricted gifts underwrite all aspects of University life. In the aggregate, Washington and Lee received more than $12.0 million in contributions and grants in 2012-13 to underwrite operations. If the University had to rely on its endowment to generate the same level of contribution, the University would need an additional $252 million.

We use these resources to fulfill our core mission – education. As demonstrated in Fig. 7, Instruction and Academic Support (libraries, information technology services, etc.) comprise nearly 60 percent of total expenses. Fig. 7 also demonstrates that only

14 percent of expenditures go toward administration, including fund-raising.

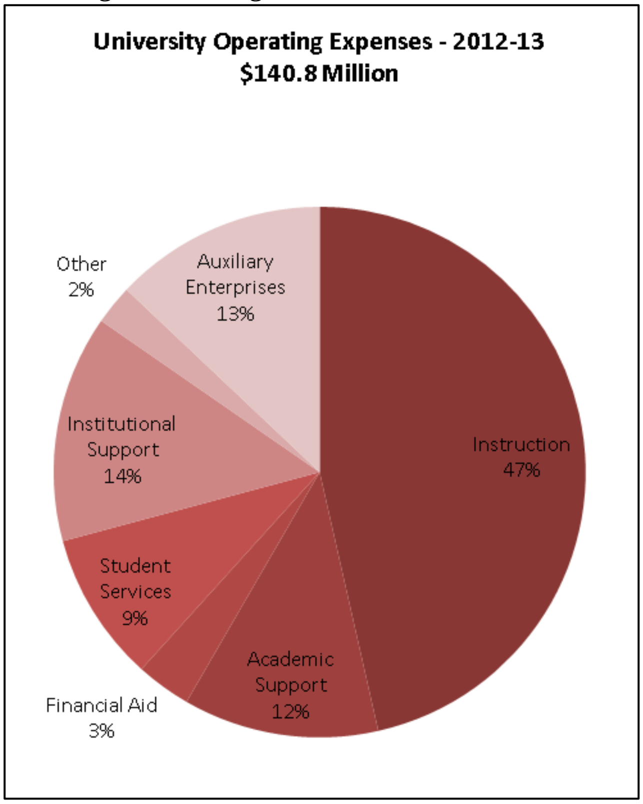

Figure 7

As in past years, comparisons of expenses within the "Top 25" group of liberal arts colleges, reveal that Washington and Lee consistently spends a higher percentage of its budget for educational expenses than the peer average (60.2 percent versus 52.6 percent). However, the University's aggregate expenses per student fall below the average expense per student of the peers by $6,500.

Results from Operations reflect a strong improvement from 2011-12 to 2012-13 with the University generating a small operating surplus in the most recent year compared to an operating deficit of $3.7 million in 2011-12. It should be noted that the University does not formally budget for Depreciation Expense ($11.3 million in 2012-13 allocated across the functional expenditures in Fig. 7). However, we do budget for certain similar types of activities including principal payments on debt, and annual capital projects. We also pursue significant fundraising to support the capital program, and many of these commitments are made but allocated to the project in a different year. This adjustment from temporarily restricted to unrestricted operations is made in the Non-operating activities section of the statement of activities. We believe that this approach to facilities capital management is a reasonable and thoughtful approach; although, it would not be considered a "best practice" model.

Summary and Outlook

We believe the University is one of a very few institutions in higher education today that has the ability to build on its foundation of excellence from a position of financial strength. Our adherence to our core values and mission has meant that we have not been reactionary in this challenging economic environment. Instead, we have been able to continue to focus our resources toward delivering a high level of quality. It is not an inexpensive model, but it is a model with what we believe delivers value well beyond the cost. We often hear about the "next great thing" for higher education and how it can transform the experience. And we see institutions that follow these paths regularly with little thoughtful analysis. We like to think that we have identified the next best thing in higher education, and it is focused on providing resources to students and faculty to develop deep bonds, long-lasting relationships and interactions that translate into a transformative experience.

Our planning models are built around the importance of fiduciary responsibility. These models assume low tuition increases and fee growth, modest endowment returns for the foreseeable future, and reallocation of resources to strategic needs rather than simple incremental growth. This is not new for the University. Planning over many years has incorporated such approaches to help ensure that the University can weather the difficult times without curtailing our programs as well as flourishing, but not going overboard, during the good times.

This prudent but forward-looking approach has served the University well for the last 264 years and remains as important today.

KPMG LLP
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10 S. Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

We have audited the accompanying consolidated financial statements of The Washington and Lee University and its affiliate (the University), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit 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 organization'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 organization'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 The Washington and Lee University and its affiliate as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 30, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 25, 2013

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Financial Position

June 30, 2013 (with comparative
information as of June 30, 2012)

(In thousands)

Assets		**2013**	**2012**
Cash and cash equivalents	$	9,719	6,502
Accounts and other receivables		4,778	5,165
Notes receivable, net (note 3)		6,974	7,134
Contributions receivable, net (note 4)		50,121	53,923
Inventories		1,254	1,186
Investments (notes 7, 13 and 19)		1,001,512	911,822
Funds held in trust by others (notes 9, 17 and 19)		429,586	424,177
Assets restricted to investment in land, buildings, and equipment		12,697	2,572
Land, buildings, and equipment, net (note 5)		222,537	222,187
Debt issuance costs, net		876	929
Total assets	$	1,740,054	1,635,597
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	7,989	8,631
Accrued compensation		3,430	3,185
Student and other deposits		843	709
Deferred revenue		2,461	2,767
U.S. government grants refundable		2,021	2,009
Split interest agreement obligations (note 13)		49,707	42,528
Asset retirement obligations		1,040	1,116
Postretirement benefit obligation (note 15)		14,561	15,054
Capital lease obligations		580	—
Long-term debt (notes 10 and 20)		124,707	127,589
Total liabilities		207,339	203,588
Commitments and contingencies (notes 7, 16 and 18)			
Net assets (note 8):			
Unrestricted		298,093	273,372
Temporarily restricted (note 6)		370,204	333,210
Permanently restricted (note 6)		864,418	825,427
Total net assets		1,532,715	1,432,009
Total liabilities and net assets	$	1,740,054	1,635,597

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Activities

Year ended June 30, 2013 (with summarized comparative information for the year ended June 30, 2012)

(In thousands)

	2013				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2012 Total**
Operating revenue and gains:					
Tuition and fees	$ 97,427	—	—	97,427	89,996
Less donor funded student financial aid	(21,052)	—	—	(21,052)	(19,867)
Less institutionally funded student financial aid	(16,956)	—	—	(16,956)	(14,223)
Net tuition and fees	59,419	—	—	59,419	55,906
Endowment return allocated to operations (note 7)	33,335	5,619	—	38,954	36,422
Other investment income (note 7)	637	120	—	757	714
Distributions from funds held in trust by others (note 9)	10,789	78	—	10,867	10,257
Contributions	10,174	—	—	10,174	8,012
Auxiliary enterprises (net of $1,113 and $1,889 of institutionally funded student financial aid)	18,581	—	—	18,581	16,601
Governmental and other grants	—	1,893	—	1,893	2,353
Other	251	188	—	439	654
Net assets released from restrictions (note 11)	7,493	(7,493)	—	—	—
Total operating revenue and gains	140,679	405	—	141,084	130,919
Operating expenses (note 12):					
Instruction	64,820	—	—	64,820	62,572
Research	2,428	—	—	2,428	2,725
Public service	961	—	—	961	884
Academic support	16,573	—	—	16,573	16,056
Financial aid	4,704	—	—	4,704	2,598
Student services	12,757	—	—	12,757	12,477
Institutional support	19,441	—	—	19,441	19,001
Auxiliary enterprises	19,090	—	—	19,090	18,316
Total operating expenses	140,774	—	—	140,774	134,629
Change in net assets from operating activities	(95)	405	—	310	(3,710)
Nonoperating activities:					
Investment return, net of amount allocated to operations (note 7)	11,750	34,027	4,047	49,824	(27,861)
Change in value of funds held in trust by others	—	(4,870)	10,279	5,409	49,146
Split interest agreements, net	(21)	(1,644)	(2,709)	(4,374)	(1,136)
Contributions	—	19,040	24,338	43,378	25,999
Net assets released for fixed asset acquisitions (note 11)	8,208	(8,208)	—	—	—
Postretirement charge other than benefit cost (note 15)	599	—	—	599	506
Other, net	4,280	(1,756)	3,036	5,560	(1,347)
Total nonoperating activities	24,816	36,589	38,991	100,396	45,307
Change in net assets	24,721	36,994	38,991	100,706	41,597
Net assets:					
Beginning of year	273,372	333,210	825,427	1,432,009	1,390,412
End of year	$ 298,093	370,204	864,418	1,532,715	1,432,009

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Cash Flows

Year ended June 30, 2013 (with comparative information for the year ended June 30, 2012)

(In thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	100,706	41,597
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Realized and unrealized gains on investments		(84,659)	(2,675)
Change in value of funds held in trust by others		(5,409)	(49,146)
Depreciation and amortization		11,088	10,570
Contributions restricted for long-term investment		(45,864)	(28,107)
Interest and dividends restricted for long-term investment		(1,300)	(1,110)
Changes in operating assets and liabilities:			
Accounts and other receivables, net		547	(1,007)
Contributions receivable, net		3,802	4,432
Inventories		(68)	(51)
Accounts payable and other accrued liabilities		(73)	(148)
Student and other deposits		134	(242)
Deferred revenue		(306)	622
U.S. government grants refundable		12	(41)
Split interest agreement obligations		11,073	1,621
Postretirement benefit obligations		(493)	312
Net cash and cash equivalents used in operating activities		(10,810)	(23,373)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(11,237)	(13,390)
Purchases of investments restricted to land, buildings, and equipment		(19,371)	(9,674)
Proceeds from sale of investments		244,902	187,278
Purchases of investments		(240,687)	(163,472)
Net cash and cash equivalents (used in) provided by investing activities		(26,393)	742
Cash flows from financing activities:			
Principal payments on capital lease obligations		(145)	—
Interest and dividends restricted for long-term investment		1,300	1,110
Proceeds from contributions restricted for long-term investment in endowment and plant		45,864	28,107
Payments on split interest agreements		(3,894)	(3,234)
Principal payments on long-term debt		(2,705)	(3,182)
Net cash and cash equivalents provided by financing activities		40,420	22,801
Net increase in cash and cash equivalents		3,217	170
Cash and cash equivalents:			
Beginning of year		6,502	6,332
End of year	$	9,719	6,502
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	5,755	5,924

Noncash investing and financing activities, in thousands:

At June 30, 2013 and 2012, $108 and $432, respectively, of fixed asset purchases were included in accounts payable and other accrued liabilities.

During the year ended June 30, 2013, the University incurred capital lease obligations of $725 for equipment leases.

See accompanying notes to consolidated financial statements.

(1) Description of Organization

The Washington and Lee University (W&L) is a private, liberal arts university in Lexington, Virginia. Founded in 1749, it is the ninth oldest institution of higher learning in the nation. W&L is named after George Washington, as he gave the school its first major endowment, and after General Robert E. Lee, as a result of his strong leadership as president of W&L. W&L is comprised of the College, the Ernest Williams II School of Commerce, Economics and Politics, and the School of Law. There are approximately 1,800 undergraduate students and approximately 450 law students.

On November 15, 2010, Colonnade Restoration, LLC, a Virginia limited liability company and controlled affiliate of W&L, was formed for the purpose of restoring, rehabilitating, constructing and developing the historic buildings on W&L grounds known collectively as The Colonnade. Colonnade Restoration, LLC was formed so that the renovation expenditures incurred on the rehabilitation projects designated by the Virginia Department of Historic Resources will support Virginia Historic Tax Credits certified to Colonnade Restoration, LLC for allocation to its members. W&L has no membership interest in Colonnade Restoration, LLC but rather controls the affiliate through various leasing arrangements.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation and Consolidation

The consolidated financial statements include the financial statements of W&L and its affiliate (collectively, the University). The consolidated financial statements have been prepared on the accrual basis of accounting and all significant intercompany balances and transactions have been eliminated in consolidation.

(b) Classification of Net Assets

Based on the existence or absence of donor-imposed restrictions, the University's net assets have been grouped into the following three classes:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations.

Permanently Restricted – Net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the University.

The University classifies the portion of donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

The University retains an interest in several funds held in trust by others (see note 9) which are classified as permanently restricted net assets. Annual adjustments to record the University's interest in such trusts at the current market value are also recorded as permanently restricted in the consolidated statement of activities and are, therefore, reflected as permanently restricted net assets in the consolidated statement of financial position.

(c) Summarized Comparative Information

The consolidated statement of activities for the year ended June 30, 2013 is presented with certain summarized comparative information for the year ended June 30, 2012 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2012 from which the summarized information was derived.

(d) Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except those cash equivalents held by investment managers as part of their long-term investment strategy.

(e) Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out (FIFO) basis.

(f) Investments

Investments in marketable equity securities and all investments in debt securities are reported at fair value based on quoted market prices at the reporting date.

Other investments, such as hedge fund investments, private equity and venture capital, natural resource and real estate investments are reported at estimated fair value, based on valuations provided by external investment managers and evaluated for reasonableness by the University. Because these alternative investments are not readily marketable, their estimated fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported fair values.

Investments are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date. All investment income is reported in the period earned as unrestricted revenues, temporarily restricted revenues, or permanently restricted revenues depending on donor restrictions. The amount of investment income necessary to satisfy the Board of Trustees (the Board) approved spending policy for the endowment fund is included in the endowment returns allocated to operations in the consolidated statement of activities. Any excess of income earned over the approved spending amount is retained in the endowment pool.

Except for investments where donors specifically provide otherwise, investments are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their fair market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent distributions of annual income, based on the spending formula authorized by the Board, of the investment pool are based upon the number of units of participation. Withdrawals are based upon the most recently determined market value of the respective units of participation, which includes both realized and unrealized net gains or losses. The market value of the units of participation is calculated monthly.

(g) Split Interest Agreements

The University is a participating beneficiary in a number of split interest agreements such as charitable remainder trusts and charitable lead trusts. Donors establish and fund a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. If applicable, liabilities to beneficiaries associated with these split interest agreements are calculated using the appropriate discount rate at the time they are established. If applicable under generally accepted accounting principles, liabilities for these split interest agreements are adjusted annually for changes in actuarial assumptions, amortization of the discount or to use a current discount rate. Upon termination of the trust, the University receives the portion of assets remaining in the trust as specified by the donor.

Charitable remainder trusts, for which the University is not the trustee, are recorded at the fair value of their beneficial interest. The University records revenue for charitable lead trusts, for which the University is the trustee, based on the present value of future cash flows expected to be received by the University. The fair value of the assets held in trust by the University are included in investments and the associated liability, representing the present value of the liability to the donor's estate, is included in split interest agreement obligations in the consolidated statement of financial position.

The University also manages gift annuities, which consist of nontrust assets donated to the University in exchange for a fixed payment for a specified period of time. The gift annuities are recognized at fair value when received, and included in investments in the consolidated statement of financial position. The associated liability is initially calculated at the present value of future cash flows and adjusted in subsequent periods to reflect changes in actuarial assumptions. Liabilities associated with gift annuities are included in split interest agreement obligations in the consolidated statement of financial position.

Pooled life income funds are donated funds received by the University and are assigned a specific number of units in the pool. The donor is paid the amount of income earned on the donor's assigned units. Pooled life income funds are recorded at their fair value and are included in investments in the consolidated statement of financial position. The University's interest is recognized as contribution revenue in the period in which the assets are received by the donor. The difference between the fair value of the assets when received and the revenue recognized is recorded as a liability and included in split interest agreement obligations in the consolidated statement of financial position.

(h) Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the University, but held and administered by outside fiscal agents, with the University deriving income from such funds. The fair value of the University's share of the assets is reflected in the consolidated statement of financial position and the income (including unrealized appreciation and depreciation) is recorded in the consolidated statement of activities.

(i) Land, Buildings, and Equipment

Land, buildings, and equipment, including art properties, are stated at cost at the date of acquisition or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of land improvements (15-30 years), buildings (30-50 years), and equipment (10 years). Equipment held under capital leases is stated at the present value of minimum lease payments and amortized over the shorter of the lease term or estimated useful life of the asset. The University does not provide depreciation on its art properties because a decrease in economic benefit is not anticipated since the University expects to take the necessary steps to maintain their condition. Interest on borrowings is capitalized from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use or the borrowing is retired, whichever occurs first. Capitalized interest is amortized over the useful life of the qualifying asset.

(j) Classification of Gifts

Contributions, including unconditional promises to give, are reported as increases in the appropriate category of net assets, except contributions that impose restrictions that are met in the same fiscal year. These contributions are received and included in unrestricted revenues.

The University records gifts of cash and other assets at their fair value as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as "redesignated funds" in the consolidated statement of activities.

(k) Contributions Receivable

The University records a receivable to reflect the unconditional promises of donors to make future contributions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using discount rates applicable to the years in which the promises are received. An allowance is made for uncollectible contributions based upon management's judgment after analysis of creditworthiness of the donors, past collection experience, and other relevant factors.

(l) Asset Retirement Obligations

The University has recorded a liability for its asset retirement obligations (ARO), although the exact timing and method of settlement are unknown. The ARO was capitalized as part of the carrying amount of the long-lived asset retroactively to the time at which legal or contractual regulations created the obligation. The ARO for the University is primarily associated with the cost of removal and disposal of asbestos and fuel tanks.

(m) Tuition and Fees

Tuition and fee revenues are recorded on the consolidated statement of activities net of student financial aid as unrestricted revenue. Student financial aid is provided from earnings on restricted funds and certain board-designated endowments, along with gifts and grants dedicated to providing student financial aid.

(n) Functional Expenses

The University has developed and implemented a system of allocating expenses related to more than one function. These expenses are depreciation, interest and operations and maintenance of plant. Depreciation is allocated by individual fixed assets to the function utilizing that asset. Interest is allocated based on the use of borrowed money in the individual functional category.

Operations and maintenance of plant expenses are divided into those used for the total institution not charged back to the operating units, and those that are charged to some units but not all units. Allocation was determined though a study of departmental uses of the operations and maintenance budget within each functional category.

(o) Operations

Operating revenues and expenses include all transactions that increase or decrease net assets, except those associated with long-term gifts for endowment and plant. Operating revenues include investment return appropriated in accordance with the University's endowment spending policy, as reflected in the consolidated statement of activities as endowment return allocated to operations.

(p) Derivative Instruments

All derivative instruments are recognized as either assets, included in accounts and other receivables, or liabilities, included in accounts and other payables, in the consolidated statement of financial position at their respective fair values. Changes in the fair value of derivative instruments are recorded as other non-operating activities on the consolidated statement of activities. Using derivative financial instruments may increase the University's exposure to credit risk and market risk. The University minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, (2) limiting the amount of exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates.

(q) Income Taxes

The Washington and Lee University has been classified as an organization described under Section 501(c)(3) of the Internal Revenue Code and thus exempt from federal income taxes on activities related to its exempt purpose. The University does not believe that there are any unrecognized tax benefits or costs that should be recorded in the consolidated financial statements. Accordingly, no provision for income taxes has been reflected in the consolidated financial statements.

The Internal Revenue Service (IRS) has held that a Virginia limited liability company, treated as a partnership for state income tax purposes, would also be treated as a partnership for federal income tax purposes. Therefore, income taxes are not provided with respect to the operations of Colonnade Restoration, LLC since each member is responsible for the income tax consequences associated with its proportionate share of such operations.

(r) Fair Value Measurements

Certain assets and liabilities are reported or disclosed at fair value in the consolidated financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 19 for additional information with respect to fair value measurements.

(s) Statement of Cash Flows

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (EITF 12-A). The new standard allows cash receipts from the sale of donated financial assets that were directed for sale by the not-for-profit upon receipt and were converted into cash in the near immediate term to be classified as operating activities in the statement of cash flows. This applies to the sale of donated financial assets that are not restricted for long-term purposes, such as the acquisition, construction, or improvement of long-lived assets, or to establish or increase a permanent endowment, which would be classified as a financing activity. This standard is effective for annual and interim periods beginning after June 15, 2013; however, early adoption is permitted. Retrospective application is allowed, but not required. The University elected to early adopt the provisions of ASU 2012-05 in 2013.

(t) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Items subject to such estimates and assumptions primarily include the carrying value of nontraditional investments, certain real estate holdings, post-retirement benefits, land, buildings and equipment, and accounts and contributions receivable. In the near term, actual results could differ from those estimates.

(u) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

(3) Notes Receivable

Notes receivable are carried at unpaid principal balance, less an allowance for doubtful accounts, and consist of the following at June 30, 2013 and 2012 (in thousands):

	Maturity	Interest rates	2013	2012
Student financial aid:				
Federally funded aid, net of allowance for doubtful accounts of $258 and $262, respectively	up to 10 years	3% – 5%	$ 1,630	1,618
University funded aid, net of allowance for doubtful accounts of $259 and $233, respectively	up to 10 years	3% – 9%	3,268	2,983
Other notes:				
Note receivable from sale of property	10/31/2020	5%	1,839	2,038
Miscellaneous notes	various	various	237	495
			$ 6,974	7,134

(4) Contributions Receivable

Contributions receivable, which are reported net of an allowance for uncollectible amounts and a present value discount, are expected to be collected as follows at June 30, 2013 and 2012 (in thousands):

		2013	2012
Receivable in less than one year	$	23,724	26,603
Receivable in one year to five years		26,150	28,737
Receivable in over five years		1,647	527
Total contributions receivable, gross		51,521	55,867
Less allowance for uncollectible contributions		(513)	(554)
Total contributions receivable, net of allowance		51,008	55,313
Discount to reduce contributions to present value		(887)	(1,390)
Total	$	50,121	53,923

The University discounts contributions to present value utilizing a discount rate on the date of the pledge, which remains constant for the life of a pledge. The discount rates ranged from 0.12% to 7.73% at June 30, 2013.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2013 and 2012 consist of the following (in thousands):

		2013	2012
Land	$	5,730	5,730
Land improvements		10,176	9,888
Buildings and improvements		316,707	300,628
Equipment		43,855	42,790
Art properties		3,147	2,946
		379,615	361,982
Less accumulated depreciation		(161,584)	(150,660)
		218,031	211,322
Construction in progress		4,506	10,865
Total	$	222,537	222,187

(6) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes (in thousands):

		2013	2012
Financial aid	$	7,783	7,684
Faculty support		2,224	3,018
Program support		26,914	30,567
Buildings and equipment		13,726	3,611
Contributions receivable		31,661	33,029
Planned giving arrangements		12,164	10,445
Other		746	534
Accumulated appreciation on donor-restricted endowment funds, principally for program support and financial aid		274,986	244,322
Total	$	370,204	333,210

(b) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 are comprised of the following (in thousands):

		2013	2012
Purpose restricted:			
Financial aid	$	252,138	231,667
Faculty support		35,668	32,586
Program support		534,126	518,313
Library and collections support		4,165	3,984
Buildings and equipment		3,617	2,800
Other		6,636	6,562
		836,350	795,912
Time restricted:			
Contributions receivable		19,315	22,165
Planned giving arrangements		8,753	7,350
		28,068	29,515
Total	$	864,418	825,427

(7) Investments

Most of the University's long-term investments are held in an investment pool. Annuity and life income trusts and certain other investments are maintained separately from the investment pool.

The participation in the pool and ownership of the other investments at June 30, 2013 and 2012 for each class of net assets is as follows (in thousands):

		Investment pool	Annuity and life income	Other	Total
2013:					
Net assets:					
Unrestricted	$	201,350	—	25,173	226,523
Temporarily restricted		280,325	45,280	—	325,605
Permanently restricted		423,726	25,658	—	449,384
Investments as of June 30, 2013	$	905,401	70,938	25,173	1,001,512
2012:					
Net assets:					
Unrestricted	$	184,440	—	23,554	207,994
Temporarily restricted		249,354	37,012	—	286,366
Permanently restricted		393,602	23,860	—	417,462
Investments as of June 30, 2012	$	827,396	60,872	23,554	911,822

Full time faculty members and administrative, professional and supervisory employees who are defined as exempt personnel under the terms of the Fair Labor Standards Act of 1938, as amended, are eligible for University housing loans. These housing loans may be used to purchase, build, or improve a principal residence in the Lexington-Rockbridge County area immediately upon entering the employ of the University. These mortgage loans, included in investments on the consolidated statement of financial position, are carried at fair value of $44,978,000 and $53,537,000 as of June 30, 2013 and 2012, respectively. The interest rates on these loans range from 2.06% to 6.59% and maturity dates range up to 30 years. The face value of these loans as of June 30, 2013 and 2012 was approximately $47,122,000 and $49,770,000, respectively.

The nonmarketable alternative investments represent approximately $738,797,000 of the University investments and, although a secondary market exists for nonmarketable investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. Therefore, if the redemption rights in the funds were restricted or eliminated and the University was to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported net asset value, and the discount could be significant.

Investments, at estimated fair value, are comprised of the following at June 30, 2013 and 2012 (in thousands):

	2013				
	Endowment	Life income and annuities	Other	Total	2012 Total
Short-term investments	$ 29,061	—	5,358	34,419	47,289
Equities	64,041	61,130	4,405	129,576	94,571
Fixed income	38,086	8,521	85	46,692	36,378
Real assets	61,544	—	1,169	62,713	44,891
Hedge funds	—	2,635	—	2,635	1,455
Mortgage loans to staff and fraternities	44,827	—	151	44,978	53,537
Multi-Asset Class (see below) *	645,005	—	2,176	647,181	594,986
Private equity/venture capital	33,206	—	112	33,318	38,715
Total	$ 915,770	72,286	13,456	1,001,512	911,822

* This represents the University's investments in Makena Capital Management, LLC (Makena). Makena's Multi-Asset Class portfolio is diversified across geographies, strategies, and over 140 investment managers.

The following table summarizes the investment return and its classification in the consolidated statement of activities (in thousands):

	2013	2012
Interest and dividend income, net of investment expenses of $821 and $625 in 2013 and 2012, respectively	$ 4,876	5,466
Net appreciation in fair value of investments	84,659	3,809
Total investment return	89,535	9,275
Less investment return available under spending policy, including board-designated amounts of $33,335 and $31,325 in 2013 and 2012, respectively, and temporarily restricted amounts of $5,619 and $5,097 in 2013 and 2012, respectively	(39,711)	(37,136)
Investment return in excess of (less than) amount available under spending policy	$ 49,824	(27,861)

The University maintains a statement of investment policies and objectives which is approved by the Investment Committee and the Board of Trustees. The policy, which is reviewed no less than every two years, provides guidance on investment objectives, appropriate investment vehicles, asset allocation and spending policy for the endowment investments. In December 2007, the University employed Makena Capital Management, LLC (Makena) to manage the majority of the University's endowment funds. In so doing, the University has delegated the authority for asset allocation and manager selection to Makena, and in the period since the selection of Makena, the University has redeemed holdings from other managers (legacy investments) and placed those funds with Makena. As of June 30, 2013, approximately 70% of the University's endowment funds were held at Makena.

Makena utilizes both traditional and nontraditional investment strategies for the implementation of asset allocation. The single investment pooled fund is invested in approximately 143 individual managers across 7 asset classes and over 48 sub-asset class investment strategies. The portfolio is structured across the asset and sub-asset classes to generate performance in excess of relevant benchmarks while realizing substantially lower volatility than equity markets.

The portfolio as of June 30, 2013 and 2012 was allocated across the following asset classes as follows:

	2013	2012
Equity	12%	13%
Tactical hedged equity	10%	10%
Real estate	11%	12%
Private equity	21%	21%
Natural resources	10%	8%
Absolute return	25%	23%
Fixed income	10%	9%
Cash	1%	4%

Other investments held by the University are related to "legacy" assets of the endowment which are a series of hedge funds, private equity and venture capital funds and real asset funds. These are held with the University as a limited partner in each of the investments. These funds are structured to draw as needed capital commitments from the investors over a defined period of time. The University, as of June 30, 2013 and 2012, had potential capital draws to be called on these investments of approximately $2.9 million and $4.0 million, respectively. These funds were entered into with the expectation that their risk and return profiles were less correlated to equity indices and as a result could assist the portfolio in recognizing long-term real returns at lesser volatility than a simple equity portfolio could deliver. In addition, the University holds a portfolio of employee mortgages that serves as both an employee benefit and an investment. These assets most closely mirror fixed income investments with a defined earnings and principal repayment stream for each. Finally, the University holds cash and cash equivalents to address liquidity needs that are not as easily met under the Makena structure. The cash and cash equivalents are utilized to provide capital commitment funding on "legacy" investments and endowment payout.

In addition, the University has within its investments, those investments held by the University as trustee that provide payout to named beneficiaries but will ultimately be passed to the University. These funds are held at BNY Mellon and are invested primarily across a range of equity indexed products and fixed income indexed products in a more traditional investment approach. The majority of the funds are held in mutual fund products.

The following table provides outstanding unfunded commitments and fund redemption information by major asset class within the University's investment pool as of June 30, 2013 (in thousands):

	2013			
	Fair value	Unfunded commitments	Redemption frequency (if currently available)	Redemption notice period
Investments:				
Short-term investments	$ 34,419	—	Daily	1 day
Equities	129,576	—	Daily, monthly	1 to 30 days
Fixed income	46,692	—	Daily, monthly	1 to 30 days
Real assets	62,713	1,201	*	*
Hedge funds	2,635	—	Annual	90 days
Mortgage loans to staff and fraternities	44,978	—	N/A	N/A
Multi-Asset Class	647,181	—	Annual	1 year
Private equity/venture capital	33,318	1,708	*	*
Total investments	$ 1,001,512	2,909		

* These are primarily limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take 10-12 years to fully distribute these assets.

(8) Endowment

Endowment is a term used commonly to refer to the resources that have been restricted by donors or designated by the Board of Trustees that will be invested to provide future revenue to support the University's activities. As of June 30, 2013, the University holds 1,254 endowment funds, of which 1,162 are true endowments (restricted by the donor) and 92 are quasi-endowments (designated by the Board).

(a) Interpretation of Relevant Law

Based on the interpretation of Virginia's legislation, which incorporates the provisions of the Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA), by the Board of Trustees of the University, and absent explicit donor stipulations to the contrary, the University classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor, as permanently restricted net assets.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University 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 or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the University; and
7. The investment policies of the University.

Endowment net assets consist of the following at June 30, 2013 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(442)	277,511	423,726	700,795
Board-designated endowment funds		214,975	—	—	214,975
Total endowed net assets	$	214,533	277,511	423,726	915,770

Included in temporarily restricted net assets at June 30, 2013 is $274,986,000, which will be released from restriction when appropriated by the Board of Trustees.

Endowment net assets consist of the following at June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,658)	246,747	393,602	638,691
Board-designated endowment funds		198,685	—	—	198,685
Total endowed net assets	$	197,027	246,747	393,602	837,376

Changes in endowment net assets for the year ended June 30, 2013 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	$ 197,027	246,747	393,602	837,376
Investment return:				
Investment income	3,391	10,145	—	13,536
Net appreciation	16,769	50,423	—	67,192
Contributions and pledge payments	6,422	70	30,124	36,616
Appropriation for expenditure	(9,076)	(29,874)	—	(38,950)
Endowment net assets, June 30, 2013	$ 214,533	277,511	423,726	915,770

Changes in endowment net assets for the year ended June 30, 2012 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$ 203,719	266,743	373,033	843,495
Investment return:				
Investment income	6,567	19,594	—	26,161
Net depreciation	(5,024)	(11,840)	—	(16,864)
Contributions and pledge payments	345	89	20,569	21,003
Appropriation for expenditure	(8,580)	(27,839)	—	(36,419)
Endowment net assets, June 30, 2012	$ 197,027	246,747	393,602	837,376

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. Deficiencies of this nature that are reported in unrestricted net assets were $442,000 and $1,658,000 as of June 30, 2013 and 2012, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) 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.

(d) Strategies Employed for Achieving Objectives

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board-approved spending formula for the endowment provides for spending the lesser of the prior year allocation incremented by a Consumer Price Index-based inflator, 6% of the three-year average of fair values at June 30, or a 5% ceiling related to the June 30 fair value. This model is often referred to as a constant growth spending formula.

(9) Funds Held in Trust by Others

The majority of the funds held in trust by others (FHTBO) comes from the bequest of Letitia P. Evans of 15% of the annual net income of the Lettie Pate Evans Foundation, Inc. Restricted Fund. At June 30, 2013 and 2012, the fair value of the University’s interest was reported by the trustees as $386,245,000 and $376,531,000, respectively. During the years ended June 30, 2013 and 2012, the University received distributions of $9,893,000 and $9,157,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2013 and 2012, the University maintained an interest in 41 and 45, respectively, other trusts with fair values reported by the trustees of $43,341,000 and $47,646,000, respectively, and received distributions for the years ended June 30, 2013 and 2012 of $974,000 and $1,100,000, respectively.

(10) Long-Term Debt and Derivative Instruments

Long-term debt consists of the following obligations at June 30, 2013 and 2012 (in thousands):

	Final maturity	Interest rates	2013	2012
Virginia College Building Authority:				
1998 Note, includes premium of $1,066 and $1,122, respectively	January 2031	5.03% – 5.05%	$ 53,271	53,327
2001 Note, includes premium of $2,009 and $2,110, respectively	January 2034	5.00% – 5.75%	45,009	45,110
2006 Note, includes premium of $261 and $281, respectively	January 2016	4.00% – 5.00%	10,231	11,561
Industrial Development Authority:				
1997 Note	December 2012	Variable	—	387
2003 Note	April 2018	Variable	1,251	1,514
2010 Note	January 2035	Variable	14,595	14,740
Bank of America				
2008 Commercial Note	January 2014	2.76%	350	950
			$ 124,707	127,589

Aggregate principal payments due for the next five fiscal years are: 2014 – $2,138,000; 2015 – $1,868,000; 2016 – $4,148,000; 2017 – $3,924,000; 2018 – $4,058,000; and thereafter – $105,235,000.

In December 1997, the Industrial Development Authority of the City of Lexington, Virginia (the Lexington Authority) issued bonds in the amount of $8,500,000. The proceeds derived from the sale were loaned to the University in exchange for its note payable. Such proceeds were used primarily to finance the renovation, furnishing and equipping of various buildings; to construct and renovate various entrances and parking areas; and to acquire campus-based motor vehicles. Semi-annual principal and interest payments continued until maturity in December 2012. Interest on the note was payable semi-annually at variable rates equal to 67% of the LIBOR plus 0.20% (the Variable Rate). Concurrently with the issuance, the University entered into an interest rate swap agreement (Swap 1) on all $8,500,000 of its variable rate debt under the note payable to the Lexington Authority, at a fixed rate of 4.56%. Swap 1 was used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR. The balance of this debt obligation was paid in full as of December 31, 2012.

In April 1998, the Virginia College Building Authority (VCBA) issued $52,205,000 in Educational Facilities Revenue Bonds, Series of 1998 (the 1998 Bonds). The proceeds derived from the sale of the 1998 Bonds were loaned to the University in exchange for its Note. Such proceeds were used primarily to finance the construction of a new parking facility and to complete the extinguishment of $7,870,000 of the Series 1992 Note and $36,030,000 of the Series 1994 Note.

In June 2001, the VCBA issued bonds in the amount of $43,000,000. The proceeds derived from the sale were loaned to the University in exchange for its unsecured note payable. Such proceeds were used to assist in the financing of the construction of a University Commons, renovation of Reid Hall, renovation of a portion of Doremus Gymnasium, renovation of Law rooms, the construction of an Arts and Music building, renovation of the University Co-op Building, relocation of utilities necessary for the construction of the aforementioned projects, and upgrades and improvements to the University central heating and cooling plant. Semi-annual interest payments began January 1, 2002 with annual principal payments commencing January 1, 2016 and continuing until maturity in January 2034. Interest on the note is at a per annum rate of 5.375% through January 2021, 5.00% through January 2025, and 5.75% through January 2034.

In March 2003, the Rockbridge IDA issued bonds in the amount of $3,950,000. The proceeds derived from the sale were loaned to the University in exchange for its Note and such proceeds were used to extinguish the Series 2000 Note. Principal payments on this note are due in installments of $65,833 on each January 1, April 1, July 1 and October 1, beginning July 1, 2003 and continuing until April 1, 2018. Interest on the unpaid principal is payable on these same dates at a variable annual rate equal to the sum of (a) 65% of the LIBOR and (b) 0.59%. Concurrently with the issuance, the University entered into an interest rate swap agreement (Swap 2) on all $3,950,000 of its variable rate debt under the note payable to the Lexington Authority, at a fixed rate of 3.48%. Swap 2 is used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR.

In August 2006, the VCBA issued Educational Facilities Revenue Bonds for $20,045,000 (2006 Bonds), the proceeds of which were loaned to the University in exchange for a promissory note and such proceeds were used to refund the 1994 Note and will be used to pay for certain campus projects consisting of (a) the remodeling of the Co-op building to provide additional faculty offices, administrative assistant stations, student meeting rooms, and small lounge areas; (b) capital improvements pursuant to the University's Three Year Capital Plan, including the renovation and improvement of buildings, mechanical system replacements and improvements, computing system replacements and enhancements, and the maintenance and upgrade of health and safety systems; (c) capital improvement projects in connection with the creation of an energy performance program, including water conservation, lighting system improvements, various boiler enhancements, and a cover for the pool in the Warner Center; and (d) to pay costs of issuance of the 2006 Bonds. Annual principal and semi-annual interest payments on this note began January 1, 2007. The 2006 Bonds may not be called for redemption at the option of the Authority before January 1, 2016. 2006 Bonds maturing on or after January 1, 2017, may be redeemed at the option of the Authority with direction of the University prior to their respective maturities in whole or in part at any time, on or after July 1, 2016.

In December 2008, the University entered into a refinancing of its 2003 commercial taxable loan for the principal balance of $3,000,000. The 2008 Commercial Note is payable in monthly installments of $50,000 plus interest based on a fixed annual rate of 2.76%.

In September 2010, the Lexington Authority issued bonds in the amount of $15,000,000. These bonds have been structured as variable rate demand bonds with a weekly reset. The proceeds derived from the sale were loaned to the University in exchange for its note payable. Such proceeds were used primarily to finance a series of energy performance projects; facility renovations, updates, and repairs; general furniture, fixture, and equipment replacement; information technology upgrades; and, infrastructure and midlevel renovations such as modifications for classroom space, replace air handling system and waterproofing. Annual principal and semi-annual interest payments on this note began January 1, 2012 and will mature January 1, 2035. The 2010 Bonds may be called for redemption upon notification by the University to the Lexington Authority. The interest rates for the year ended June 30, 2013 ranged from 0.07% to 0.23%.

In December 2009, the University entered into a Revolving Credit agreement with Branch Banking and Trust Company that permits the University to borrow through December 2013 up to $15,000,000, bearing interest at an adjusted LIBOR rate by adding 30-day LIBOR plus one and one-quarter of one percent (1.25%) per annum; however, the interest rate shall not be less than two and one-quarter of one percent (2.25%). The University paid an origination fee of $5,000 for access to this liquidity. At June 30, 2013, the University had $15,000,000 available under this facility.

In April 2011, the University entered into a Revolving Credit agreement with Branch Banking and Trust Company as a dedicated line of credit covering the variable rate debt Series 2010 bonds in the event of a remarketing failure. In March 2013, the Revolving Credit agreement was modified to reflect the reduction of outstanding principal. This agreement permits the University to borrow from April 2012, with automatic extensions at each anniversary until April 2014, up to $14,595,000, bearing interest at an adjusted LIBOR rate by adding 30-day LIBOR plus one and one-quarter of one percent (1.25%) per annum; however, the interest rate shall not be less than two and one-quarter of one percent (2.25%). At June 30, 2013, the University had $14,595,000 available under this facility.

The following table summarizes the fair values of the University's interest rate swaps at June 30, 2013 and 2012 (liabilities in both years) and changes in the fair values of those swaps for the years ended June 30, 2013 and 2012 (in thousands):

		2013	2012
Fair values:			
Swap 1	$	—	8
Swap 2		75	123
Total		75	131
Changes in fair values (loss (gain)):			
Swap 1		(8)	(40)
Swap 2		(48)	1
Total	$	(56)	(39)

(11) Net Assets Released from Restrictions

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Purpose restrictions accomplished during the year ended June 30, 2013 were as follows (in thousands):

Financial aid	$	1,469
Program support		2,405
Other		3,619
		7,493
Buildings and equipment		8,208
Total	$	15,701

(12) Expenses

Expenses for the years ended June 30, 2013 and 2012 were incurred for the following (in thousands):

		2013	2012
Salaries, wages and benefits	$	84,800	81,897
Supplies and services		34,347	32,204
Depreciation		11,274	10,576
Costs of sales, auxiliary enterprises		5,038	4,661
Interest		5,315	5,291
Total	$	140,774	134,629

(13) Lead Annuity Trust Agreements

The University has entered into certain lead annuity trust agreements (the Trusts) with donors whereby the University will receive a percentage of the Trusts' fair values each year. Upon termination of the Trusts, the remaining assets will be remitted to the beneficiaries named by the donors. As of June 30, 2013, the fair value of the Trusts' assets and the related income for the year then ended were $23,045,000 and $475,000, respectively. As of June 30, 2012, the fair value of the Trusts' assets and the related income for the year then ended were $17,775,000 and $455,000, respectively. The fair value of the charitable lead annuity trusts agreements is included in investments and the associated liabilities to beneficiaries are included in split interest agreement obligations in the consolidated statement of financial position.

(14) Retirement Plans

Academic and nonacademic personnel of the University are included in the 403(b) contributory retirement plan of the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and Fidelity Management Trust Company (Fidelity). The University matches optional employee contributions up to 5% of their annual salary. In addition, the University makes a mandatory contribution of 5% of the employee's annual salary. Contributions are paid currently to TIAA-CREF or

Fidelity. The University's cost under this plan amounted to approximately $5,404,000 and $5,315,000 for the years ended June 30, 2013 and 2012, respectively.

The University also maintains a discretionary defined contribution retirement plan through TIAA-CREF. The Washington and Lee Retiree Health Plan (the Plan) exists for the purpose of providing postretirement medical benefits to eligible academic and nonacademic personnel of the University. Employer contributions for the years ended June 30, 2013 and 2012 totaled $108,000 and $183,000, respectively.

(15) Postretirement Benefits

The University currently provides health insurance in the form of a retiree medical benefit (the Plan) to certain retired employees and their dependents. The costs of postretirement benefits are accrued during the service lives of employees. Employees of record prior to April 1, 2003 are eligible to qualify for this benefit. Those hired on or after April 1, 2003 cannot participate in the Plan. The Plan is unfunded.

The components of net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012 were as follows (in thousands):

		2013	2012
Service cost (benefits attributed to employee service during the year)	$	379	411
Interest cost on accumulated postretirement benefit obligation		566	782
Amortization of prior service cost		155	155
Net periodic postretirement benefit cost	$	1,100	1,348

The amortized actuarial gain results from changes in certain assumptions and will be amortized over a period based on the average future service of participants expected to receive plan benefits.

The discount rates used in determining the accumulated postretirement benefit obligation (APBO) as of June 30, 2013 and 2012 were 4.50% and 3.75%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 8% in 2013, decreasing to 5% over the next ten years. Effective July 1, 2008, the postretirement benefit plan changed from self-insured to fully insured. In conjunction with this change, 1) the retiree premium rate decreased from 34% of the plan costs to 32% of the Medicare Advantage premium rate, and 2) the lifetime benefit maximum changed from an accumulation of claims paid to an accumulation of employer premiums paid. The increase in APBO as a result of these changes is amortized in benefit costs using the straight-line method over ten years, which is the approximate average of future years of service to full eligibility for active participants. As a result of the change to a fully insured plan, the University no longer receives a prescription drug subsidy under Medicare Part D.

The following information summarizes activity in the unfunded postretirement benefit plan for the years ended June 30, 2013 and 2012(in thousands):

		2013	2012
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	15,054	14,742
Service cost		379	411
Interest cost		566	782
Actuarial gain		(769)	(351)
Net benefits paid		(669)	(530)
Accumulated benefit obligation, end of year	$	14,561	15,054
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Net actuarial gain	$	(2,007)	(1,238)
Prior service cost		773	928
	$	(1,234)	(310)

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2014 – $621,000; 2015 – $752,000; 2016 – $869,000; 2017 – $977,000; and 2018 – $1,057,000. An additional $6,694,000 is expected to be paid for the fiscal years 2019 through 2023.

Total employer and participant contributions are $669,000 and $121,000, respectively, for the year ended June 30, 2013. Total benefits paid for the year ended June 30, 2013 are $790,000. The employer and participant contributions for the year ending June 30, 2014 are expected to be $505,000 and $116,000, respectively, for a total of $621,000 in benefits paid. The expense discount rates as of June 30, 2013 and 2012 were 4.50% and 3.75%, respectively. The measurement date was June 30, 2013.

(16) Commitments

The University's contractual commitments for capital expenditures totaled approximately $24,817,000 at June 30, 2013, and were comprised of the following (in thousands):

Colonnade Renovation	$	3,817
Residence halls, sorority, and fraternity upgrades		20,352
Various other projects		648
	$	24,817

The renovation of The Colonnade is designed to occur over three distinct project phases: Newcomb Hall (Project 1); Payne, Washington and Robinson Halls (Project 2); and Tucker Hall (Project 3). The Newcomb Hall Project 1 was completed in fiscal year 2012. Renovations of the Payne Hall portion of Project 2 were complete in fiscal year 2012. Renovations of the Washington Hall portion of Project 2 were completed during fiscal year 2013. Renovations of the Robinson Hall portion of Project 2 were in progress as of June 30, 2013 and approximately $3.8 million relating to this project is included in the contractual commitments for the Colonnade Renovation above. As of June 30, 2013, formal action by the Board of Trustees has not been taken to authorize the renovation of the proposed Tucker Hall Project 3.

(17) Concentration Risk

Financial instruments that potentially subject the University to concentration of risk consist primarily of an equity investment in a large U.S. company. This investment comprised 86% and 85% of total funds held in trust by others as of June 30, 2013 and 2012, respectively.

At times during the year, the University maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits.

(18) Contingencies

The University receives revenues under U.S. Government grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the U.S. Government. Recovery of indirect costs is based on predetermined rates negotiated with the government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the consolidated financial statements.

From time to time, the University is involved in various legal proceedings which are in the normal course of operations. In management's opinion, the University is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, change in net assets and/or liquidity of the University.

(19) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of the University's financial instruments.

- **Cash and cash equivalents, student accounts receivables, other receivables, accounts payable, other payables, and accrued liabilities:** The carrying amounts approximate fair value because of the short maturity of these financial instruments.
- **Notes receivable:** The University has estimated the net realizable value of notes receivable, evaluated collection history, and has concluded the carrying amount approximates fair value.
- **Contributions receivable and split interest agreement obligations:** The University has estimated the net realizable value of contributions receivable and split interest agreement obligations, and has concluded the carrying amounts approximate fair value. The discount rates used in calculation of split interest agreement obligations ranged from 1.2% to 10.6% at June 30, 2013 and from 1.6% to 10.6% at June 30, 2012.

- **Investments and funds held in trust by others:** The fair values of marketable equity and debt securities are determined using quoted market prices at the reporting date multiplied by the quantity held. The fair value of mortgage loans to exempt employees is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. The discount rate approximates rates currently offered by local lending institutions for loans of similar terms with comparable credit risk. The fair values of other investments without a readily determinable fair value, such as hedge fund investments, private equity and venture capital, natural resource and real estate investments, are estimated based on the investment's net asset value of shares or units held by the University at the reporting date as a practical expedient. The various net asset values are based on valuations provided by external investment managers, which are reviewed by the University for reasonableness. Short-term investments are comprised of short-term fixed income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

  Although the fair values of the assets of funds held in trust by others are based upon quoted prices at year-end, funds held in trust by others are categorized as Level 3 assets in the fair value hierarchy due to the University's lack of control over the trusts.

- **Interest rate swaps:** The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data, adjusted to reflect nonperformance risk of both the counterparty and the University.

- **Long-term debt:** The estimated fair value of the University's long-term debt was \$137,821,000 and \$151,475,000 as of June 30, 2013 and 2012, respectively. Fair values for 2013 and 2012 were estimated based on an average interest rate of 2.96% and 2.54%, respectively, the bond buyer municipal index rate for June 30, 2013 and 2012. Using the remaining principal amortization structure of each series of bonds and interest rates, a calculation was performed to get a bond yield and then a discount rate for each existing series of bonds. Each discount rate was then used to calculate the present value of debt service, reflecting average interest rates that are slightly above current rates for similar indebtedness. These inputs are considered Level 2 in the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(b) Fair Value Hierarchy

The inputs to valuation techniques used to measure fair value are delineated within a fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2013 (in thousands):

	Total June 30, 2013	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:				
Investments:				
Short-term investments	$ 34,419	34,127	292	—
Equities	129,576	129,558	—	18
Fixed income	46,692	46,598	19	75
Real assets	62,713	—	4,411	58,302
Hedge funds	2,635	2,635	—	—
Mortgage loans to staff and fraternities	44,978	—	44,978	—
Multi-Asset Class	647,181	—	—	647,181
Private equity/venture capital	33,318	—	—	33,318
Total investments	1,001,512	212,918	49,700	738,894
Funds held in trust by others	429,586	—	—	429,586
Total assets	$ 1,431,098	212,918	49,700	1,168,480
Liabilities:				
Interest rate swaps	$ 75	—	75	—

The University's investment with Multi-Asset Class manager (Makena Capital Management) is reported as a Level 3 investment; however, it is estimated that the underlying portfolio is structured such that the assets as they would report would be allocated with 13% in Level 1, 10% in Level 2 and 77% in Level 3 as of June 30, 2013.

There were no significant transfers between Level 1 and Level 2 investments for the year ended June 30, 2013.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 (in thousands):

	Total June 30, 2012	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Investments:				
Short-term investments	$ 47,289	46,984	305	—
Equities	94,571	94,457	—	114
Fixed income	36,378	36,283	20	75
Real assets	44,891	—	4,658	40,233
Hedge funds	1,455	—	1,455	—
Mortgage loans to staff and fraternities	53,537	—	53,537	—
Multi-Asset Class	594,986	—	—	594,986
Private equity/venture capital	38,715	—	—	38,715
Total investments	911,822	177,724	59,975	674,123
Funds held in trust by others	424,177	—	—	424,177
Total assets	$ 1,335,999	177,724	59,975	1,098,300
Liabilities:				
Interest rate swaps	$ 131	—	131	—

The University's investment with Multi-Asset Class manager (Makena Capital Management) is reported as a Level 3 investment; however, it is estimated that the underlying portfolio is structured such that the assets as they would report would be allocated with 13% in Level 1, 9% in Level 2 and 78% in Level 3 as of June 30, 2012.

There were no significant transfers between Level 1 and Level 2 investments for the year ended June 30, 2012.

The University owns interests in alternative investment funds rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3, even though the underlying securities may not be difficult to value or may be readily marketable. Because net asset value is used as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem all or a portion of its interest in each fund at or near the date of the consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The following table presents the University's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2013 (in thousands):

		Investments	Funds held in trust by others	Total
Beginning balance at June 30, 2012	$	674,122	424,177	1,098,299
Net realized and unrealized gains		67,132	16,276	83,408
Net purchases		895	—	895
Distributions		(3,255)	(10,867)	(14,122)
Ending balance at June 30, 2013	$	738,894	429,586	1,168,480

For the year ended June 30, 2013, there was approximately $88,965,000 of unrealized gains included in the change in net assets that were attributable to Level 3 assets still held at June 30, 2013.

The following table presents the University's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2012 (in thousands):

		Investments	Funds held in trust by others	Total
Beginning balance at June 30, 2011	$	680,361	374,637	1,054,998
Net realized and unrealized (losses) gains		(3,881)	58,866	54,985
Net purchases		1,544	—	1,544
Contributions		—	931	931
Distributions		(3,902)	(10,257)	(14,159)
Ending balance at June 30, 2012	$	674,122	424,177	1,098,299

For the year ended June 30, 2012, there was approximately $58,994,000 of unrealized gains included in the change in net assets that were attributable to Level 3 assets still held at June 30, 2012.

(20) Subsequent Events

In July 2013, the Industrial Development Authority of the City of Lexington, Virginia (the Lexington Authority) issued bonds in the amount of $34,960,000. These bonds have been structured at a fixed rate of 4.88%. The proceeds derived from the sale were loaned to the University in exchange for its note payable. Such proceeds will be used primarily to finance the renovations of Gaines Hall, Graham-Lees Dorms, and landscape improvements to the adjoining courtyard providing housing for first year students, and projects pursuant to the University's Annual Capital Plan, including but not limited to: small-scale renovations and improvements of buildings, technology replacements and upgrades, vehicle replacements, campus landscaping, and athletic field and facility improvements.

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2013 consolidated financial statements through October 25, 2013, the date the consolidated financial statements were issued, and determined that there are no other items to disclose.