Part I
Financial Statements and
Schedule of Expenditures of Federal Awards

Independent Auditor's Report

To the Board of Overseers of Harvard College:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harvard University (the "University"), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of changes in net assets with general operating account detail, changes in net assets of the endowment and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our 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, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited the University's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2015, is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 29, 2015

BALANCE SHEETS

with summarized financial information as of June 30, 2014

In thousands of dollars	June 30 2015	June 30 2014
ASSETS:		
Cash	**$ 109,698**	$ 87,704
Receivables, net *(Note 6)*	**239,962**	246,482
Prepayments and deferred charges	**152,164**	151,533
Notes receivables, net *(Note 7)*	**377,837**	376,476
Pledges receivables, net *(Note 8)*	**2,245,199**	1,590,758
Fixed assets, net *(Note 9)*	**6,184,352**	5,986,605
Interests in trusts held by others *(Notes 4)*	**363,175**	376,526
Investment portfolio, at fair value *(Notes 3 and 4)*	**54,659,156**	53,308,477
Securities pledged to counterparties, at fair value *(Notes 3 and 4)*	**10,874,966**	7,685,852
TOTAL ASSETS	**75,206,509**	**69,810,413**
LIABILITIES:		
Accounts payable	**313,737**	316,699
Deposits and other liabilities	**807,318**	743,120
Securities lending and other liabilities associated with the investment portfolio *(Notes 3, 4 and 12)*	**21,183,731**	17,608,530
Liabilities due under split interest agreements *(Note 11)*	**910,084**	758,991
Bonds and notes payable *(Note 12)*	**5,563,079**	5,619,190
Accrued retirement obligations *(Note 13)*	**957,002**	837,361
Government loan advances *(Note 7)*	**69,432**	68,863
TOTAL LIABILITIES	**29,804,383**	**25,952,754**
NET ASSETS, attributable to non-controlling interests in the pooled general investment account *(Notes 3 and 4)*	**833,583**	**646,429**
NET ASSETS, attributable to the University	**44,568,543**	**43,211,230**
TOTAL LIABILITIES AND NET ASSETS	**$ 75,206,509**	**$ 69,810,413**

	Unrestricted	Temporarily restricted	Permanently restricted	June 30 2015	June 30 2014
NET ASSETS, attributable to the University:					
General Operating Account (GOA) *(Note 10)*	$ 4,039,787	$ 2,357,080	$ 97,585	**$ 6,494,452**	$ 6,163,177
Endowment *(Note 10)*	6,183,339	24,504,172	6,928,034	**37,615,545**	36,429,256
Split interest agreements *(Note 11)*		40,816	417,730	**458,546**	618,797
TOTAL NET ASSETS, attributable to the University	**$ 10,223,126**	**$ 26,902,068**	**$ 7,443,349**	**$ 44,568,543**	**$ 43,211,230**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL

with summarized financial information for the year ended June 30, 2014

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2015	2014
OPERATING REVENUE:					
Student income:					
Undergraduate program	$ 291,865			**$ 291,865**	$ 282,661
Graduate and professional degree programs	504,344			**504,344**	479,678
Board and lodging	172,440			**172,440**	166,638
Continuing education and executive programs	345,488			**345,488**	321,584
Scholarships applied to student income *(Note 14)*	(384,208)			**(384,208)**	(372,905)
Total student income	929,929	0	0	**929,929**	**877,656**
Sponsored support: *(Note 15)*					
Federal government – direct costs	418,832			**418,832**	433,583
Federal government – indirect costs	159,133			**159,133**	158,659
Non-federal sponsors – direct costs	82,356	$ 112,613		**194,969**	176,746
Non-federal sponsors – indirect costs	23,754	9,133		**32,887**	30,942
Total sponsored support	684,075	121,746	0	**805,821**	**799,930**
Gifts for current use *(Note 16)*	145,492	290,157		**435,649**	419,171
Investment income:					
Endowment returns made available for operations *(Note 10)*	286,105	1,308,122		**1,594,227**	1,539,462
GOA returns made available for operations	124,805			**124,805**	133,820
Other investment income	11,006	5,113		**16,119**	17,971
Total investment income	421,916	1,313,235	0	**1,735,151**	**1,691,253**
Other income *(Note 17)*	619,000			**619,000**	599,788
Net assets released from restriction	1,692,773	(1,692,773)		**0**	0
TOTAL OPERATING REVENUE	**4,493,185**	**32,365**	**0**	**4,525,550**	**4,387,798**
OPERATING EXPENSES:					
Salaries and wages	1,710,768			**1,710,768**	1,625,657
Employee benefits *(Note 13)*	499,793			**499,793**	524,499
Services purchased	503,331			**503,331**	484,161
Space and occupancy	330,066			**330,066**	302,476
Depreciation *(Note 9)*	323,149			**323,149**	305,104
Interest *(Note 12)*	251,657			**251,657**	253,032
Supplies and equipment	252,838			**252,838**	245,841
Scholarships and other student awards *(Note 14)*	135,693			**135,693**	129,743
Other expenses *(Note 18)*	455,794			**455,794**	495,387
TOTAL OPERATING EXPENSES	**4,463,089**	**0**	**0**	**4,463,089**	**4,365,900**
NET OPERATING SURPLUS	**30,096**	**32,365**	**0**	**62,461**	**21,898**
NON-OPERATING ACTIVITIES:					
Income from GOA Investments	21,838			**21,838**	26,555
GOA realized and change in unrealized appreciation, net *(Note 3)*	194,942			**194,942**	471,332
GOA returns made available for operations	(124,805)			**(124,805)**	(133,820)
Change in pledge balances *(Note 8)*		33,477		**33,477**	164,218
Change in interests in trusts held by others		(7,975)		**(7,975)**	(2,956)
Capital gifts for loan funds and facilities *(Note 16)*		133,820	$ 313	**134,133**	92,040
Change in retirement obligations *(Note 13)*	(84,105)			**(84,105)**	2,762
Net loss from discontinued operations *(Note 2)*	(50,753)			**(50,753)**	(8,730)
Other changes	(21,787)			**(21,787)**	613
Transfers between GOA and endowment *(Note 10)*	91,994	66,123	(5,159)	**152,958**	167,388
Transfers between GOA and split interest agreements *(Note 11)*		20,817	74	**20,891**	17,122
Non-operating net assets released from restrictions	183,611	(188,770)	5,159	**0**	0
TOTAL NON-OPERATING ACTIVITIES	**210,935**	**57,492**	**387**	**268,814**	**796,524**
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	**241,031**	**89,857**	**387**	**331,275**	**818,422**
Endowment net change during the year	38,825	876,025	271,439	**1,186,289**	3,739,767
Split interest agreements net change during the year *(Note 11)*		(44,952)	(115,299)	**(160,251)**	49,773
NET CHANGE DURING THE YEAR, attributable to the University	**279,856**	**920,930**	**156,527**	**1,357,313**	**4,607,962**
NET ASSETS CHANGE DURING THE YEAR, attributable to non-controlling interests in the pooled general investment account	187,154			**187,154**	**192,489**
NET CHANGE DURING THE YEAR[1]	**467,010**	**920,930**	**156,527**	**1,544,467**	**4,800,451**
Net assets, beginning of year[1]	10,589,699	25,981,138	7,286,822	**43,857,659**	39,057,208
NET ASSETS, END OF YEAR[1]	**$11,056,709**	**$26,902,068**	**$ 7,443,349**	**$45,402,126**	**$43,857,659**

[1] *Net assets attributable to the University and non-controlling interests in the pooled general investment account.*

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS OF THE ENDOWMENT

with summarized financial information for the year ended June 30, 2014

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2015	2014
Investment Return *(Note 3)*:					
Income from general investments	$ 34,643	$ 164,513		**$ 199,156**	$ 240,073
Realized and change in unrealized appreciation, net	320,757	1,436,741		**1,757,498**	4,448,877
Total investment return	355,400	1,601,254	0	**1,956,654**	4,688,950
Endowment returns made available for operations *(Note 10)*	(286,105)	(1,308,122)		**(1,594,227)**	(1,539,462)
Net investment return	69,295	293,132	0	**362,427**	3,149,488
Gifts for capital *(Note 16)*	54,346	39,275	$ 244,866	**338,487**	512,853
Transfers between endowment and the GOA *(Note 10)*	(91,994)	(66,123)	5,159	**(152,958)**	(167,388)
Capitalization of split interest agreements *(Note 11)*		1,644	23,076	**24,720**	32,784
Change in pledge balances *(Note 8)*		637,337	(16,174)	**621,163**	190,369
Change in interests in trusts held by others *(Note 10)*		(739)	(4,637)	**(5,376)**	27,413
Other changes	(2,634)	(25,781)	26,241	**(2,174)**	(5,752)
Net assets released from restrictions	9,812	(2,720)	(7,092)	**0**	(0)
NET CHANGE DURING THE YEAR	**38,825**	**876,025**	**271,439**	**1,186,289**	**3,739,767**
Net assets of the endowment, beginning of year	6,144,514	23,628,147	6,656,595	**36,429,256**	32,689,489
NET ASSETS OF THE ENDOWMENT, end of year	**$ 6,183,339**	**$ 24,504,172**	**$ 6,928,034**	**$ 37,615,545**	**$ 36,429,256**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 1,544,467**	$ 4,800,451
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Change in non-controlling interests in the pooled general investment account	**(187,154)**	(192,489)
Depreciation	**323,149**	305,104
Depreciation for discontinued operations	**2,152**	2,510
Realized and change in unrealized (appreciation), net	**(1,982,970)**	(5,063,953)
Change in fair value of interest rate exchange agreements	**9,058**	1,941
Change in interests in trusts held by others	**13,351**	(24,457)
Increase in liabilities due under split interest agreements	**151,093**	41,666
Gifts of donated securities	**(117,075)**	(94,671)
Proceeds from the sales of gifts of unrestricted securities	**16,297**	19,527
Gifts of donated securities in other investments	**0**	(142,900)
Gifts restricted for capital purposes	**(331,896)**	(398,444)
Loss on disposal of assets	**30,684**	54,121
Write-off of assets and liabilities for discontinued operations	**15,806**	0
Net (gain) on sale of property for discontinued operations	**0**	(10,500)
Forgiveness of notes payable	**(10,000)**	0
Change in accrued retirement obligations	**119,641**	83,404
Changes in operating assets and liabilities:		
Receivables,net	**6,520**	(20,332)
Prepayments and deferred charges	**(631)**	7,122
Pledges receivable, net	**(654,441)**	(354,667)
Accounts payable	**(17,355)**	4,341
Deposits and other liabilities	**64,198**	37,933
NET CASH (USED IN) OPERATING ACTIVITIES	**(1,005,106)**	**(944,293)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	**(48,982)**	(54,189)
Payments received on student, faculty, and staff loans	**44,979**	42,812
Change in other notes receivable	**2,642**	527
Proceeds from the sales and maturities of investments	**87,914,830**	78,870,001
Purchase of investments	**(89,347,046)**	(76,388,470)
Change associated with repurchase agreements	**214,444**	(50,902)
Additions to fixed assets	**(560,493)**	(557,878)
Proceeds from sale of property related to discontinued operations	**0**	10,500
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES	**(1,779,626)**	**1,872,401**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in overdrafts included in accounts payable	**5,348**	(9,257)
Proceeds from issuance of debt	**260**	459
Debt repayments	**(46,371)**	(69,276)
Proceeds from the sales of gifts of restricted securities	**100,778**	75,144
Gifts restricted for capital purposes	**331,896**	398,444
Non-controlling interests in the pooled general investment account contributions and distributions, net	**17,754**	81,482
Change in repurchase and reverse repurchase agreements	**2,396,492**	(1,381,413)
Change in government loan advances	**569**	614
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	**2,806,726**	**(903,803)**
NET CHANGE IN CASH	**21,994**	**24,305**
Cash, beginning of year	**87,704**	**63,399**
CASH, end of year	**$ 109,698**	**$ 87,704**
Supplemental disclosure of cash flow information:		
Accounts payable related to fixed asset additions	$ 70,060	$ 61,015
Cash paid for interest	$ 255,345	$ 256,613

The accompanying notes are an integral part of the financial statements.

1. UNIVERSITY ORGANIZATION

Harvard University (the "University") is a private, not-for-profit institution of higher education with approximately 7,240 undergraduate and 14,190 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, the John A. Paulson School of Engineering and Applied Sciences, the Division of Continuing Education, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, a variety of research museums and institutes, and an extensive library system to support the teaching and research activities of the Harvard community. The President and Fellows of Harvard College (the "Corporation"), a governing board of the University, has oversight responsibility for all of the University's financial affairs. The Corporation delegates substantial authority to the Schools and departments for the management of their resources and operations.

The University includes Harvard Management Company (HMC), a wholly owned subsidiary founded in 1974 to manage the University's investment assets. HMC is governed by a Board of Directors that is appointed by the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements present the activities of Harvard University as a whole, including significant affiliated organizations controlled by the University.

Funds transferred to the University on behalf of specific beneficiaries (agency funds) are recorded as assets and liabilities in the *Balance Sheets* and are not included in the *Statement of Changes in Net Assets with General Operating Account Detail*.

The financial statements include certain prior year summarized comparative information in total, not by net asset classification. This information is not presented in sufficient detail to conform to generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2014, from which the summarized information is derived.

Discontinued operations

On May 31, 2015, the New England Primate Research Center ("NEPRC") ceased operations following a two-year wind down period during which primates were moved to other sites, including the other National Primate Research Centers. The closure of the Southborough, MA facility resulted in a $50.8 million loss from discontinued operations, which includes a $15.8 million loss on impairment of fixed assets, for the year ended June 30 2015, and a $19.2 million loss for the year ended June 30, 2014. These losses are classified as "Net loss from discontinued operations" in the non-operating section of the accompanying *Statement of Change in Net Assets with General Operating Account Detail*.

In addition, the University sold a property in fiscal year 2014 from which proceeds were $10.5 million. The sale resulted in a gain of $10.5 million for the year ended June 30, 2014, which is also classified as "Net loss from discontinued operations" in the non-operating section of the accompanying *Statement of Changes in Net Assets with General Operating Account Detail*.

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications include moving the portion of 2014 operating results that relate to the closure of the NEPRC to "Net loss from discontinued operations" in the non-operating section of the accompanying *Statement of Changes in Net Assets with General Operating Account Detail*. This reclassification increased the prior year net operating revenue surplus by $19.2 million.

Net asset classifications

For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

UNRESTRICTED net assets are not subject to donor-imposed restrictions. Funds invested in fixed assets and unrestricted endowment funds comprise 89% of the University's unrestricted net assets as of June 30, 2015. In addition, this category includes unrestricted gifts and endowment income balances, University-designated loan funds, and other unrestricted current funds.

TEMPORARILY RESTRICTED net assets are subject to legal or donor-imposed stipulations that will be satisfied either by actions of the University, the passage of time, or both. These net assets include gifts donated for a particular purpose, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions such as portions of otherwise unrestricted capital appreciation and income, which must be reported as temporarily restricted net assets until appropriated for spending in accordance with Massachusetts law.

PERMANENTLY RESTRICTED net assets are subject to donor-imposed stipulations that they be invested to provide a perpetual source of income to the University. Generally, donors of these assets require the University to maintain

and invest the original contribution in perpetuity, but permit the use of some or all investment returns for general or specific purposes.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by donor stipulations or by law. Investment returns earned by restricted donor funds are initially classified as temporarily restricted net assets and then reclassified to unrestricted net assets when expenses are appropriated or incurred for their intended purpose. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted to unrestricted net assets and appear as "Net assets released from restrictions" and "Non-operating net assets released from restrictions" in the *Statements of Changes in Net Assets*.

Unconditional pledges are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

Net operating surplus

Revenues earned, expenses incurred, and returns made available for operations for the purpose of teaching, conducting research, and the other programs and services of the University are the components of "Net operating surplus" in the *Statement of Changes in Net Assets with General Operating Account Detail*.

Collections

The University's vast array of museums and libraries contains priceless works of art, historical treasures, literary works, and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recorded for financial statement purposes.

Insurance programs

The University, together with the Harvard-affiliated teaching hospitals, has formed a captive insurance company, Controlled Risk Insurance Company (CRICO), to provide limited professional liability, general liability, and medical malpractice insurance for its shareholders. The University self-insures a portion of its professional liability and general liability programs and maintains a reserve for incurred claims, including those related to Harvard Medical School activities occurring away from the affiliated teaching hospitals. The CRICO provided malpractice coverage applies with no deductible for medical professionals practicing within Harvard's University Health Services department, the School of Dental Medicine, and the T.H. Chan School of Public Health. The University also maintains reserves for the self-insured portion of claims related to automobile liability, property damage, and workers' compensation; these programs are supplemented with commercial excess insurance above the University's self-insured limit. In addition, the University is self-insured for unemployment, the primary retiree health plan, and all health and dental plans for active employees. The University's claims liabilities are recognized as incurred, including claims that have been incurred but not reported, and are included in operating expenses.

Tax-exempt status

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Use of estimates

The preparation of financial statements in accordance with GAAP in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

New accounting pronouncements

Effective July 1, 2015, the University elected to retroactively adopt ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value (NAV), as a practical expedient for fair value, are excluded from the fair value hierarchy. In addition, when the NAV as practical expedient is not applied to eligible investments, certain other disclosures regarding nature and risks of investments are no longer required. The effects of adopting this amendment are addressed in *Notes 4* and *13* and the 2014 presentation has been adjusted to conform to this new presentation.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* a principles-based standard to recognize revenue from customer contracts. ASU No. 2014-09 will be effective for the University's fiscal year beginning 2019. The University is currently evaluating the impact the adoption of ASU No. 2014-09 will have on the financial statements.

3. INVESTMENTS

Investments are presented at fair value in accordance with GAAP. The University's investment valuation policies and procedures are discussed in detail in *Note 4*.

Cash and short-term investments are recorded at cost, which approximates fair value, and include cash in bank accounts, institutional money market funds, and other temporary investments held for working capital purposes with maturities of three months or less. Cash and short-term investments do not include cash balances held as collateral by the University. Cash and short-term investment balances designated for investment purposes are included in the "Investment portfolio, at fair value" in the *Balance Sheets*.

Dividend income is recognized net of applicable withholding taxes on the ex-dividend date. Non-cash dividends are recorded at the fair value of the securities received. Interest income and expenses are recorded net of applicable withholding taxes on the accrual basis of accounting. The University amortizes bond premiums and accretes bond discounts using the effective yield method and when cash collection is expected.

The University utilizes a number of wholly owned subsidiary entities to support its investment activities. The consolidated financial statements include all assets, liabilities, income, and expenses associated with these entities. All intercompany accounts and transactions have been eliminated during consolidation.

The University separately reports the fair value of assets for which counterparties have the right to pledge or exchange the collateral they have received; investment portfolio assets that are unencumbered are included in "Investment portfolio, at fair value" in the *Balance Sheets*.

The majority of the University's investments are managed by HMC in the GIA, a pooled fund that consists primarily of endowment assets. Certain other investments are managed separately from the GIA. These other investments consist primarily of cash, short-term investments, and fixed income securities (principally US government securities) held for the University's working capital and liquidity needs; publicly traded securities associated with split interest agreements; and public and private investments donated to the University.

The University's investment holdings as of June 30, 2015 and 2014 are summarized in the following table (in thousands of dollars):

	2015	2014
Investment portfolio, at fair value:		
Pooled general investment account assets[1]	**$ 62,961,440**	$ 57,854,135
Other investments[2]	**2,572,682**	3,140,194
Investment assets[3]	**65,534,122**	60,994,329
Pooled general investment account liabilities	**21,166,693**	17,600,550
Interest rate exchange agreement	**17,038**	7,980
Investment liabilities	**21,183,731**	17,608,530
TOTAL INVESTMENTS	**44,350,391**	**43,385,799**
Non-controlling interests attributable to the pooled investment account	**833,583**	646,429
TOTAL INVESTMENTS, NET	**$ 43,516,808**	**$ 42,739,370**

[1] *Includes securities pledged to counterparties of $10,874,966 and $7,685,852 at June 30, 2015 and 2014, respectively.*
[2] *Consists primarily of repurchase agreements and US government securities of $1,459,301 and $1,953,994 at June 30, 2015 and 2014, respectively.*
[3] *Investment assets include cash and cash equivalents that consist principally of deposits that have maturities of 90 days or less. Cash and cash equivalents classified as investments were $711,186 and $656,577 at June 30, 2015 and 2014, respectively.*

A summary of the University's total return on investments for fiscal 2015 and 2014 is presented below (in thousands of dollars):

	2015	2014
Return on pooled general investment account:		
Realized and change in unrealized appreciation, net	**$ 2,003,651**	$ 5,025,864
Net investment income	**225,532**	271,731
Total return on pooled general investment account[1]	**2,229,183**	5,297,595
Return on other investments:		
Realized and change in unrealized (depreciation)/appreciation, net	**(20,681)**	38,089
Net investment income	**27,869**	28,540
Total return on other investments	**7,188**	66,629
Realized and change in unrealized (depreciation) on interest rate exchange agreement, net	**(12,744)**	(5,798)
TOTAL RETURN ON INVESTMENTS	**$ 2,223,627**	**$ 5,358,426**

[1] *Net of all internal and external management fees and expenses.*

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the global equity, fixed income, real estate, commodities, and private equity markets. The pooled GIA assets and liabilities below have been disaggregated based on the exposure of the investment to these markets. Exposure to each asset class is achieved through investments in individual securities, direct investments in special purpose vehicles, and/or through vehicles advised by external managers.

The pooled GIA assets and liabilities as of June 30, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2015	2014
POOLED GENERAL INVESTMENT ACCOUNT ASSETS:		
Investment assets:		
Domestic common and convertible equity	**$ 6,450,834**	$ 5,592,535
Foreign common and convertible equity	**2,591,172**	2,627,127
Domestic fixed income	**8,557,087**	6,509,373
Foreign fixed income	**3,206,849**	3,404,440
Emerging market equity and debt	**3,743,452**	3,337,388
High yield	**477,832**	785,001
Absolute return	**6,164,896**	5,632,820
Private equities	**7,120,249**	7,367,183
Natural resources	**4,283,935**	4,709,950
Real estate	**8,653,859**	7,099,602
Inflation-indexed bonds	**1,105,023**	719,239
Due from brokers[1]	**1,106,554**	667,983
Total investment assets	**53,461,742**	48,452,641
Repurchase agreements[2]	**7,621,408**	7,215,852
Cash and short-term investments	**597,076**	520,060
Other assets[3]	**1,281,214**	1,665,582
POOLED GENERAL INVESTMENT ACCOUNT ASSETS	**62,961,440**	**57,854,135**
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES:		
Investment liabilities:		
Equity and convertible securities sold, not yet purchased	**611,107**	294,049
Fixed income securities sold, not yet purchased	**5,670,279**	5,520,809
Due to brokers[4]	**96,777**	168,901
Total investment liabilities	**6,378,163**	5,983,759
Reverse repurchase agreements[5]	**10,581,215**	7,800,215
Other liabilities[6]	**4,207,315**	3,816,576
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES	**21,166,693**	**17,600,550**
Non-controlling interests attributable to the pooled general investment account	**833,583**	646,429
POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS[7]	**$ 40,961,164**	**$ 39,607,156**

[1] *Includes collateral advanced under securities borrowing agreements of $691,240 and $336,123 as of June 30, 2015 and 2014, respectively.*

[2] *Includes pending repurchase agreements that settled subsequent to the balance sheet date of $122,520 and $383,955 as of June 30, 2015 and 2014, respectively.*

[3] *As of June 30, 2015, other assets consisted primarily of receivables for transactions that settled subsequent to the balance sheet date of $693,016, and assets consolidated under ASC 810 of $626,322. As of June 30, 2014, other assets consisted primarily of receivables for transactions that settled subsequent to the balance sheet date of $864,049, and assets consolidated under ASC 810 of $533,707.*

[4] *Includes collateral held under securities lending agreements of $66,004 and $126,757 as of June 30, 2015 and 2014, respectively.*

[5] *Includes pending reverse repurchase agreements that settled subsequent to the balance sheet date of $27,185 and $223,434 as of June 30, 2015 and 2014, respectively.*

[6] *As of June 30, 2015, other liabilities consisted primarily of payables for the purchase of securities of $471,500, and liabilities consolidated under ASC 810 of $3,230,275. As of June 30, 2014, other liabilities consisted primarily of payables for the purchase of securities of $859,957, and liabilities consolidated under ASC 810 of $2,464,559.*

[7] *The cost of the total pooled GIA net assets, net of proceeds received from short positions, was $39,499,150 and $35,240,844 as of June 30, 2015 and 2014, respectively.*

As of June 30, 2015 and 2014, the GIA was comprised of the following components (in thousands of dollars):

	2015	2014
POOLED GENERAL INVESTMENT ACCOUNT		
Endowment[1]	**$ 35,703,136**	$ 35,039,522
General Operating Account	**3,893,044**	3,255,419
Split interest agreements	**806,219**	812,736
Other internally designated funds	**558,765**	499,479
TOTAL POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS	**$ 40,961,164**	**$ 39,607,156**

[1] *Includes only the portion of the endowment invested in the GIA and excludes pledges, interests in trusts held by others, other non-GIA investments, and GIA income.*

The asset allocation of the University's investment portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as price, interest rate, market, sovereign, currency, liquidity, and credit risks. Additionally, the GIA's direct investments in natural resources and real estate expose the University to a unique set of risks such as operational, environmental, and political risks. Furthermore, a component of the investment portfolio's asset allocation includes five diversified funds managed by external advisors, which represent 18% of the GIA net asset value ("NAV"), in the aggregate. The University anticipates that the value and composition of its investments may, from time to time, fluctuate substantially in response to any or all of the risks described herein.

The University has various sources of liquidity at its disposal within its investment pools, including approximately $3.2 billion in cash and cash equivalents (including repurchase agreements of $2.5 billion) at June 30, 2015 in the GIA and the GOA. In addition, the University estimates that as of June 30, 2015, it could liquidate additional unencumbered US government securities of $2.2 billion within one business day (typical settlement terms) to meet any immediate short-term needs of the University.

The University *Balance Sheets* display both the assets and corresponding liabilities generated by repurchase, reverse repurchase, securities borrowing, and securities lending transactions. The University enters these transactions under agreements containing master netting arrangements. The University requires the fair value of the collateral exchanged under these agreements to be equal to or in excess of the total amount of the agreement, including interest where applicable. Collateral is exchanged as required by fluctuations in the fair value of these instruments. In the event of a counterparty default, the University generally has the right to close out all transactions traded under such agreements and to net amounts owed or due across all transactions and offset such net payable or receivable with collateral posted by one party or the other.

The following table presents information about the offsetting of these instruments and related collateral amounts as of June 30, 2015 and 2014 (in thousands of dollars):

	As of June 30, 2015			As of June 30, 2014		
	Gross asset amounts[1]	Collateral[2]	Net exposure[4]	Gross asset amounts[1]	Collateral[2]	Net exposure[4]
Repurchase agreements	$ 8,580,607	$ 8,580,607	$ 0	$ 8,410,543	$ 8,410,543	$ 0
Securities borrowing agreements	691,240	691,240	0	336,123	336,123	0
TOTAL REPURCHASE AND SECURITIES BORROWING AGREEMENTS	**$ 9,271,847**	**$ 9,271,847**	**$ 0**	**$ 8,746,666**	**$ 8,746,666**	**$ 0**
	Gross liability amounts[1]	Collateral[3]	Net exposure[4]	Gross liability amounts[1]	Collateral[3]	Net exposure[4]
Reverse repurchase agreements	$ 10,581,215	$ 10,581,215	$ 0	$ 7,800,215	$ 7,800,215	$ 0
Securities lending agreements	66,004	66,004	0	126,757	126,757	0
TOTAL REVERSE REPURCHASE AND SECURITIES LENDING AGREEMENTS	**$ 10,647,219**	**$ 10,647,219**	**$ 0**	**$ 7,926,972**	**$ 7,926,972**	**$ 0**

[1] *The University does not offset repurchase and securities borrowing agreements and reverse repurchase and securities lending agreements that are subject to master netting arrangements or similar arrangements on the University's* Balance Sheets. *Refer to* Note 5 *for information related to offsetting of derivatives.*

[2] *Includes securities in transit of $124,221 and $358,166 as of June 30, 2015 and 2014, respectively, that will typically settle within one to two business days subsequent to the transaction date.*

[3] *Includes securities in transit of $27,134 and $197,924 as of June 30, 2015 and 2014, respectively, that will typically settle within one to two business days subsequent to the transaction date.*

[4] *Net exposure excludes any over-collateralized amounts.*

The University has consolidated, under ASC 810, certain non-controlling interests relating to its investments in natural resources and real estate assets. These non-controlling interests represent the minority interest portion of these assets controlled by the University that are required to be presented on the University's balance sheet under GAAP. The net increase in non-controlling interests year over year of $187.2 million is due to $169.5 million in appreciation on existing non-controlling interests and $81.0 million of contributions made by minority partners offset by $63.3 million in distributions to the minority partners.

Other liabilities on page 28 include debt outstanding on consolidated portfolio investments of $2,629.0 million and $2,018.8 million as of June 30, 2015 and 2014, respectively. This debt is categorized as Level 3 in the ASC 820 fair value hierarchy as defined in *Note 4*. Based on the structure, duration, and nature of the debt being consolidated, the amounts approximate the fair value of the debt as of each reporting period. This debt is utilized for purposes specific to natural resources and real estate assets held by the investment portfolio, and is non-recourse to any other assets held by the University.

4. FAIR VALUE OF INVESTMENT ASSETS AND LIABILITIES

The University endeavors to utilize all relevant and available information in measuring fair value. Investments are valued in accordance with ASC 820, and under the guidelines prescribed by the HMC investment valuation policy, which is reviewed and approved by the HMC Board of Directors on an annual basis.

Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the security is traded. Where there is no readily available closing price on the valuation date, long positions are valued at the bid price and short positions are valued at the ask price. Restrictions that are attached to a security are factored into the valuation of that security, reflective of the estimated impact of those restrictions. Investments in non-exchange traded debt and equity instruments are primarily valued using inputs provided by independent pricing services or by broker/dealers who actively make markets in these securities.

Over the counter ("OTC") derivative products classified as due to/from brokers include option, swap, credit default, interest rate, and forward contracts. These types of instruments are primarily valued using industry standard models with independent market inputs, or by broker quotes. Inputs such as prices, spreads, curves, and/or broker quotes are evaluated for source reliability and consistency with industry standards. Counterparty marks obtained and utilized to determine daily collateral requirements are also used to corroborate input reasonability. The University considers current market conditions including interest rate and credit risks in its evaluation of inputs, pricing methodologies, and models utilized to determine fair values.

Investments managed by external advisors include investments in private equity, real estate, natural resources, absolute return and other externally managed funds. The majority of these investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisor, subject to assessments that the information is representative of fair value and in consideration of any additional factors deemed pertinent to the fair value measurement. The University evaluates its external advisors through a manager due-diligence program executed by HMC, which includes an analysis of an advisor's use of and adherence to fair value principles. In situations where the information provided by the external advisor is deemed to not be representative of fair value as of the measurement date, the University will evaluate specific features of the investment and utilize supplemental information provided by the external advisor along with any relevant market data to measure the investment's fair value as of that date.

Direct investments in natural resources, specifically timberland and agriculture, as well as real estate are primarily valued using a combination of independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach, or cost approach). The income approach is primarily based on the investment's anticipated future income using one of two principal methods: the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized in the income approach may be subjective and require judgment regarding significant matters such as estimating the amount and timing of future cash flows and the selection of discount and capitalization rates that appropriately reflect market and credit risks. The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost of the investment is determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. The valuation process encompasses a wide range of procedures that in the aggregate allow the University to assert as to the adequacy of the fair values reported as of the measurement date. The HMC Board of Directors discusses the valuation process and results with HMC management, and makes determinations on significant matters impacting valuation that may arise from time to time.

The University's investments have been categorized based upon the fair value hierarchy in accordance with ASC 820, which prioritizes the inputs to valuation techniques used to measure fair value of investment assets and liabilities into three levels:

LEVEL 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

LEVEL 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

LEVEL 3 Prices or valuations that require inputs that are significant to the fair value measurement, unobservable and/or require the University to develop its own assumptions.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels are recognized at the beginning of the year.

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2015 and 2014 (in thousands of dollars):

	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:								
Cash and short-term investments	$ 711,186			**$ 711,186**	$ 656,577			**$ 656,577**
Domestic common and convertible equity	1,018,938	$ 86,958	$ 137,501	**1,243,397**	597,498			**597,498**
Foreign common and convertible equity	830,074			**830,074**	619,803	$ 3		**619,806**
Domestic fixed income	9,128,709	28,110		**9,156,819**	6,950,344	415,069	$ 3,932	**7,369,345**
Foreign fixed income	1,512,530	1,727,753		**3,240,283**	1,575,942	1,865,063		**3,441,005**
Emerging market equity and debt	2,255,442	254,636		**2,510,078**	2,650,177	317,841		**2,968,018**
High yield	54,208	374,841	35,197	**464,246**	68,504	398,390	12,483	**479,377**
Absolute return			175,556	**175,556**			199,609	**199,609**
Private equities			140,541	**140,541**			191,011	**191,011**
Natural resources	1,406		3,946,937	**3,948,343**	9,592		4,415,026	**4,424,618**
Real estate			5,465,543	**5,465,543**			4,053,221	**4,053,221**
Inflation-indexed bonds	1,117,971			**1,117,971**	731,925			**731,925**
Due from brokers	45,913	298,823	103,444	**448,180**	17,656	334,114	7,984	**359,754**
Other investments	10,893	2,631	20,326	**33,850**	17,508	1,986	20,511	**40,005**
Repurchase agreements		8,580,607		**8,580,607**		8,410,543		**8,410,543**
Interests in trusts held by others[1]			363,175	**363,175**			376,526	**376,526**
INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$16,687,270**	**$11,354,359**	**$10,388,220**	**38,429,849**	**$13,895,526**	**$11,743,009**	**$9,280,303**	**34,918,838**
Investments measured using the practical expedient				**25,262,493**				**24,195,923**
Securities borrowing agreements				**691,240**				**336,123**
Other assets not subject to fair value				**1,546,581**				**1,947,865**
TOTAL ASSETS[2]				**$65,930,163**				**$61,398,749**
INVESTMENT LIABILITIES:								
Equity and convertible securities sold, not yet purchased	$ 611,107			**$ 611,107**	$ 294,049			**$ 294,049**
Fixed income securities sold, not yet purchased	3,924,873	$ 1,745,406		**5,670,279**	3,888,005	$ 1,632,803		**5,520,808**
Due to brokers[3]	13,295	66,920	$ 462	**80,677**	15,369	45,454	$ 17,196	**78,019**
Reverse repurchase agreements		10,581,215		**10,581,215**		7,800,215		**7,800,215**
Liabilities due under split interest agreements[1]		910,084		**910,084**		758,991		**758,991**
Other liabilities subject to fair value			2,629,035	**2,629,035**			2,018,829	**2,018,829**
INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING	**$ 4,549,275**	**$13,303,625**	**$ 2,629,497**	**20,482,397**	**$ 4,197,423**	**$10,237,463**	**$2,036,025**	**16,470,911**
Securities lending agreements				**66,004**				**126,757**
Other liabilities not subject to fair value				**1,578,280**				**1,797,747**
TOTAL LIABILITIES[2]				**$22,126,681**				**$18,395,415**

[1] *Amounts excluded from total investments and included separately on the University's* Balance Sheets.
[2] *For purposes of reporting by level under the fair value hierarchy, some assets and liabilities are shown gross that are otherwise reported net in the table on page 28.*
[3] *Includes fair value of an interest rate exchange agreement on the University's debt portfolio of $17,038 and $7,980 as of June 30, 2015 and 2014, respectively.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2015 (in thousands of dollars):

	Beginning balance as of July 1, 2014	Net realized gains/ (losses)	Net change in unrealized appreciation/ (depreciation)[1]	Purchases/ contributions	Sales/ distributions	Transfers into Level 3[2]	Transfers out of Level 3[2]	Ending balance as of June 30, 2015
INVESTMENT ASSETS:								
Domestic common and convertible equity		$ 1,408	$ 12,500	$ 130,001	$ (6,408)			**$ 137,501**
Domestic fixed income	$ 3,932	(159)	73		(1,296)		$ (2,550)	**0**
High yield	12,483	(2,670)	1,533	53,673	(32,372)	$ 2,550		**35,197**
Absolute return	199,609	500	(76,553)	77,565	(25,565)			**175,556**
Private equities	191,011	14,205	(38,435)		(8,068)		(18,172)	**140,541**
Natural resources	4,415,026	528,660	(388,171)	493,836	(1,102,414)			**3,946,937**
Real estate	4,053,221	58,686	1,124,028	827,627	(461,756)	11,909	(148,172)	**5,465,543**
Due from brokers	7,984	(593)	(9,305)	108,438	(63,313)	60,233		**103,444**
Other investments	20,511	42	(227)					**20,326**
Interests in trusts held by others	376,526		(13,351)					**363,175**
INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 9,280,303**	**$ 600,079**	**$ 612,092**	**$ 1,691,140**	**$(1,701,192)**	**$ 74,692**	**$ (168,894)**	**$ 10,388,220**
INVESTMENT LIABILITIES:								
Due to brokers	$ 17,196	$ 1,464	$ (39,011)	$ (16,811)	$ 37,624			$ 462
Other liabilities subject to fair value	2,018,829		(38,507)	(138,439)	787,152			2,629,035
INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING	**$ 2,036,025**	**$ 1,464**	**$ (77,518)**	**$ (155,250)**	**$ 824,776**			**$ 2,629,497**

[1] *Total change in unrealized appreciation/(depreciation) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2015 is $1,302,246 and is reflected in "Realized and change in unrealized appreciation, net" in the* Statements of Changes in Net Assets.
[2] *During the fiscal year, the University changed the asset class designation for certain Level 3 investments to better align with investment exposure. Additionally, certain transfers into Level 3 represent instances of deviation from the practical expedient whereas certain transfers out of Level 3 represent a return to the practical expedient. Certain securities, included in Due from brokers, valued using single broker quotes were transferred into Level 3.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2014 (in thousands of dollars):

	Beginning balance as of July 1, 2013	Net realized gains/ (losses)	Net change in unrealized appreciation/ (depreciation)[1]	Purchases/ contributions	Sales/ distributions	Transfers into Level 3[2]	Transfers out of Level 3[2]	Ending balance as of June 30, 2014
INVESTMENT ASSETS:								
Domestic fixed income		$ (709)	$ 352	$ 4,289				**$ 3,932**
High yield	$ 27,528	11,733	(6,011)	52	$ (15,581)		$ (5,238)	**12,483**
Absolute return	79,497		(10,442)	136,054	(5,500)			**199,609**
Private equities	106,290	106,043	(21,322)					**191,011**
Natural resources	3,673,732	(580)	534,989	238,139	(31,254)			**4,415,026**
Real estate	2,596,653	69,893	793,071	844,841	(393,589)	$ 161,289	(18,937)	**4,053,221**
Due from brokers	19,315	290	(1,961)	340	(10,000)			**7,984**
Other investments	21,338	188	(1,015)					**20,511**
Interests in trusts held by others	352,069		24,457					**376,526**
INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 6,876,422**	**$ 186,858**	**$ 1,312,118**	**$ 1,223,715**	**$ (455,924)**	**$ 161,289**	**$ (24,175)**	**$ 9,280,303**
INVESTMENT LIABILITIES:								
Due to brokers	$ 660	$ (476)	$ 111	$ (1,134)	$ 18,035			**$ 17,196**
Other liabilities subject to fair value	1,404,010		(266)	(115,465)	730,550			**2,018,829**
INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING	**$ 1,404,670**	**$ (476)**	**$ (155)**	**$ (116,599)**	**$ 748,585**	**$ 0**	**$ 0**	**$ 2,036,025**

[1] *Total change in unrealized appreciation/(depreciation) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2014 is $429,541 and is reflected in "Realized and change in unrealized appreciation, net" in the* Statements of Changes in Net Assets.

[2] *Certain real estate transfers into Level 3 represent instances of deviation from the practical expedient whereas certain Real estate transfers out of Level 3 represent a return to the practical expedient.*

Investments that trade in inactive markets, but are valued based on quoted market prices, broker/dealer quotations, or independent pricing services supported by observable inputs are primarily classified within Level 2. These may include non-exchange traded equity and fixed income securities, securities subject to restriction, and certain OTC derivatives. Other investments, including OTC derivatives valued using broker quotes or other industry standard models, where unobservable inputs may have been obtained from third parties, have been classified as Level 3 in accordance with the fair value hierarchy under ASC 820.

The University is a limited partner in private equity and real estate partnerships, and other external investment managers, which include commitments to make periodic contributions in future periods. The amounts of these expected disbursements as of June 30, 2015 and 2014 are disclosed below (in thousands of dollars):

	As of June 30, 2015			As of June 30, 2014		
	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]
Private equities	$ 5,945,381	$ 2,886,558	4 – 10	$ 6,159,103	$ 2,564,806	4 – 10
Real estate	2,178,485	1,409,809	4 – 10	2,437,070	1,508,439	4 – 10
Other externally managed funds[3]	1,658,033	1,569,692	2 – 8	1,156,671	1,128,653	2 – 8
TOTAL	**$ 9,781,899**	**$ 5,866,059**		**$ 9,752,844**	**$ 5,201,898**	

[1] *Represents the fair value of the funded portion of investments with remaining unfunded commitments.*

[2] *The estimated remaining lives of these funds, expressed in years, are forward-looking projections based on the University's estimates and could vary significantly depending on the investment decisions of external managers, changes in the University's investment portfolio, and other circumstances.*

[3] *Investments in other externally managed funds primarily include exposures to absolute return, natural resources, domestic, foreign, and emerging equities, and high yield asset classes.*

The nature of these partnership interests is that distributions are received through the liquidation of the underlying assets of the partnership over its remaining life. The fair value of the investments in these asset classes has generally been estimated using the University's capital account balance with each partnership, unless the University has deemed the NAV to be an inappropriate representation of fair value. To evaluate the fair value of the University's externally managed investments, the University has assessed factors including, but not limited to, the external advisor's adherence to fair value principles in calculating the capital account balance, the existence of transactions at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. Investments in externally managed funds generally have limited redemption options for investors and, subsequent to final closing, may or may not permit subscriptions by new or existing investors. These entities may also have the ability to impose gates, lockups, and other restrictions on an investor's ability to readily redeem out of their investment interest in the partnership.

The valuation procedures performed on direct investments are based on industry standard processes for each respective asset class. The inputs utilized in any valuation model may be significant and unobservable, and require a certain degree of judgment. The University examines market data and collaborates closely with industry experts to attempt to arrive at the best estimation of fair value for each respective asset. While the inputs described below represent the range of inputs utilized as of the measurement date, these inputs may change over time, which may have a material effect on the valuation of these types of investments in the future. Additionally, there may be interrelationships between the unobservable inputs utilized in any valuation model, and significant changes in any of those inputs, in isolation or in the aggregate, may trigger changes in other inputs or in the estimated fair value for each respective investment asset. The University has not assessed the sensitivity to unforeseeable changes in significant unobservable inputs; rather the range of inputs described below illustrate those inputs utilized by management in arriving at fair value for these direct investments as of the measurement date.

	As of June 30, 2015		As of June 30, 2014	
Significant unobservable input by asset class[1]	Level 3 investments subject to fair value (in thousands of dollars)[2]	Range of inputs utilized in valuation model[3]	Level 3 investments subject to fair value (in thousands of dollars)[2]	Range of inputs utilized in valuation model[3]
Natural resources:	$ 3,845,097		$ 3,681,268	
Income approach discount rate		5.5% – 15.0%		4.0% – 20.0%
Price per planted hectare		$3,673 – $132,207		$3,347 – $141,445
Real estate:	5,230,378		3,855,752	
Income approach discount rate		5.8% – 20.4%		7.0% – 20.0%
Capitalization rate		2.8% – 10.0%		4.0% – 9.0%
Net operating income growth rate		2.0% – 7.7%		2.0% – 7.0%
Absolute return:	87,128			
Book value multiplier		1x		
Other liabilities subject to fair value:	(2,629,035)		(2,018,829)	
Loan to value		2.3% – 86.3%		3.3% – 75.7%
Market interest rate		1.7% – 10.0%		2.0% – 10.0%
NET AMOUNT	**$ 6,533,568**		**$ 5,518,191**	

[1] *The fair value of investments may be determined using multiple valuation techniques.*
[2] *Included within Level 3 investments is $1,225,155 and $1,726,087 as of June 30, 2015 and 2014, respectively, which were valued using other inputs including, but not limited to single source broker quotations, third party pricing and prior transactions.*
[3] *The range of inputs encompasses a variety of investment types within each asset class.*

5. DERIVATIVES

The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement, which are exchange traded or executed OTC. Certain instruments are cleared and settled through central clearing counterparties, while others are bilateral contracts between two counterparties. These instruments are used to increase or decrease exposure to a given asset class, with the goal of enhancing the returns of these asset classes. The market risk of a particular strategy is influenced by the relationship between the financial instruments with off-balance sheet risk and the offsetting positions recorded in the *Balance Sheets*. The University manages exposure to market risk through the use of industry standard analytical tools that measure the market exposure of each position within a strategy. The strategies are monitored daily, and positions are frequently adjusted in response to changes in the financial markets.

In connection with its derivative activities, the University generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide the University the right, in the event of default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty.

The following table presents information about the University's derivatives by primary risk exposure for the years ended June 30, 2015 and 2014 (in thousands of dollars):

	As of June 30, 2015		For the year ended June 30, 2015	As of June 30, 2014		For the year ended June 30, 2014
Primary risk exposure	Gross derivative assets	Gross derivative liabilities	Net profit/ (loss)[4]	Gross derivative assets	Gross derivative liabilities	Net profit/ (loss)[4]
Equity instruments:						
Equity futures	$ 25,676	$ 3,537	$ (5,529)	$ 2,605	$ 5,986	$ (90,410)
Equity options	88,398	29,119	2,869	6,636	3,667	(16,556)
Equity exchange agreements	84,286	112,477	(132,958)	73,552	51,256	540,750
TOTAL EQUITY INSTRUMENTS	**198,360**	**145,133**	**(135,618)**	**82,793**	**60,909**	**433,784**
Fixed income instruments:						
Fixed income futures	15,851	22,710	3,817	36,866	32,484	26,469
Fixed income options	2,200	7,419	13,705	2,791	2,049	2,531
Interest rate exchange agreements[1]	1,707,173	1,470,383	(37,044)	1,613,371	1,394,561	(76,119)
Interest rate caps and floors	220,138	179,050	7,018	234,986	182,071	35,130
TOTAL FIXED INCOME INSTRUMENTS	**1,945,362**	**1,679,562**	**(12,504)**	**1,888,014**	**1,611,165**	**(11,989)**
Commodity instruments:						
Commodity futures	18,525	17,029	71,047	12,031	10,023	(7,560)
Commodity options	3,600		22,570	9,776	215	(2,272)
Commodity exchange agreements	28,358	3,318	10,191	17,509	15,501	57,111
TOTAL COMMODITY INSTRUMENTS	**50,483**	**20,347**	**103,808**	**39,316**	**25,739**	**47,279**
Currency instruments:						
Currency forwards	3,443,981	3,436,484	141,823	2,665,133	2,677,329	(36,123)
Currency options	101,529	82,340	14,156	50,759	44,644	(1,555)
Currency exchange agreements	10,819	3,544	12,708	23,984	12,162	(8,253)
TOTAL CURRENCY INSTRUMENTS	**3,556,329**	**3,522,368**	**168,687**	**2,739,876**	**2,734,135**	**(45,931)**
CREDIT INSTRUMENTS	**51,169**	**66,790**	**9,971**	**72,469**	**108,784**	**(17,180)**
SUBTOTAL	**5,801,703**	**5,434,200**	**$ 134,344**	**4,822,468**	**4,540,732**	**$ 405,963**
Counterparty netting[2]						
Exchange traded	(40,076)	(40,076)		(49,713)	(49,713)	
Centrally cleared	(218,265)	(218,265)		(117,102)	(117,102)	
Bilateral OTC	(5,145,086)	(5,145,086)		(4,331,773)	(4,331,773)	
TOTAL COUNTERPARTY NETTING	**(5,403,427)**	**(5,403,427)**		**(4,498,588)**	**(4,498,588)**	
NET AMOUNTS INCLUDED IN THE BALANCE SHEETS[3]	**398,276**	**30,773**		**323,880**	**42,144**	
Collateral						
Cash collateral received/posted	80,842	8,689		3,010		
Securities collateral received/posted[5,6]	318,734	289,330		325,890	196,892	
TOTAL COLLATERAL	**399,576**	**298,019**		**328,900**	**196,892**	
NET AMOUNT	**(1,300)**	**(267,246)**		**(5,020)**	**(154,748)**	
NET AMOUNT IN ACCORDANCE WITH ASC 210[7]	**$ 0**	**$ 0**		**$ 0**	**$ 0**	

[1] *For the year ended June 30, 2015, includes a gross derivative liability of $17,038 and a net loss of $12,744 related to an interest rate exchange agreement on the University's debt portfolio. For the year ended June 30, 2014, includes a gross derivative liability of $7,980 and a net loss of $5,798 related to an interest rate exchange agreement on the University's debt portfolio. These positions are further discussed in* Note 12.

[2] *GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the University and a derivative counterparty. Refer to* Note 3 *for information related to offsetting of certain other collateralized transactions.*

[3] *Included within the "Investment portfolio, at fair value" and "Securities lending and other liabilities associated with the investment portfolio" line items of the* Balance Sheets.

[4] *Included within "Realized and change in unrealized appreciation, net" within the* Statements of Changes in Net Assets.

[5] *Includes securities posted to meet initial margin requirements on exchange traded futures and centrally cleared derivatives.*

[6] *Includes collateral in transit of $87,598 and $26,780 as of June 30, 2015 and 2014, respectively, that settled within one to two business days subsequent to the transaction date.*

[7] *Excludes any over-collateralized amounts in accordance with ASC 210.*

The following section details the accounting for each type of derivative contract, as well as the University's intended purpose for entering into each type of derivative instrument.

Options

The University purchases and sells put and call options to take advantage of expected volatility in the price of underlying instruments. When purchasing an option, the University pays a premium, which is recorded as an asset and subsequently marked-to-market to reflect the current value of the option. When the University sells (writes) an option, the premium received is recorded as a liability and subsequently marked-to-market to reflect the current fair value of the option written. Premiums paid or received from options that expire unexercised are treated as realized losses and gains, respectively. When an option is closed before expiration or exercise, the University records a realized gain or loss equal to the difference between the proceeds paid/received upon closing and the original premium paid/received.

During fiscal years 2015 and 2014, the University transacted approximately 1,500 and 400 equity and fixed income option trades with an average transaction size of approximately 12,700 and 9,900 contracts, respectively. During the same period the University transacted approximately 400 and 200 currency option contracts with average USD equivalent notional amounts of approximately $36.7 million and $19.6 million per contract, respectively. Additionally, the University transacted approximately 300 and 700 commodity option trades with an average transaction size of approximately 1,100 and 300 contracts, respectively.

Swap contracts

The University enters into swap contracts, which are contracts between two parties to exchange future cash flows at periodic intervals based on a notional principal amount, to increase or decrease its exposure to changes in the level of interest rates, underlying asset values and/or credit risk. Payments are exchanged at specified intervals, accrued daily commencing with the effective date of the contract and recorded as realized gains or losses. Gains or losses are realized in the event of an early termination of a swap contract. Risks of loss may include unfavorable changes in the returns of the underlying instruments or indexes, adverse fluctuations of interest rates, failure of the counterparty to perform under the terms of the agreement, and lack of liquidity in the market.

Collateral in the form of securities or cash may be posted to or received from the swap counterparty in accordance with the terms of the swap contract. Realized gains or losses are recorded relating to periodic payments received or made on swap contracts and with respect to swaps that are closed prior to termination date. When the University enters into a swap transaction, it may make or receive a payment equal to the value of the swap on the entry date and amortizes such payments to realized gain or loss over the outstanding term of the swap. The terms of the swap contracts can vary, and they are reported at fair value based on a valuation model or a counterparty provided price.

In the normal course of its trading activities, the University enters into credit default, interest rate, and total return swap contracts.

Credit default contracts

The University enters into credit derivatives to simulate long and short bond exposure that is either unavailable or considered to be less attractively priced in the bond market, or to hedge exposure obtained in the bond market. The University also uses these derivatives to reduce risk where it has exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default. The underlying debt security on which the derivative is structured can be based on a single issuer, a "basket" of issuers, or an index. During fiscal years 2015 and 2014, the University transacted approximately 700 and 800 credit default contracts, respectively. These contracts had average notional amounts of approximately $18.0 million and $13.0 million in fiscal years 2015 and 2014, respectively.

In instances where the University has purchased credit protection on an underlying debt security, the University is obligated to pay the seller of the credit protection a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to the issuer of the debt security. The contingent payment may be a cash settlement or a physical delivery of the debt security in return for payment of the face amount of the obligation. The amount paid for purchased protection is typically a nominal percentage of the notional amount. In instances where the University has sold credit protection on an underlying debt security, the University receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, and in some instances up to ten years. In the case where the University sold credit protection, if a credit event occurs, the University may cash settle the contract or pay the purchaser of credit protection the full notional value of the contract in exchange for the debt security.

As of June 30, 2015, the University's purchased and written credit derivatives had gross notional amounts of $1,935.7 million and $1,761.3 million, respectively, for total net purchased protection of $174.4 million in notional value.

As of June 30, 2014, the University's purchased and written credit derivatives had gross notional amounts of $3,072.3 million and $1,628.9 million, respectively, for total net purchased protection of $1,443.4 million in notional value.

The table below summarizes certain information regarding credit protection purchased and written as of June 30, 2015 and 2014 (in thousands of dollars):

	As of June 30, 2015							
	Purchased protection		Written protection					
			Years to maturity – notional					
Credit rating on underlying	Purchased notional[1]	Purchased fair value	< 5 years	5-10 years	Total written notional	Offsetting purchased notional[2]	Net written notional	Net written fair value
A- to AAA	$1,201,179	$ (27,837)	$ 105,000		$ 105,000	$ 5,000	$ 100,000	$ 770
BBB- to BBB+	451,340	(3,669)	834,764		834,764	5,000	829,764	(3,632)
Non-investment grade	125,599	5,195	821,568		821,568	147,568	674,000	1,167
TOTAL	**$1,778,118**	**$ (26,311)**	**$ 1,761,332**		**$1,761,332**	**$ 157,568**	**$ 1,603,764**	**$ (1,695)**

	As of June 30, 2014							
	Purchased protection		Written protection					
			Years to maturity – notional					
Credit rating on underlying	Purchased notional[1]	Purchased fair value	< 5 years	5-10 years	Total written notional	Offsetting purchased notional[2]	Net written notional	Net written fair value
A- to AAA	$1,028,748	$ (11,143)	$ 545,250	$ 30,000	$ 575,250	$ 530,000	$ 45,250	$ 722
BBB- to BBB+	818,442	(10,818)	571,392		571,392	324,250	247,142	2,507
Non-investment grade	230,082	1,622	385,400	96,876	482,276	140,800	341,476	(23,073)
TOTAL	**$2,077,272**	**$ (20,339)**	**$ 1,502,042**	**$ 126,876**	**$1,628,918**	**$ 995,050**	**$ 633,868**	**$ (19,844)**

[1] *Amounts shown are net of purchased credit protection that directly offsets written credit protection, as discussed in the note (2) below.*

[2] *Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they hedge written credit derivatives with identical underlying debt securities.*

Credit ratings on the underlying debt security, together with the period of expiration, are indicators of payment/performance risk. For example, the seller of credit protection is least likely to pay or otherwise be required to perform where the credit ratings are AAA and the period of expiration is "<5 years". The likelihood of payment or performance is generally greater as the credit ratings fall and period of expiration increases.

Interest rate contracts

The University enters into interest rate swaps to hedge certain investment positions against interest rate fluctuations; to benefit from interest rate fluctuations; to obtain better interest rate terms than it would have been able to get without the swap; or to manage the interest, cost, and risk associated with its outstanding and/or future debt. Interest rate swaps involve the exchange by the University with another party of its respective commitments to pay or receive interest at specified intervals based on a notional amount of principal. During fiscal years 2015 and 2014, the University transacted approximately 4,700 and 3,500 interest rate swap and cap/floor contracts with average notional amounts of approximately $251.0 million and $206.0 million, respectively.

Total return swaps

The University enters into total return swaps to manage its exposure to market fluctuations in various asset classes. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from or make a payment to the counterparty, respectively. During fiscal years 2015 and 2014, the University transacted approximately 200 and 700 commodity swap contracts with average notional amounts of approximately $5.9 million and $1.2 million; 1,500 and 2,600 equity swap contracts with average notional amounts of approximately $5.2 million and $0.4 million; and 200 and 100 currency swap contracts with average notional amounts of approximately $30.0 million and $32.0 million, respectively.

Forward currency contracts

The University enters into forward currency contracts in connection with settling planned purchases or sales of securities, or to hedge the currency exposure associated with some or all of the University's portfolio securities. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked-to-market daily and the change in fair value is recorded by the University as an unrealized gain or loss. During fiscal years 2015 and 2014, the University transacted approximately 12,400 and 9,800 forward currency contracts with average USD equivalent notional amounts of approximately $2.8 million and $3.4 million, respectively.

Futures contracts

The University uses futures contracts to manage its exposure to financial markets, including hedging such exposures. Buying futures tends to increase the University's exposure to the underlying instrument, while selling futures tends to decrease exposure to the underlying instrument. Upon entering into a futures contract, the University is required to deposit an amount of cash or securities with its prime broker in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded, and an appropriate payable or receivable for the change in fair value is recorded by the University. Gains and losses are realized when the contracts expire or are closed. During fiscal years 2015 and 2014, the University transacted approximately 23,500 and 32,600 futures trades with an average transaction size of approximately 170 and 60 contracts, respectively.

Counterparty credit exposure

Financial instruments with off-balance sheet risk involve counterparty credit exposure. The policy of the University is to require collateral to the maximum extent possible under normal trading practices. Collateral, generally in the form of debt obligations issued by the US Treasury, is exchanged on a daily basis as required by fluctuations in the market. In the event of counterparty default, the University has the right to use the collateral held to offset any losses ensuing from the default event. Specific credit limits are established for counterparties based on their individual credit ratings. Credit limits are monitored daily by the University and are adjusted according to policy, as necessary. Some of the financial instruments entered into by the University contain credit-risk-related contingency features that allow the parties to the agreement to demand immediate payment for outstanding contracts and/or collateral. If material credit-risk-related contingency features were triggered on June 30, 2015, $2.6 million in additional collateral would have been due to counterparties whereas at June 30, 2014, no additional collateral would have been due to counterparties for derivative contracts.

6. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of $12.8 million and $15.6 million as of June 30, 2015 and 2014, respectively, were as follows (in thousands of dollars):

	2015	2014
Federal sponsored support	**$ 62,831**	$ 85,075
Publications	**47,865**	50,172
Executive education	**28,163**	20,406
Tuition and fees	**21,119**	15,780
Non-federal sponsored support	**14,323**	15,397
Gift receipts	**19,458**	10,825
Other	**46,203**	48,827
TOTAL RECEIVABLES, NET	**$ 239,962**	**$ 246,482**

7. NOTES RECEIVABLE

Notes receivable are recorded initially at face value plus accrued interest, which approximates fair value. Notes receivable, and related allowance for doubtful accounts, were as follows (in thousands of dollars):

	2015			2014		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student Loans:						
Government revolving	$ 78,743	$ 2,165	**$ 76,578**	$ 77,645	$ 2,493	**$ 75,152**
Institutional	88,105	2,384	**85,721**	89,335	2,812	**86,523**
Federally insured	425		**425**	592		**592**
Total student loans	$ 167,273	$ 4,549	**$ 162,724**	$ 167,572	$ 5,305	**$ 162,267**
Faculty and staff loans	202,837	422	**202,415**	199,291	422	**198,869**
Other loans	18,204	5,506	**12,698**	20,043	4,703	**15,340**
TOTAL	**$ 388,314**	**$ 10,477**	**$ 377,837**	**$ 386,906**	**$ 10,430**	**$ 376,476**

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled $69.4 million and $68.9 million as of June 30, 2015 and 2014, respectively, and are classified as liabilities in the *Balance Sheets*. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

Faculty and staff notes receivable primarily consists of mortgage and educational loans. Mortgages include shared appreciation loans and loans that bear interest at the applicable federal rate. In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. The educational loans are primarily zero-interest loans.

The University assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and, where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the University reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The University considers the allowance at June 30, 2015 and 2014 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

8. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are initially recorded at fair value (pledge net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. The University's indicative 1- to 5-year taxable unsecured borrowing rate is used to discount pledges receivable upon receipt. Discounts of $95.0 million and $68.9 million for the years ended June 30, 2015 and 2014, respectively, were calculated using rates ranging from 1.1% to 1.8%.

Pledges receivable included in the financial statements as of June 30, 2015 and 2014 are expected to be realized as follows (in thousands of dollars):

	2015	2014
Within one year	**$ 327,074**	$ 257,380
Between one and five years	**1,308,295**	1,029,519
More than five years	**780,981**	439,344
Less: discount and allowance for uncollectible pledges	**(171,151)**	(135,485)
TOTAL PLEDGES RECEIVABLE, NET	**$ 2,245,199**	**$ 1,590,758**

Pledges receivable as of June 30, 2015 and 2014 have been designated for the following purposes (in thousands of dollars):

	2015	2014
General Operating Account balances:		
Gifts for current use	**$ 689,841**	$ 701,775
Non-federal sponsored awards	**108,272**	87,150
Loan funds and facilities	**280,358**	256,268
Total General Operating Account balances	**1,078,471**	1,045,193
Endowment	**1,166,728**	545,565
TOTAL PLEDGES RECEIVABLE, NET	**$ 2,245,199**	**$ 1,590,758**

Because of uncertainties with regard to realizability and valuation, bequest intentions and other conditional promises are only recognized as assets if and when the specified conditions are met. Non-bequest conditional pledges totaled $76.9 million and $71.1 million as of June 30, 2015 and 2014, respectively.

9. FIXED ASSETS

Fixed assets are reported at cost or, if a gift, at fair value as of the date of the gift, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The major categories of fixed assets as of June 30, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2015	2014	Estimated useful life (in years)
Research facilities	**$ 2,181,191**	$ 2,172,456	*
Classroom and office facilities	**1,734,276**	1,675,892	35
Housing facilities	**1,556,081**	1,368,653	35
Other facilities	**386,686**	383,751	35
Service facilities	**629,851**	611,533	35
Libraries	**465,673**	460,914	35
Museums and assembly facilities	**667,451**	604,588	35
Athletic facilities	**192,347**	174,776	35
Land	**671,582**	672,787	N/A
Construction in progress	**682,452**	665,750	N/A
Equipment	**1,160,853**	1,108,206	**
SUBTOTAL AT COST	**10,328,443**	9,899,306	
Less: accumulated depreciation	**(4,144,091)**	(3,912,701)	
FIXED ASSETS, NET	**$ 6,184,352**	**$ 5,986,605**	

* *Estimated useful lives of components range from 10 to 45 years.*
** *Estimated useful lives of equipment range from 3 to 8 years.*

Certain University facilities are subject to restrictions as to use, structural modifications, and ownership transfer. Included in the fixed asset balances are restricted facilities with a net book value of $226.4 million and $214.9 million as of June 30, 2015 and 2014, respectively.

The costs of research facilities are separated into the shell, roof, finishes, fixed equipment, and services. These components are separately depreciated.

Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University has asset retirement obligations of $86.6 million and $74.5 million, which are included in "Deposits and other liabilities" in the *Balance Sheets* as of June 30, 2015 and 2014, respectively.

10. ENDOWMENT AND GENERAL OPERATING ACCOUNT NET ASSETS

The University's endowment consists of approximately 13,000 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications and state law. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds historic dollar value. Unrestricted net assets were reduced by $1.1 million and $6.0 million for such losses in fiscal 2015 and 2014, respectively. Although funds functioning as endowment are not subject to donor restrictions, decisions to spend their principal require the approval of the Corporation. All but a small fraction of the endowment is invested in the GIA *(Note 3)*.

The University is also the beneficiary of certain irrevocable trusts held and administered by others. The estimated fair values of trust assets, which include the present values of expected future cash flows from outside trusts and the fair value of the underlying assets of perpetual trusts, are recognized as assets and increases in net assets when the required trust documentation is provided to the University. The fair values of these trusts are provided by the external trustees and are adjusted annually by the University. These are included as Level 3 investments in the fair value hierarchy table in *Note 4*.

The endowment consisted of the following as of June 30, 2015 and 2014 (in thousands of dollars):

	2015				2014
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	$ (1,122)	$ 20,877,551	$ 6,128,992	**$ 27,005,421**	$26,444,294
Funds functioning as endowment	6,184,461	2,937,338		**9,121,799**	9,112,424
Pledge balances		679,684	487,044	**1,166,728**	545,565
Interests in trusts held by others		9,599	311,998	**321,597**	326,973
TOTAL ENDOWMENT	**$ 6,183,339**	**$ 24,504,172**	**$ 6,928,034**	**$ 37,615,545**	**$36,429,256**

The University's endowment distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and generate a predictable stream of available income. Each fall, the Corporation approves the endowment distribution for the following fiscal year. The endowment distribution is based on presumptive guidance from a formula that is intended to provide budgetary stability by smoothing the impact of annual investment gains and losses. The formula's inputs reflect expectations about long-term returns and inflation rates. For fiscal 2015, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 4.6% of the fair value of the endowment invested in the GIA as of the beginning of the fiscal year. The total endowment distribution made available for operations was $1.6 billion and $1.5 billion in fiscal 2015 and 2014, respectively.

Each year the Corporation also approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that are typically one-time or time-limited. These decapitalizations totaled $192.9 million and $241.3 million in fiscal 2015 and 2014, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 5.1% and 5.6% in fiscal 2015 and 2014, respectively.

General Operating Account

The GOA consists of the general or current funds of the University as well as the assets and liabilities related to student and faculty loans and facilities. The GOA accepts, manages, and pays interest on deposits made by University departments; invests surplus working capital; makes loans; and arranges external financing for major capital projects. It is used to manage, control, and execute all University financial transactions, except for those related to investment activities conducted by HMC.

The GOA consisted of the following as of June 30, 2015 and 2014 (in thousands of dollars):

	2015				2014
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
General Operating Account	$ 4,039,787	$ 2,357,080	$ 97,585	**$ 6,494,452**	**$ 6,163,177**

The temporarily restricted net assets consist primarily of unexpended income, gifts, and pledges. The permanently restricted net assets are loan funds.

11. SPLIT INTEREST AGREEMENTS

Under split interest agreements, donors enter into trust arrangements with the University in which the University receives benefits that are shared with other beneficiaries and institutions. Split interest agreement (SIA) investment assets are invested primarily in the GIA and publicly traded securities, a small segment is managed by an external advisor, and all are recorded in the "Investment portfolio, at fair value" in the University's *Balance Sheets*. Additional disclosures are included in *Notes 3* and *4*. The publicly traded securities are included as Level 1 and externally managed investments are included in investments measured using the practical expedient in the fair value hierarchy table in *Note 4*. Associated liabilities are recorded at the present value of estimated future payments due to beneficiaries and other institutions. These liabilities were calculated using each gifts' IRS discount rate as specified in IRC 7520(a), ranging from 2.0% to 11.6% for gifts received prior to the adoption of ASC 820, and using the University's current taxable unsecured borrowing rate of 1.8% and 1.5% as of June 30, 2015 and 2014, respectively, for gifts received beginning in fiscal 2009.

The changes in split interest agreement net assets for fiscal 2015 and 2014 were as follows (in thousands of dollars):

	2015			2014
	Temporarily restricted	Permanently restricted	Total	Total
Investment return:				
Investment income	$ 3,989	$ 12,248	**$ 16,237**	$ 15,652
Change in realized and unrealized appreciation, net	4,274	13,125	**17,399**	137,088
Total investment return	8,263	25,373	**33,636**	152,740
Gifts for capital *(Note 16)* [1]	8,612	6,185	**14,797**	14,478
Payments to annuitants	(15,442)	(47,419)	**(62,861)**	(61,249)
Transfers to endowment	(1,644)	(23,076)	**(24,720)**	(32,784)
Transfers between SIA and the GOA	(20,817)	(74)	**(20,891)**	(17,122)
Change in liabilities and other adjustments	(23,924)	(76,288)	**(100,212)**	(6,290)
NET CHANGE DURING THE YEAR	**(44,952)**	**(115,299)**	**(160,251)**	**49,773**
Total split interest agreement net assets, beginning of year	**85,768**	**533,029**	**618,797**	569,024
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 40,816**	**$ 417,730**	**$ 458,546**	**$ 618,797**

[1] *Shown at net present value. The undiscounted value of these gifts was $39,478 and $33,817 for the years ended June 30, 2015 and 2014, respectively.*

Split interest agreement net assets as of June 30, 2015 and 2014 consisted of the following (in thousands of dollars):

	2015	2014
Split interest agreement investments *(Note 3)*		
Charitable remainder trusts	**$ 901,990**	$ 903,725
Charitable lead trusts	**118,751**	126,116
Charitable gift annuities	**227,770**	227,425
Pooled income funds	**120,119**	120,522
Total split interest agreement investments	**1,368,630**	1,377,788
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	**(780,566)**	(628,483)
Amounts due to other institutions	**(129,518)**	(130,508)
Total liabilities due under split interest agreements	**(910,084)**	(758,991)
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 458,546**	**$ 618,797**

12. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2015 and 2014 were as follows (in thousands of dollars):

	Fiscal year of issue	Years to final maturity[1]	One-year yield[2]	Outstanding principal 2015[3]	Outstanding principal 2014[4]
Tax-exempt bonds and notes payable:					
Variable-rate bonds and notes payable:					
Series R - daily	2000-2006	17	0.1%	**$ 131,200**	$ 131,200
Series Y - weekly	2000	20	0.1%	**117,905**	117,905
Commercial paper	2014	<1	0.1%	**289,350**	289,350
Total variable-rate bonds and notes payable			0.1%	**538,455**	538,455
Fixed-rate bonds:					
Series N	1992	5	6.3%	**79,513**	79,412
Series 2005A	2005	21	4.8%	**92,560**	92,723
Series 2005B	2006	17	4.8%	**103,759**	103,947
Series 2005C	2006	20	4.9%	**129,007**	129,161
Series 2008B	2008	23	4.9%	**215,036**	215,301
Series 2009A	2009	21	5.5%	**951,770**	982,403
Series 2010A	2010	19	4.6%	**495,019**	506,847
Series 2010B	2011	25	4.7%	**646,654**	650,409
Total fixed-rate bonds			5.0%	**2,713,318**	2,760,203
Total tax-exempt bonds and notes payable			**4.2%**	**3,251,773**	**3,298,658**
Taxable bonds and notes payable:					
Variable-rate bonds and notes payable:					
Commercial paper	2012	<1	0.2%	**158,915**	158,655
Total variable-rate bonds and notes payable			0.2%	**158,915**	158,655
Fixed-rate bonds:					
Series 2008A	2008	23	5.6%	**242,856**	242,850
Series 2008C	2008	3	5.3%	**125,205**	125,205
Series 2008D	2009	24	6.3%	**997,716**	997,418
Series 2010C	2011	25	4.9%	**298,306**	298,239
Series 2013A	2013	22	3.4%	**402,000**	402,000
Total fixed-rate bonds			5.4%	**2,066,083**	2,065,712
Total taxable bonds and notes payable			**5.0%**	**2,224,998**	**2,224,367**
Other notes payable	Various	Various	Various	**86,308**	96,165
TOTAL BONDS AND NOTES PAYABLE			**4.6%**	**$ 5,563,079**	**$ 5,619,190**

[1] *The weighted average maturity of the portfolio on June 30, 2015 was 15.6 years.*

[2] *Exclusive of interest rate exchange agreement. Inclusive of this agreement, the overall portfolio rate was 0.06% higher (4.64% vs. 4.58%).*

[3] *Series N, 2008A, 2008D, 2009A and 2010C principal amounts are net of $0.5 million, $0.1 million, $2.3 million, $18.2 million and $1.7 million of discounts, respectively. Series 2005A, 2005B, 2005C, 2008B, 2010A and 2010B principal amounts include premiums of $3.4 million, $3.2 million, $3.1 million, $6.2 million, $33.8 million and $45.6 million, respectively.*

[4] *Series N, 2008A, 2008D, 2009A and 2010C principal amounts are net of $0.6 million, $0.1 million, $2.6 million, $17.6 million and $1.8 million of discounts, respectively. Series 2005A, 2005B, 2005C, 2008B, 2010A and 2010B principal amounts include premiums of $3.6 million, $3.4 million, $3.2 million, $6.4 million, $36.9 million and $49.4 million, respectively.*

Interest expense related to bonds and notes payable was $249.2 million and $250.1 million for fiscal 2015 and 2014, respectively. The interest expense in the *Statement of Changes in Net Assets with General Operating Account Detail* includes additional components related to capital leases. Excluding maturity of commercial paper and unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2016	$ 38,601
2017	29,724
2018	29,716
2019	654,857
2020	122,059
Thereafter	4,167,381
TOTAL PRINCIPAL PAYMENTS	**$ 5,042,338**

In fiscal 2015, the University entered into a $1.0 billion unsecured, revolving credit facility with a syndicate of banks, which expires in January 2016, and a $1.0 billion unsecured, revolving credit facility with the same syndicate of banks, which expires in January 2020. There was no outstanding balance on either of these credit facilities at June 30, 2015.

The University is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings Services. Both ratings were re-affirmed in fiscal 2015.

As of June 30, 2015, the University had $249.1 million of variable-rate demand bonds outstanding (excluding commercial paper) with either a daily or weekly interest rate reset, as noted in the bonds and notes payable table on page 42. In the event that the University receives notice of any optional tender on its variable-rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered with cash on hand.

The estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was $6,278.3 million and $6,404.7 million as of June 30, 2015 and June 30, 2014, respectively.

The University determines the fair value of its existing fixed rate debt obligations based on trade data, broker/dealer quotes, and other observable market data. The carrying amounts of its variable rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the carrying amounts. The University considers this to be a Level 2 fair value measurement.

In July 2015, the University redeemed the full outstanding amount of $315.6 million of the Series 2005 bonds using cash on hand.

In August 2015, the University obtained reauthorization of its tax-exempt commercial paper program.

Interest rate exchange agreement

In fiscal 2015, the University had in place one interest rate exchange agreement, used to manage the interest cost and risk associated with a portion of its outstanding debt.

The fair value of the interest rate exchange agreement was $(17.0) million and $(8.0) million as of June 30, 2015 and 2014, respectively and is recorded in "Securities lending and other liabilities associated with the investment portfolio" on the University's *Balance Sheets*.

13. EMPLOYEE BENEFITS

The University offers current employees a choice of health plans, a dental plan, short-term and long-term disability plans, life insurance, tuition assistance, and a variety of other benefits such as subsidized passes for public transportation and for Harvard athletic facilities. In addition, the University has retirement plans covering substantially all employees.

The University uses a measurement date of June 30 for its pension and postretirement health plans.

Pension benefits

All eligible faculty members and staff are covered by retirement programs that include a defined benefit component, a defined contribution component, or a combination of the two.

In accordance with the Employee Retirement Income Security Act (ERISA) requirements, the University has established a trust to hold plan assets for its defined benefit pension plans. The fair value of the trust's assets was $814.4 million and $837.8 million as of June 30, 2015 and 2014, respectively. During fiscal years 2015 and 2014, the University made cash contributions to the defined benefit pension plan of $11.0 million and $6.0 million, respectively. The University recorded expenses for its defined contribution plans of $124.1 million and $120.2 million for fiscal 2015 and 2014, respectively.

Postretirement health benefits

The University provides postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2015, the University had internally designated and invested $550.9 million to fund the postretirement health benefit accrued liability of $809.5 million. As of June 30, 2014, the University had internally designated and invested $492.0 million to fund the postretirement health benefit accrued liability of $732.0 million.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Balance Sheets* as of June 30, 2015 and 2014 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2015	2014	2015	2014
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	**$ 943,176**	$ 838,893	**$ 731,957**	$ 673,966
Service cost	**10,577**	8,623	**35,494**	33,711
Interest cost	**41,842**	43,567	**34,840**	35,930
Plan participants' contributions			**3,165**	3,475
Plan change[1]				(15,537)
Gross benefits paid	**(45,305)**	(46,595)	**(20,708)**	(21,063)
Actuarial loss	**11,578**	52,816	**24,751**	21,475
Other adjustments		45,872		
PROJECTED BENEFIT OBLIGATION, end of year[2]	**961,868**	**943,176**	**809,499**	**731,957**
Change in plan assets:				
Fair value of plan assets, beginning of year	**837,772**	758,902		
Actual return on plan assets	**10,898**	119,465		
Employer contributions	**11,000**	6,000		
Gross benefits paid	**(45,305)**	(46,595)		
FAIR VALUE OF PLAN ASSETS, end of year	**814,365**	**837,772**	**0**	**0**
UNFUNDED STATUS	**$ (147,503)**	**$ (105,404)**	**$ (809,499)**	**$ (731,957)**

[1] *The postretirement plan change of $(15.5) million reflects plan changes, effective January 1, 2014, that increased cost-sharing and the length of service needed for the maximum subsidy.*

[2] *Measurement of the University's pension benefit obligation including assumed salary increases (required by GAAP).*

The accumulated pension benefit obligation (ABO) is a measurement of the University's pension benefit obligation, based on past and present compensation levels and does not include assumed salary increases. The ABO was $801.9 million and $774.2 million at June 30, 2015 and 2014, respectively. The funded status disclosed above has been prepared in accordance with pension accounting rules. When measured on an IRS funding basis, which informs the University's required cash contribution amount, the plan was overfunded at January 1, 2015.

Net periodic benefit cost

Components of net periodic benefit (income)/cost recognized in operating activity and other amounts recognized in non-operating activity in unrestricted net assets in the *Statements of Changes in Net Assets with General Operating Account Detail* are summarized as follows for the years ended June 30, 2015 and 2014 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	**$ 10,577**	$ 8,623	**$ 35,494**	$ 33,711
Interest cost	**41,842**	43,567	**34,840**	35,930
Expected return on plan assets	**(50,168)**	(47,046)		
Amortization of:				
Actuarial loss/(gain)	**2,964**	1,643	**(7,351)**	(9,822)
Prior service (credit)/cost	**364**	455	**(4,483)**	(3,179)
Other adjustments		45,872		
Total net periodic benefit cost recognized in operating activity	**5,579**	**53,114**	**58,500**	**56,640**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial loss/(gain)	**50,848**	(19,603)	**24,751**	21,475
Current year net prior service credit				(15,537)
Amortization of:				
Prior service (cost)/credit	**(364)**	(455)	**4,483**	3,179
Actuarial (loss)/gain	**(2,964)**	(1,643)	**7,351**	9,822
Total other amounts recognized in non-operating activity[1]	**47,520**	**(21,701)**	**36,585**	**18,939**
Total recognized in *Statements of Changes in Net Assets with General Operating Account Detail*	**$ 53,099**	**$ 31,413**	**$ 95,085**	**$ 75,579**

[1] *These amounts totaling $84.1 million in fiscal 2015 and ($2.8) million in fiscal 2014 include gains and losses and other changes in the actuarially determined benefit obligations arising in the current period but that have not yet been reflected within net periodic benefit (income)/cost and are included in the "Change in Retirement Obligations" line in the* Statements of Changes in Net Assets with General Operating Account Detail.

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized as follows for the years ended June 30, 2015 and 2014 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2015	2014	2015	2014
Net actuarial loss/(gain)	**$ 70,788**	$ 22,904	**$ (146,083)**	$ (178,185)
Prior service cost/(credit)	**2,331**	2,695	**(40,225)**	(44,708)
Cumulative amounts recognized in unrestricted net assets	**$ 73,119**	**$ 25,599**	**$ (186,308)**	**$ (222,893)**

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2016 are $3.7 million and $0.3 million, respectively. The estimated net actuarial gain and estimated prior service credit for the postretirement health benefit that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2016 are ($4.6) million and ($4.5) million, respectively.

In fiscal year 2015, the University updated its mortality assumption to determine the June 30, 2015, year end obligation for the pension and postretirement health plans. Other assumptions and health care cost trend rates used in determining the year end obligation as well as the net periodic benefit (income)/cost of the pension and postretirement health plans are summarized as follows for fiscal 2015 and 2014:

	Pension benefits		Postretirement health benefits	
	2015	2014	2015	2014
Weighted-average assumptions used to determine benefit obligation as of June 30:				
Discount rate	**4.65%**	4.50%	**4.75%**	4.60%
Compensation increase trend:				
Initial rate	**3.00%**	3.00%	**3.00%**	3.00%
Ultimate rate	**4.00%**	4.00%	**4.00%**	4.00%
Years to ultimate rate	**1**	2	**1**	2
Health care cost trend rate:				
Initial rate	**N/A**	N/A	**6.50%**	7.00%
Ultimate rate	**N/A**	N/A	**4.75%**	4.75%
Years to ultimate rate	**N/A**	N/A	**8**	9
Weighted-average assumptions used to determine net periodic benefit (income)/cost:				
Discount rate	**4.50%**	4.95%	**4.60%**	5.15%
Expected long-term rate of return on plan assets	**7.00%**	7.00%	**N/A**	N/A
Compensation increase trend:				
Initial rate	**3.00%**	3.00%	**3.00%**	3.00%
Ultimate rate	**4.00%**	4.00%	**4.00%**	4.00%
Years to ultimate rate	**1**	2	**1**	2
Health care cost trend rate:				
Initial rate	**N/A**	N/A	**7.00%**	7.00%
Ultimate rate	**N/A**	N/A	**4.75%**	4.75%
Years to ultimate rate	**N/A**	N/A	**9**	10

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would affect 2015 as shown in the following table (in thousands of dollars):

	1% point increase	1% point decrease
Effect on 2015 postretirement health benefits service and interest cost	$ 17,086	$ (12,900)
Effect on postretirement health benefits obligation as of June 30, 2015	161,650	(125,792)

The expected return on pension plan assets is determined by utilizing HMC's capital markets model, which takes into account the expected real return, before inflation, for each of the pension portfolio's asset classes, as well as the correlation of any one asset class to every other asset class. This model calculates the real returns and correlations and derives an expected real return for the entire portfolio, given the percentage weighting allocated to each asset class. After calculating the expected real return, an assessment is made to accommodate the expected inflation rate for the forthcoming period. The final expected return on assets is the aggregate of the expected real return plus the expected inflation rate.

Plan assets

The actual asset allocation of the investment portfolio for the pension plan at June 30, 2015 and 2014, along with target allocations for June 30, 2016, is as follows:

	2016 Target	June 30, 2015	June 30, 2014
Asset allocation by category for pension plan:			
Equity securities	30 - 50%	31.5%	33.7%
Fixed income securities	30 - 50	45.1	45.2
Real estate	0 - 10	2.6	3.5
Absolute return	10 - 30	16.5	16.1
Cash	0 - 10	4.3	1.5
TOTAL OF ASSET ALLOCATION CATEGORIES		**100.0%**	**100.0%**

The University's investment strategy for the pension portfolio is to manage the assets across a broad and diversified range of investment categories, both domestic and international. The objective is to achieve a risk-adjusted return that is in line with the long-term obligations that the University has to the pension plan beneficiaries. During fiscal year 2015, the University maintained its allocation to fixed income securities to manage the interest rate volatility associated with its pension obligations. The University expects to continue this strategy in future years. The investment program is also managed to comply with all ERISA regulations.

The following is a summary of the levels within the fair value hierarchy for the pension plan assets subject to fair value measurement as of June 30, 2015 and 2014 (in thousands of dollars):

	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
PLAN ASSETS:								
Cash and short-term investments	$ 44,577			**$ 44,577**	$ 21,650			**$ 21,650**
Domestic common and convertible equity	207			**207**	4,957			**4,957**
Domestic fixed income	39,706	$ 240,170		**279,876**	51,787	$ 234,500		**286,287**
Foreign fixed income		21,047		**21,047**		23,074		**23,074**
Due (to)/from broker	(1,072)	(259)		**(1,331)**	2	(3,069)		**(3,067)**
Emerging market equity and debt	51,852	11,165	$ 925	**63,942**	53,155	7,502		**60,657**
Foreign common and convertible equity	86,335			**86,335**	99,537			**99,537**
PLAN ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 221,605**	**$ 272,123**	**$ 925**	**494,653**	**$ 231,088**	**$ 262,007**	**$ 0**	**493,095**
Investments measured using the practical expedient				**313,219**				**326,919**
Other assets not subject to fair value				**6,493**				**17,758**
TOTAL PLAN ASSETS				**$ 814,365**				**$ 837,772**

The following is a rollforward of Level 3 investments for the year ended June 30, 2015 (in thousands of dollars):

	Beginning balance as of July 1, 2014	Net realized gains/ (losses)	Net change in unrealized gains/(losses)	Purchases/ contributions	Sales/ distributions	Transfers into Level 3	Transfers out of Level 3	Ending balance as of June 30, 2015
PLAN ASSETS:								
Emerging market equity and debt				$ 925				**$ 925**
TOTAL PLAN ASSETS	**$ 0**	**$ 0**	**$ 0**	**$ 925**	**$ 0**	**$ 0**	**$ 0**	**$ 925**

During 2015, the University elected to early adopt ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* (or Its Equivalent). See *Note 2*.

Expected future benefit payments

Employer contributions of $8.7 million are expected for fiscal 2016 to fund the pension benefit plan.

The following table summarizes expected benefit payments and subsidies for pension and other postretirement benefits for the University (in thousands of dollars):

	Expected benefit payments	
Fiscal year	Pension	Postretirement health
2016	$ 49,369	$ 20,600
2017	49,434	22,710
2018	52,233	24,631
2019	54,806	26,678
2020	57,195	28,856
Thereafter	317,228	181,947

14. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2015 and 2014 is summarized as follows (in thousands of dollars):

	2015	2014
Scholarships and other student awards:		
Scholarships applied to student income	**$ 384,208**	$ 372,905
Scholarships and other student awards paid directly to students	**135,693**	129,743
Total scholarships and other student awards	**519,901**	**502,648**
Student employment	**70,322**	68,342
Student loans	**26,527**	24,530
Agency financial aid[1]	**18,550**	20,295
TOTAL STUDENT FINANCIAL AID	**$ 635,300**	**$ 615,815**

[1] *Represents aid from sponsors for which the University acts as an agent for the recipient.*

15. SPONSORED SUPPORT

Total expenditures funded by US government sponsors or by institutions that subcontract federally sponsored projects to the University were $578.0 million and $592.2 million in fiscal 2015 and 2014, respectively. The University's principal source of federal sponsored funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored awards and grants, including corporations, foundations, state and local governments, foreign governments, and research institutes.

Sponsored grants and contracts normally provide for the recovery of direct and indirect costs. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. Predetermined federal indirect cost rates have been established for the University Area and the Medical School (including the School of Dental Medicine) through fiscal year 2019. The T.H. Chan School of Public Health has had provisional indirect cost rates since the beginning of fiscal year 2014. Funds received for federally sponsored activity are subject to audit.

16. GIFTS

Gifts that are available for current purposes are classified as either "Gifts for current use" or "Non-federal sponsored grants," as appropriate. Gifts that have been restricted by the donor or designated by the Corporation for facilities, loan funds, endowment, or similar purposes are classified as "Gifts for capital." Gifts for current use, non-federal sponsored grants, and gifts for capital are classified as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications.

Gifts received for the years ended June 30, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2015			2014
	Gifts received	Donor redesignations/ other changes	Total	Total
Gifts for current use	$ 418,875	$ 16,774	**$ 435,649**	$ 419,171
Non-federal sponsored grants	123,492	(1,746)	**121,746**	115,873
Gifts for capital:				
Endowment funds*	360,986	(22,499)	**338,487**	512,853
Split interest agreements**	14,797		**14,797**	14,478
Loan funds and facilities	128,565	5,568	**134,133**	92,040
Total gifts for capital	**504,348**	**(16,931)**	**487,417**	619,371
TOTAL GIFTS	**$ 1,046,715**	**$ (1,903)**	**$ 1,044,812**	**$ 1,154,415**

* *Gift receipts include non-cash gifts of $0.8 million and $142.9 million for the years ended June 30, 2015 and 2014, respectively.*

** *Shown at net present value. The undiscounted value of these gifts was $39,478 and $33,817 for the years ended June 30, 2015 and 2014, respectively.*

17. OTHER INCOME

The major components of other income for the years ended June 30, 2015 and 2014 were as follows (in thousands of dollars):

	2015	2014
Rental and parking[1]	**$ 143,930**	$ 137,520
Publication and royalties from copyrights	**208,374**	206,517
Services income	**105,599**	94,000
Health and clinic fees	**45,722**	42,672
Sales income	**38,806**	44,059
Interest income	**9,724**	9,517
Other student income	**5,865**	5,669
Other	**60,980**	59,834
TOTAL OTHER INCOME	**$ 619,000**	**$ 599,788**

[1] *The University is the lessor of space and facilities under operating leases, the income from which is included in rental and parking.*

18. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2015 and 2014 were as follows (in thousands of dollars):

	2015	2014
Subcontract expenses under sponsored projects	**$ 142,852**	$ 151,425
Travel	**90,644**	87,908
Publishing	**45,913**	48,017
Taxes and Fees	**30,583**	30,405
Advertising	**26,485**	24,920
Postage	**19,884**	20,776
Insurance	**16,471**	14,010
Telephone	**13,618**	13,042
Other	**69,344**	104,884
TOTAL OTHER EXPENSES	**$ 455,794**	**$ 495,387**

19. FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

Operating expenses are allocated functionally on a direct basis. Interest, depreciation, and operations and maintenance expenses are allocated based on square footage.

Operating expenses by functional classification for the years ended June 30, 2015 and 2014 were as follows (in thousands of dollars):

	2015	2014
Instruction	**$ 1,193,258**	$ 1,158,404
Research	**875,900**	786,353
Institutional support	**735,606**	720,062
Academic support	**541,309**	607,600
Auxiliary services	**547,275**	534,981
Libraries	**239,255**	238,024
Student services	**194,793**	190,733
Scholarships and other student awards	**135,693**	129,743
TOTAL EXPENSES	**$ 4,463,089**	**$ 4,365,900**

20. COMMITMENTS AND CONTINGENCIES

Lease commitments

The University is the lessee of equipment and space under operating (rental) and capital leases. Rent expense related to leases was $61.7 million and $61.1 million in fiscal 2015 and 2014, respectively.

Future minimum payments under these operating and capital leases are as follows (in thousands of dollars):

	Operating	Capital
2016	$ 65,061	$ 9,541
2017	56,596	9,730
2018	48,588	9,735
2019	40,581	13,800
2020	32,226	8,888
Thereafter	195,979	155,186
TOTAL FUTURE MINIMUM PAYMENTS	**$ 439,031**	**$ 206,880**

Fixed asset-related commitments

The University has various commitments for capital projects involving construction and renovation of certain facilities, real estate acquisitions, and equipment purchases, for which the outstanding commitments as of June 30, 2015 totaled approximately $232.8 million.

Environmental remediation

The University is subject to laws and regulations concerning environmental remediation and has established reserves for potential obligations that management considers to be probable and for which reasonable estimates can be made. These estimates may change substantially depending on new information regarding the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future environmental remediation have been discounted to their net present value. Management is not aware of any existing conditions that it believes are likely to have a material adverse effect on the University's financial position, changes in net assets, or cash flows.

Utilities purchase commitments

The University has entered into Power Purchase Agreements (PPAs) with a series of utilities providers to purchase natural gas and electricity for various quantities and time periods. As of June 30, 2015, future obligations under the PPAs are as follows (in thousands of dollars):

2016	$ 29,233
2017	15,515
2018	9,378
2019	7,290
2020	4,820
Thereafter	19,813
TOTAL UTILITY FUTURE PURCHASE OBLIGATIONS	**$ 86,049**

General

The University is a defendant in various legal actions arising from the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, management believes that the outcome of these proceedings will not have a material adverse effect on the University's financial position, changes in net assets, or cash flows.

The University has evaluated subsequent events through October 29, 2015, the date the financial statements were issued. The University has concluded that no material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.