FINANCIAL REPORT

FISCAL YEAR 2015

HARVARD
UNIVERSITY

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Message from the President

I write to report on Harvard University's financial results for fiscal 2015.

The past year provides many reasons for optimism about Harvard's future. Despite continued pressure on sources of revenue, including further declines in federally sponsored research dollars and volatility in the financial markets, we once again achieved a balanced budget. We also maintained, as we did during and after the global financial crisis, our commitment to affordability, awarding $520 million in financial aid to students across the University.

While Harvard and all of higher education will continue to confront financial challenges for the foreseeable future, prudent stewardship is enabling us to advance our academic aspirations, many of which will be funded through The Harvard Campaign. Launched publicly only two years ago, the campaign already has made significant progress toward its ambitious goals.

Every gift is important, and I regret that I cannot appropriately recognize here all the extraordinary support we have received from members of the Harvard community around the globe. But a small number of examples may help to illustrate the breadth and depth of the Campaign's impact—and the potential of philanthropy to catalyze progress, today and for generations to come. From engineering to arts, from public health to public service, The Harvard Campaign is making a difference.

The Morningside Foundation's donation of $350 million in memory of T.H. Chan to name the School of Public Health will support faculty and student efforts to develop substantive solutions to health challenges from genes to the globe. These new funds will enable students and faculty to address the increasingly interconnected health issues facing populations worldwide.

The unprecedented gift of $400 million by John A. Paulson to name the School of Engineering and Applied Sciences has—combined with the generous contributions of Steve Ballmer and others—transformed previously unfunded aspirations into unparalleled opportunity. Since the School was established in 2007, researchers and students have achieved critical breakthroughs in areas ranging from climate change science to delivery devices for cancer-fighting drugs and robotics technology that may one day help people with motor impairments. This type of deeply meaningful research will benefit the world in innumerable ways. The Harvard Paulson School's potential for leadership in research and teaching is boundless.

Maryellie Kulukundis Johnson and Rupert H. Johnson Jr. provided a wonderful gift of $12.5 million to bolster the future of the arts at Harvard by creating more chances for students and faculty to explore their creative interests and by funding the transformation of the Radcliffe Institute's gallery in Byerly Hall into an arts laboratory. With this support, and that of so many of our alumni and friends, the arts will continue to increase in vitality and to become more central to what it means to be part of the Harvard community.

Since its founding, Harvard has existed to serve society. A $15 million gift from Eric and Stacey Mindich will fuel that mission by enabling more undergraduates—up to 75 each year—to explore public service opportunities. It will also further infuse public service into the curriculum by supporting the creation of 14 courses that include a public service component, building on those that already exist throughout the College.

These gifts represent only a small percentage of the many that are helping to generate learning, discovery, and transformation. Overall, the Harvard Campaign is enabling the University to attract and support the most talented faculty and students, as well as the most innovative research and teaching. For instance, thanks to alumni and friends who recognize the importance of our mission, the Campaign has raised $686 million for financial aid across all the Schools, while garnering funding to support 75 faculty chairs.

Although we focus intently during a capital campaign on endowment gifts, current-use gifts are also vital to our mission. Last year, we received a total of $436 million in current-use gifts to support priorities including financial aid, faculty support, and capital planning. Gifts of $10,000 and below totaled nearly $50 million, roughly the equivalent of the distribution of a $1 billion endowment fund. While current-use giving helps us to meet our immediate needs, the thousands of individual gifts that make up the endowment will support Harvard in perpetuity.

In 1638, John Harvard gifted to a small college in Cambridge his library of 400 books and half his estate. As it has been carefully stewarded and added to by successive generations, John Harvard's legacy has improved the world in countless ways. We have a responsibility to both the past and future to guarantee that it continues to grow, not only to maintain its real value over time, but to match our ever expanding ambitions as a community of scholars.

As we have for nearly four centuries, we will achieve this through astute and prudent financial management, using the proceeds of our investments to support our faculty and students while reinvesting in the endowment to ensure that it is there forever to underpin Harvard's pedagogical and research priorities.

It is with thanks to our community of alumni donors, our faculty and students, and the administrators who support their efforts, that I present the financial report for fiscal year 2015.

Sincerely,

Drew Gilpin Faust
PRESIDENT

October 29, 2015

Financial Overview

From the Vice President for Finance and the Treasurer

We write to report on the University's financial position and results for the fiscal year ended June 30, 2015. The University's operating surplus of $62 million is slightly more than 1% of University revenue, compared to last year's $22 million, and again an approximate break even result. The University's net assets increased by $1.4 billion, reflecting the strength of the University's ongoing capital Campaign and net growth in the market value of the endowment. Taken together, the results of this past fiscal year follow a recent trend of modest, but continued improvement in the University's overall financial health.

The progress we have achieved to date provides a strong foundation for the University to pursue its aspirations for the future. Harvard is committed to making critical investments in its academic program – expanded faculty; funding to support vital research; and new and modernized spaces that support research, teaching, and learning – that will help ensure the University's unparalleled excellence over the course of the next generation. Our donor community's contributions remain at the core of what enables us to drive our mission, and for that we are extremely grateful.

While the University is well positioned to invest in the future, it is with an acknowledgement of ongoing financial pressures, both in the world of higher education and at Harvard. Federal research funding has flattened, tuition growth is constrained by structural affordability issues, and capital market returns are uncertain and volatile. At the same time, a cost structure that is largely fixed makes quick changes difficult to effect. The University's commitment to financial aid, which is invaluable in making a Harvard education accessible at all income levels, and its deep commitment to research, with world-altering successes, also puts significant and continuing pressure on annual budgets. In recent years, Harvard has taken important steps to manage these pressures, by enhancing financial and capital planning, exploring alternative revenue sources, and establishing new financial practices and policies.

This kind of prudent financial management has enabled the University to begin investing now in several strategic priorities that will pay dividends in the future:

CAMPUS EXPANSION AND RENEWAL

After years of academic and logistical planning, Harvard's future in Allston has come into sharper focus in 2015. Over the course of the year, faculty have deeply engaged in the academic planning process with the aim of producing a prudently designed yet incomparably impactful and exciting new Science and Engineering Complex.

In Cambridge, the Faculty of Arts and Sciences is undertaking a multiyear effort to renew the undergraduate residential campus to meet the needs of the 21st-century student. Following completion of work to Stone Hall in 2013 and McKinlock Hall last year, Dunster House officially welcomed students back this fall, and pre-construction work began on Winthrop House. These famous buildings are now a magnificent mixture of old and new and designed to invigorate student life as well as student achievement.

NONTRADITIONAL SOURCES OF EDUCATION

Harvard is committed to an evolving learning strategy – including collaborations such as edX, University-wide efforts such as HarvardX and school-based activities like HBX, executive education programs, and the Division of Continuing Education. Novel pedagogical formats are attracting new types of students, such as pre-college students seeking a leg up; international and lifelong learners attracted by low or no residency requirements; and professionals and alumni looking to build career skills, expertise, or find an intellectual community. Moreover, our faculty have been eager to innovate and meet the changing interests of our residential students, through active and adaptive learning techniques and the introduction of new digital tools. Nurturing and furthering the University's longstanding tradition as a pioneer in

HIGHER EDUCATION REVENUE PRESSURES

In the wake of the global financial crisis and its aftermath, higher education in America has entered a new era in which primary and traditional sources of operating revenue are expected to grow modestly at best each year. Harvard is no exception. While the University is generating modest surpluses, we recognize and understand that pressure on traditional revenue streams are a new normal that we must account for as we plan our operations and financial management moving forward.

- Federal sponsored dollars remain under intense scrutiny, and with the expiration of the American Recovery and Reinvestment Act (ARRA), which offered short-term relief from spending cuts affecting government-funded research, federal spending, along with the overhead it helps support, has decreased in recent years. On aggregate, our revenue from federal and non-federal sponsored sources increased by 1%, but federal funding – which accounted for approximately 72% of the total sponsored revenue – actually declined by 2%.
- The financial markets that drive the growth of our endowment continue to be volatile. While the University's endowment payout approach ensures that the impact of the investment results are smoothed into the operating budget over time, we continue to be mindful of the impact of building additional structural costs onto a volatile revenue source.
- Given our commitment to providing access to affordable higher education for all qualified candidates, the rate of revenue growth we previously derived from tuition has largely plateaued. In the midst of a growing debate about the levels of student loan debt, and as other colleges curtailed spending after 2008, Harvard has maintained its industry leading commitment to student support ($520 million in fiscal year 2015).

pedagogy requires significant investment, and will be fundamental to our continuing success as a leader in higher education in the coming decades.

ENERGY AND ENVIRONMENT RESEARCH AND PRACTICE

The University's Climate Change Solutions Fund supports research initiatives intended to hasten the transition from carbon-based energy systems to those that rely on renewable energy sources, and to propel innovations needed to accelerate progress toward cleaner energy and a greener world. Broad efforts to raise funds for energy and environment research across the campus have already generated nearly $120 million in committed support through the Harvard Campaign.

A key priority of Harvard's University-wide sustainability plan is an aggressive short-term, science-based goal to reduce greenhouse gas emissions 30% by fiscal year 2016, including growth. Harvard has upgraded the efficiency of its central utilities, including expanding combined heat and power systems, and implemented campus-wide energy audits and conservation measures. As a result, absolute emissions have been reduced by 21% and energy by 2% from fiscal 2006 to fiscal 2014, even after accounting for an 11% increase in growth (excluding growth, greenhouse gas emissions were reduced 32% and energy was reduced 17%).

While new and innovative investments chart Harvard's future, the University remains steadfastly committed to the key elements supporting our teaching and research – our faculty and students. Attracting and supporting the most talented students and faculty, while providing them with the resources to do their best work, is a key priority of the ongoing Campaign. Increased faculty support, both through the establishment of new endowed professorships and funds supporting teaching and research, allows the University to retain and attract teachers and researchers at the tops of their fields. Similarly, the

THE HARVARD CAMPAIGN

In the second year since its formal launch in 2013, the Harvard Campaign continues to attract historic levels of support from our alumni community. Their generosity is evident in $1 billion in current use, construction, and endowment gift receipts reported in fiscal year 2015.

The two largest endowment gifts in Harvard's history, both pledged in fiscal year 2015, will have significant future influence both on Harvard and the world.

- A $350 million pledge from the Morningside Foundation, in the memory of the late T.H. Chan, will enable the Harvard T.H. Chan School of Public Health to support research on four global health threats: pandemics old and new, such as malaria, Ebola, cancer, and obesity; harmful physical and social environments such as those resulting from tobacco use, gun violence, and pollution; poverty and humanitarian crises such as those stemming from war and natural disasters; and failing health care systems around the world.
- John A. Paulson's pledge of $400 million to the Harvard John A. Paulson School of Engineering and Applied Sciences will put the School on a firm financial footing, ensuring that Harvard faculty and students in these fields have the promise and the opportunity to tackle some of the most difficult problems facing humanity, from helping cure cancer to developing substantive solutions to climate change.

In the coming decades and centuries, funds from these two gifts will be invested alongside the approximately 13,000 other individual funds that make up the University endowment. We expect the returns from these investments along with those from our other generous donors to provide critical revenues for the University's faculty, students, and staff, so that they can achieve their academic goals and aspirations.

University's leading edge financial aid program, particularly at Harvard College, demonstrates a commitment to making a Harvard education accessible at all levels of income. In fiscal year 2015, in addition to maintaining total undergraduate aid at the record high mark of $170 million, the Faculty of Arts and Sciences (FAS) introduced several investments in resources and programs developed in collaboration with current students, as well as new efforts to attract economically diverse students. These included: providing Spring Break meals on campus, programming for First Generation college students, and unveiling "The Harvard College Connection," which involves current College students in recruiting prospective students.

With a combination of constrained resources and high aspirations, new and ongoing University investments will require trade-offs and judicious cost management. To that end, we will continue to explore opportunities to both enhance University revenue streams and manage expenses. We will continue to plan carefully for today and tomorrow, prioritize, make choices, and steward our financial resources with great care so that we can build on our historic and continuing excellence in research, teaching, and learning. We are confident in the future health and vigor of the University, and grateful for the support of our community.

We hope this introduction provides you with a helpful context for evaluating the University's financial report.

Thomas J. Hollister
VICE PRESIDENT FOR FINANCE

Paul J. Finnegan
TREASURER

October 29, 2015

FINANCIAL OVERVIEW

The University ended fiscal 2015 with an operating surplus of $62 million, compared to $22 million in fiscal 2014. The University's net assets increased by $1.4 billion to $44.6 billion at June 30, 2015, mainly due to an increase in giving and positive investment returns on the endowment.

OPERATING REVENUE

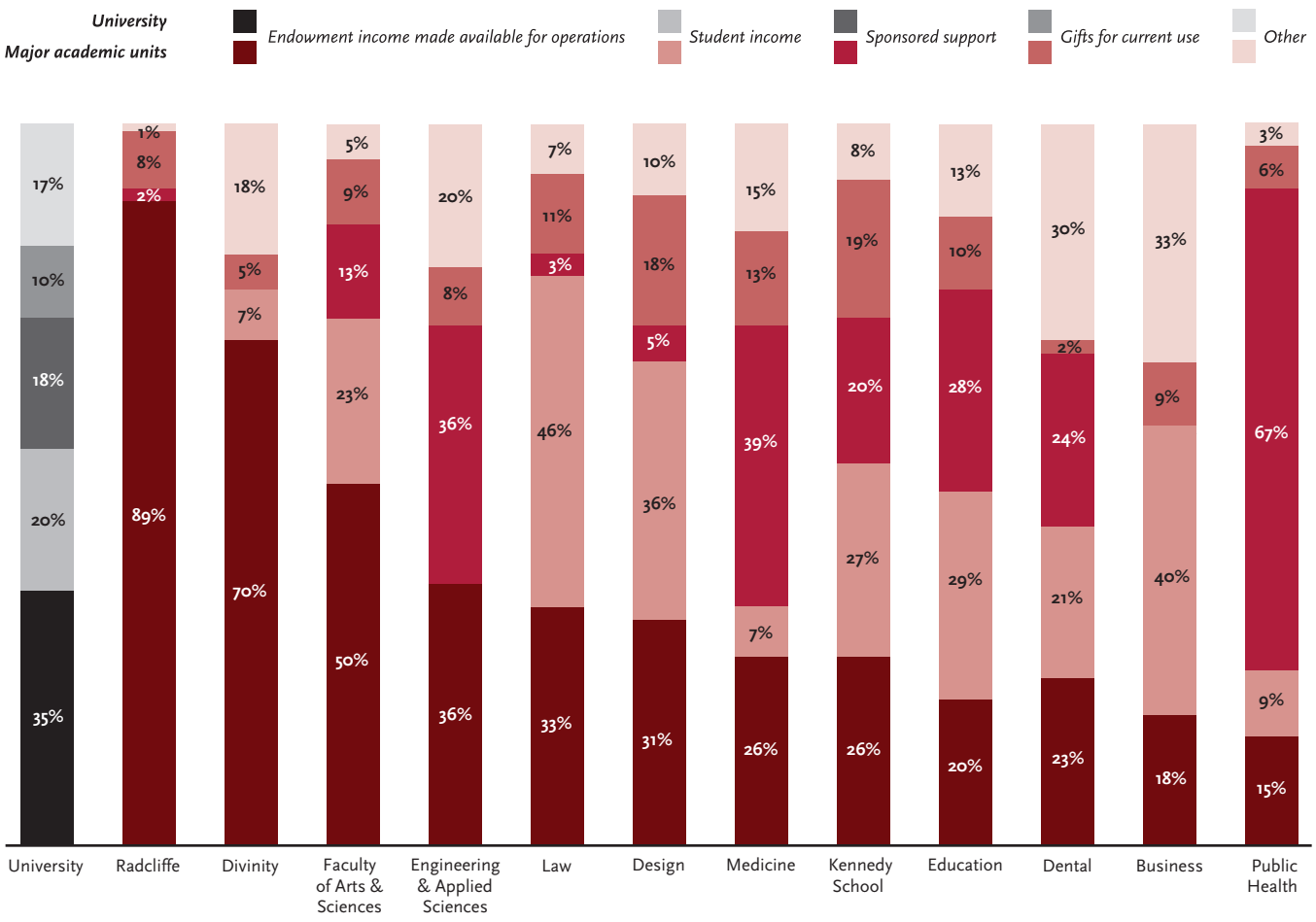
Total operating revenue increased 3% to $4.5 billion. The largest drivers were the annual endowment distribution as well as increased revenue from continuing and executive education programs, the result of a continued focus on revenue diversification and online learning initiatives.

In fiscal 2015, the endowment distribution increased 4% to $1.6 billion. Growth in the endowment distribution was a result of the annual Corporation-approved increase, as well as the impact of new gifts.

In the aggregate, Harvard's endowment payout rate (i.e., the dollars withdrawn annually for operations and for one-time or time-limited strategic purposes, as a percentage of the endowment's prior year-end market value) was 5.1% compared to the University's targeted payout rate range of 5.0-5.5% and the 5.6% payout rate in fiscal 2014.

The ongoing success of The Harvard Campaign continues to positively impact the University's contribution revenue, and we are extremely grateful for the generosity of our donor community. Total cash receipts from giving, including gifts designated as endowment, were $1.0 billion, with current use gifts increasing by 4% to $436 million in fiscal 2015 (see *Note 16* of the audited financial statements). In addition, pledge receivables increased $654 million resulting from The Harvard Campaign.

FISCAL 2015 SOURCES OF OPERATING REVENUE



Revenue from federal and non-federal sponsored sources, in aggregate, increased by 1% to $806 million in fiscal 2015. Federal funding, which accounted for approximately 72% of the total sponsored revenue in fiscal 2015, declined 2% to $578 million while non-federal funding increased 10% to $228 million. Declines in federal sponsored revenue were due to lower National Institutes of Health (NIH) funding and the anticipated decline in revenue from the American Recovery and Reinvestment Act. The 10% increase in revenue from non-federal funding sources offset the decline, and was attributable most notably to foundation and foreign sponsors.

Net student revenue increased approximately 6% to $930 million in fiscal 2015, driven principally by 7% growth in net revenue from continuing and executive education programs. Increased capacity at the Harvard Business School, the expansion of programs at the Division of Continuing Education and the diverse collection of online course offerings across the University continue to positively impact student revenue. Net revenue from undergraduate and graduate students grew 5% due to modest tuition increases partly offset by a continued commitment to financial aid.

OPERATING EXPENSES

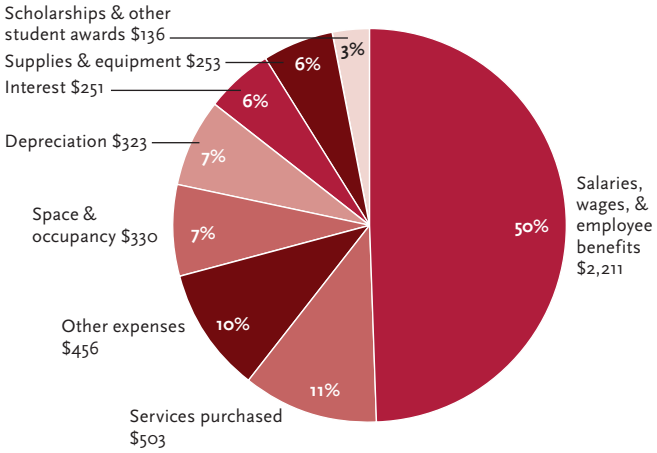
Total operating expenses increased by 4% to $4.5 billion, after removing the impact of one-time asset write offs and benefits charges. Compensation expense (i.e. salaries, wages and benefits), which represents approximately half of the University's total operating expense, increased 5% to $2.2 billion, after removing the impact of a fiscal year 2014 one-time benefits-related charge.

Salaries and wages increased by 5%, or $85 million, to $1.7 billion in fiscal 2015 due to increases in strategic areas of focus such as online learning, technology investments, and continuing and executive education programs, as well as the University's merit increase programs.

Employee benefits expense of $500 million increased 4% after removing the impact of the fiscal year 2014 one-time benefits-related charge. The increase was predominantly driven by growth in active employee health plan expense of 6%, resulting from increased total enrollment, general health care inflation, and an overall increase in cost of claims. In order to moderate health cost increases, the University made changes to its active, non-union employee health benefits offering, which were effective January 1, 2015.

FISCAL 2015 OPERATING EXPENSES

In millions of dollars



TOTAL OPERATING EXPENSES $4,463

BALANCE SHEET

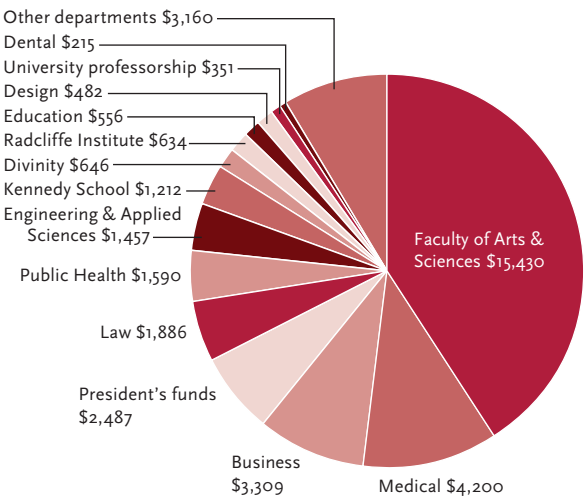
Investments

In fiscal 2015, the endowment earned an investment return of 5.8% and its value (after the net impact of distributions from the endowment for operations and the addition of new gifts to the endowment during the year) increased from $36.4 billion at the end of fiscal 2014 to $37.6 billion at the end of fiscal 2015. More information can be found in the Message from the CEO of Harvard Management Company (HMC), found on page 9 of this report.

The University's holdings of liquid investments (e.g., cash and treasuries) outside of the General Investment Account (GIA) decreased from $2.1 billion at June 30, 2014 to $1.6 billion at June 30, 2015. The University has a policy of maintaining a cash reserve floor of $1.2 billion outside the GIA.

MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2015

In millions of dollars



TOTAL MARKET VALUE $37,615

Debt

Outstanding debt remained flat at $5.6 billion at June 30, 2015, as compared to June 30, 2014. The University issued no new debt issuance over the past fiscal year, and is currently limiting the use of new debt in order to allow for future flexibility in the financing of major initiatives. In July 2015, the University paid down $316 million of callable debt (bond series 2005A, B and C), reducing outstanding debt to $5.3 billion, down from a high of $6.3 billion in 2011.

The University is rated AAA by Standard & Poor's Ratings Services and Aaa by Moody's Investors Service (both re-affirmed in fiscal 2015). Additional detail regarding the University's debt portfolio can be found in *Note 12* of the audited financial statements.

Accrued Retirement Obligations

The University's accrued retirement obligations increased by $120 million or 14% to $957 million at June 30, 2015. The drivers of the increase were expected overall growth in plan costs and the adoption of a modified mortality table recently issued by the Society of Actuaries, slightly offset by a reduction in interest rates in both obligations.

Capital Expenditures

The University invested $467 million in capital projects and acquisitions during fiscal 2015, which is consistent with fiscal 2014. This enabled progress on several significant projects including:

- The undergraduate long-term house renewal initiative with the substantial completion of the Dunster House project, the onset of the renovation to Winthrop House, and completion of the Inn at Harvard, which will be used as swing space;
- The completion of Esteves Hall and ongoing construction of the Ruth Mulan Chu Chao Center to support the Business School's portfolio of executive education programs;
- Progress on the installation of a combined heat and power plant which will reduce the University's greenhouse gas footprint and increase capacity to generate electric power;
- Enabling and planning for the new science complex in Allston; and
- Planning for the Smith Campus Center to support the University's goal of creating new and programmable common space for the entire community.

This concludes the summary of the key financial highlights for fiscal 2015. We encourage you to read the audited financial statements and related notes for more information regarding the financial position and results of the University.

HARVARD MANAGEMENT COMPANY, INC.

A Letter from Stephen Blyth PhD '92

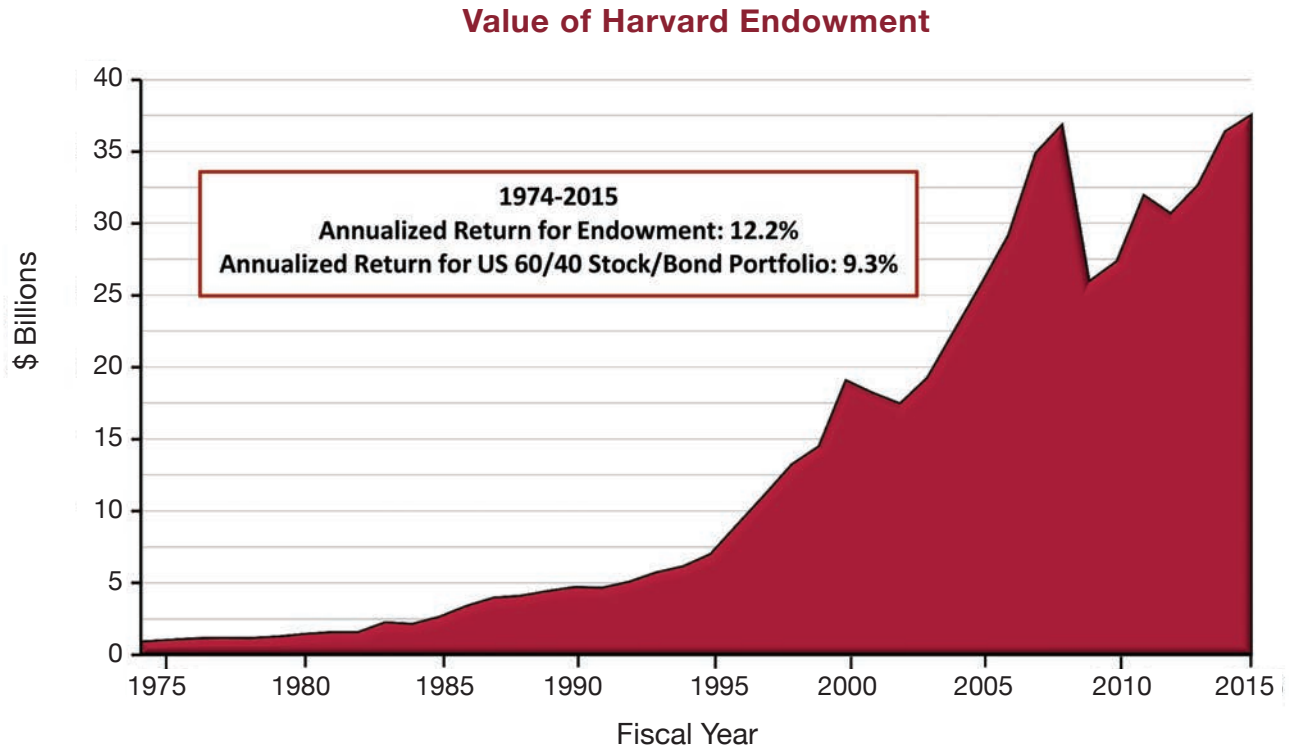
President and CEO of Harvard Management Company

Dear Alumni and Friends,

I write to share with you the performance of the Harvard endowment during the 2015 fiscal year, and to update you on work undertaken at the Harvard Management Company (HMC) since I took over as CEO designed to ensure we deliver improved investment performance for Harvard University in the future.

The endowment returned 5.8% from 1 July 2014 to 30 June 2015. The value of the endowment on 30 June 2015 was $37.6 billion, an all-time high. However, the real (inflation-adjusted) value of the endowment remains below its peak level in 2008. The market value of the Harvard endowment since the formation of HMC in 1974 is shown in Figure 1, and the time series of the endowment's annual returns is shown in Figure 2. The performance of the endowment over one-year, five-year, ten-year and twenty-year periods is shown in Figure 3.

Figure 1



In the first part of this letter, I describe the performance for fiscal year 2015, attributing drivers of our return, highlighting areas of strength and noting sectors of disappointment. Secondly, I detail work that we have undertaken at HMC in the past nine months in order to set a course for the future, including: setting clear investment objectives; overhauling our asset allocation framework; reinvigorating our investment decision-making process; and reviewing our compensation plan. Thirdly, I provide an outlook on the investment landscape. I conclude with some reflections on my experiences of being CEO.

Figure 2

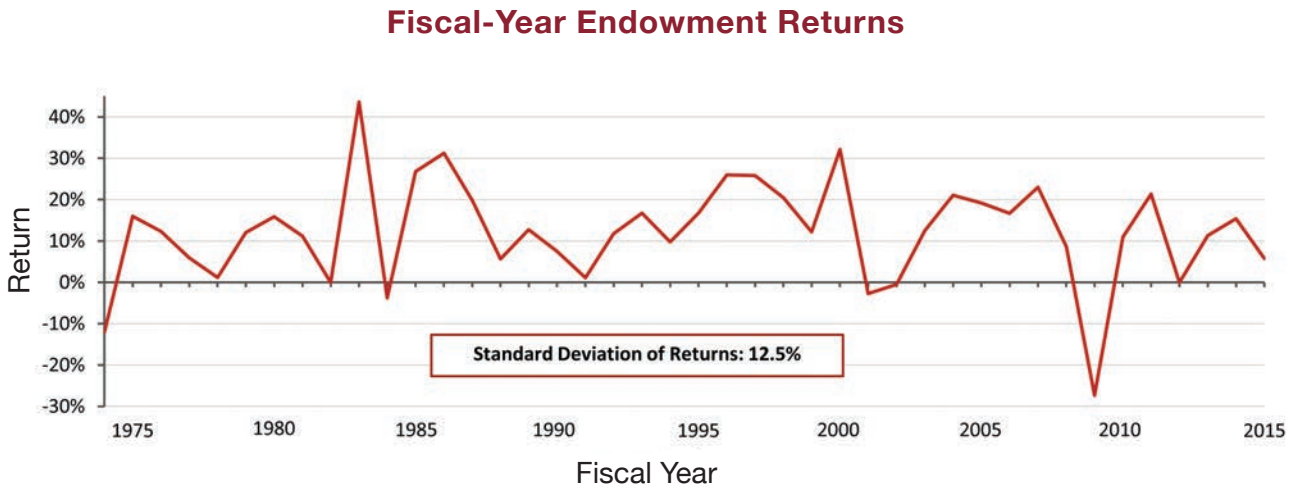
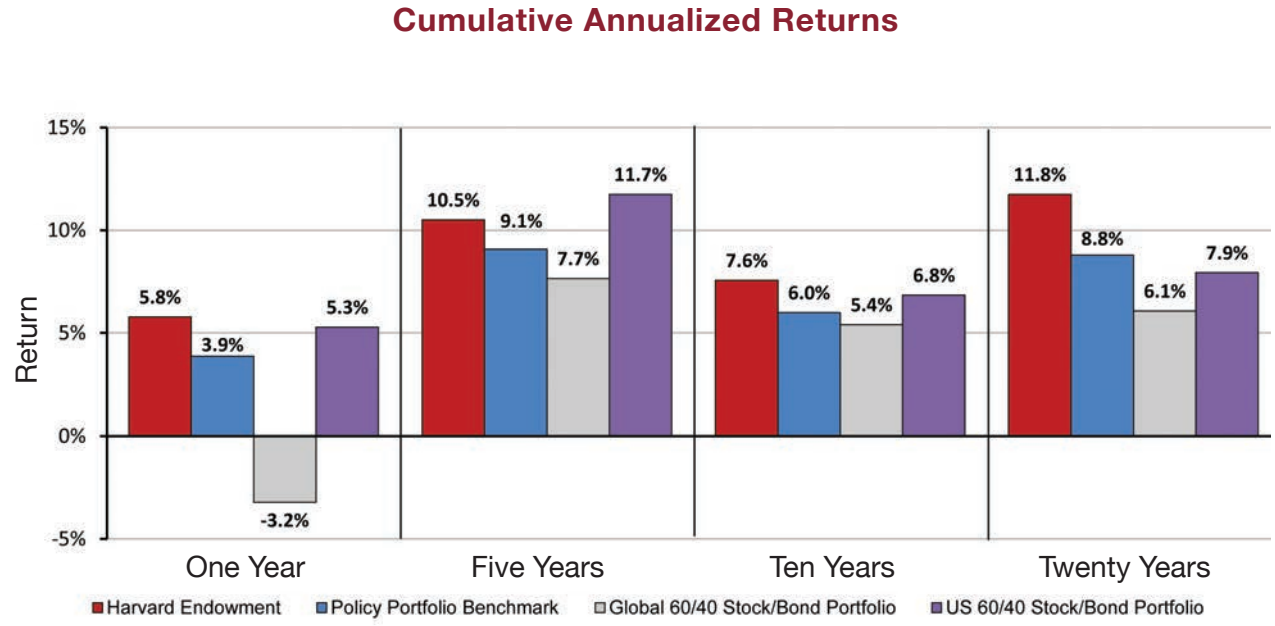


Figure 3



1. Fiscal Year 2015 Performance

The endowment's return of 5.8% was comprised of the following individual asset class returns: public equities 2.9%; private equity 11.8%; public bonds 2.1%; absolute return 0.1%; natural resources and commodities 3.5%; and real estate 19.4%. These returns, along with accompanying asset class market indices or industry benchmarks, are displayed in Figure 4.

Figure 4

Fiscal Year 2015 Performance

Asset Class	HMC Return	Benchmark	Relative
US Equity	**12.4%**	7.2%	5.2%
Foreign Equity	**(1.8)%**	(3.8)%	2.0%
Emerging Market Equity	**(2.2)%**	(5.1)%	2.9%
Total Public Equity	**2.9%**	(0.5)%	3.4%
Private Equity	**11.8%**	10.8%	1.1%
Public Bonds	**2.1%**	(2.5)%	4.7%
Absolute Return	**0.1%**	3.5%	(3.3)%
Natural Resources and Commodities	**3.5%**	3.1%	0.4%
Real Estate	**19.4%**	11.5%	7.9%
Endowment	**5.8%**	3.9%	1.9%

Note: benchmark and relative returns may not sum to HMC return, due to rounding.

The public markets platform, made up of internal portfolio management teams in fixed income, credit and commodities and a blend of internal and external portfolio managers in public equities, had a strong year. The fixed income teams at HMC continued their long-term, consistent run of outperformance. In particular, the international fixed income team, spearheaded by portfolio managers Graig Fantuzzi and Michele Toscani, generated over 12% of performance in excess of global bond indices, driven primarily by the identification of dislocations in bond and swap markets around the world. In addition, I am pleased with the performance of our overall public equity team, managed by our head of public equity, Michael Ryan. Whilst the strength of the US dollar versus other currencies led to lower nominal returns in developed and emerging markets, our hybrid portfolio outperformed all three markets by meaningful amounts. In particular, HMC's return in US equities exceeded the US stock market return by over 5%.

Our private equity portfolio led by Rich Hall '90 returned 11.8%. A key driver within the portfolio was the strong performance of 29.6% produced by our venture capital investments. Several of our venture capital partners delivered outsized returns, in particular in the technology and biotech sectors.

Our absolute return portfolio had a tough year, delivering only 10 basis points of return, compared to a hedge fund industry benchmark of 3.5%. Whilst there were both positive and negative performers within absolute return, the latter clearly dominated. A major theme was the poor performance of deep-value managers during the liquidity-supported conditions of fiscal year 2015. In addition, we experienced losses in our shipping investments, as a result of extreme distress in the dry bulk shipping industry.

The return of 3.5% from our natural resources portfolio and commodities team can be viewed from two perspectives. On the one hand, our decision in June 2014 to eliminate completely our exposure to commodity indices was a wise one. The GSCI and Dow Jones commodity indices were down 37% and 24% respectively during the fiscal year. Therefore, the positive return from our commodity relative-value team led by Satu Parikh was impressive, and indicative of our ability to extract value from volatile and distressed markets, agnostic of market direction. On the other hand, our natural resources portfolio had generally subdued returns. High performance from certain agriculture and timber assets was largely offset by lower soft commodity prices and weakness in land prices in areas of Latin America.

The real estate portfolio was our highest returning asset class. The return of 19.4% was driven primarily by the exceptional, continued success of our direct investment strategy, started in 2010 and led by Dan Cummings. In fiscal year 2015, the Harvard direct real estate program returned 35.5%, as our internal real estate team and their joint venture partners continued to create outstanding value throughout their portfolio.

2. Setting a Course for the Future

Since becoming CEO on 1 January 2015, my management team and I have identified and implemented several changes designed to improve HMC's long-term investment performance.

(a) Goals and Objectives

HMC has had a long-stated goal of delivering superior risk-adjusted returns to support the activities of the University. However, we believe that explicit investment objectives, motivated by a clear statement of mission which captures the role HMC plays for the University, are essential in order to set investment strategy. In addition, any organization needs clear metrics of success. We have therefore established the following mission and investment objectives for HMC, which have been approved by the President and Fellows of Harvard College.

HMC Mission: To help ensure that Harvard University has the financial resources to confidently maintain and expand its preeminence in teaching, learning and research for future generations.

Note that our mission reflects two important notions. First, the endowment currently provides 35% of the operating budget of the University, thus we can only help ensure, rather than guarantee, that the University has sufficient financial resources. Secondly, we aim to help the University maintain and expand its preeminence. This naturally implies a notion of comparison with the financial performance of the endowments of peer institutions, which we explore further in our objectives below.

Based on this mission, we have established the following three investment objectives by which HMC should be judged in the years to come.

Objective 1: HMC will aim to achieve a real return of 5% or more, with inflation measured by the Higher Education Price Index (HEPI)[1], on a rolling ten-year annualized basis.

The distribution rate from the endowment to the University has averaged 4.4% over the past twenty years, and 5% over the past five years. Given the continued heavy reliance on endowment distribution, and pressure on other funding sources, it is likely that a real return of 5% will be necessary to maintain the real value of the endowment for future generations. We measure this objective over ten years, as any real (or indeed nominal) investment return objective is only viable through a full market cycle. In order for Harvard to expand and not just maintain its preeminence, a real return in excess of the distribution rate will be required, and thus our goal is a minimum real return of 5%.

Figure 5 shows how HMC has performed versus this objective from fiscal year 2000 through fiscal year 2015. One can see how real returns have declined steadily over time. This can be attributed to a number of factors: (i) a steady and substantial decline in the risk-free real interest rate—for instance, the real yield of the ten-year TIPS (Treasury Inflation Protected Security) has declined from 4.3% in 2000 to 0.6% today; (ii) a reduction in risk premia across asset classes due to significant liquidity injections; and (iii) fewer opportunities for outperformance (or "alpha generation") across markets. Delivering a real return of 5% will be more challenging in the current environment than in the past.

[1] HEPI is designed specifically for use by institutions of higher education, and measures the average relative level in the price of a fixed market basket of goods and services purchased by colleges and universities. A comparison between HEPI and the Consumer Price Index (CPI) is given below.

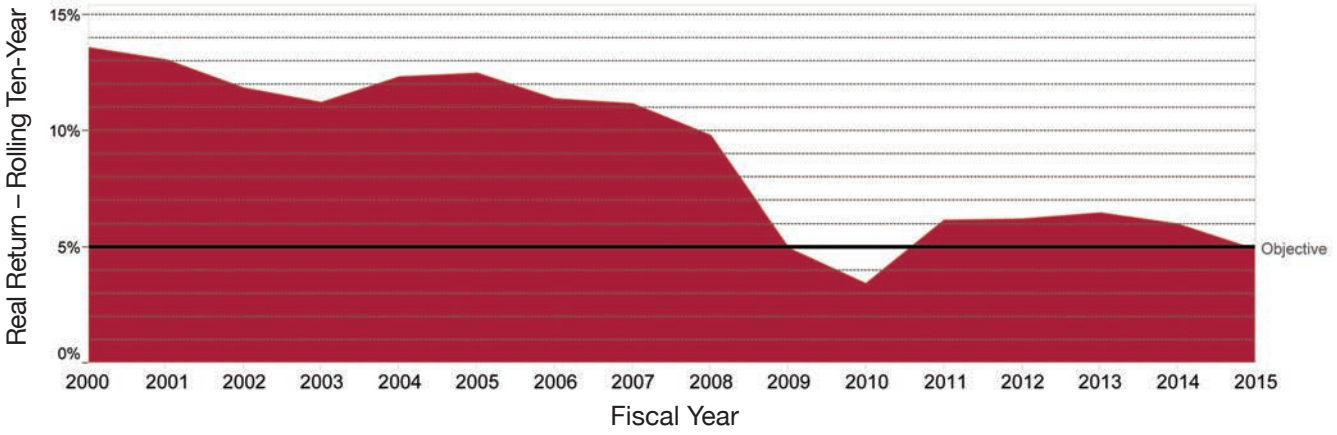
Term:	Five years	Ten year	Twenty years
HEPI	2.2%	2.7%	3.2%
CPI	1.8%	2.1%	2.3%

Source: Commonfund, Bloomberg.

Figure 5

Real Return over Higher Education Price Index

(Rolling Ten-Year Annualized)
Objective: Real Return of 5% or more



Objective 2: HMC will aim to achieve aggregate outperformance of 1% or more over appropriate market and industry benchmarks, on a rolling five-year annualized basis.

Whilst HMC always strives to outperform market indices, one would not expect to do so each year. However, over a five-year period, we do believe that HMC should in the aggregate deliver consistent outperformance. I tend to agree with Lim Chow Kiat, CIO of GIC, the Singaporean sovereign wealth fund, that "The minimum time horizon for performance measurement is five years."[2] Outperformance of 1% is, I believe, the minimum that we should expect from HMC, given the investment made in the capabilities and talent of our company, and our relationships with high-quality external managers.

Figure 6 shows how HMC has performed against this metric since fiscal year 2000. One can see the steady decline in outperformance over the past ten years. This may be due to an environment where there are fewer alpha-generating opportunities; a more crowded investment landscape with more competitors seeking the same opportunities; or less effective identification and execution of these opportunities by our portfolio managers. I aim to ensure that our hybrid portfolio consists of the best managers, whether internal or external to HMC, who are capable of delivering outperformance and strong investment returns through a diverse set of strategies across a broad range of market conditions.

Figure 6

Aggregate Outperformance versus Market/Industry Benchmark

(Rolling Five-Year Annualized)
Objective: 1% or more Outperformance

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Endowment Return	23.15%	16.94%	11.58%	10.07%	11.76%	9.46%	13.52%	18.44%	17.61%	6.19%	4.69%	5.51%	1.22%	1.72%	11.58%	10.51%
Benchmark Return	19.38%	12.33%	7.31%	5.66%	5.21%	4.42%	9.22%	13.78%	13.47%	3.87%	2.99%	4.26%	0.80%	1.22%	10.22%	9.07%
Relative Return	3.78%	4.61%	4.27%	4.41%	6.55%	5.04%	4.30%	4.66%	4.14%	2.32%	1.70%	1.25%	0.42%	0.50%	1.36%	1.44%

Achieved Did Not Achieve

[2] Perspectives on the Long Term

Objective 3: HMC will aim to achieve performance that is in the top quartile relative to a peer group consisting of the next ten largest university endowments[3], on a rolling five-year annualized basis.

Like many, I believe that the annual "horse race" between endowment returns is counterproductive to fostering the appropriate long-term investment strategies suitable for Harvard. Nevertheless, it follows naturally from our mission that HMC must remain competitive for Harvard itself to confidently maintain its own preeminence as a University. Rolling five-year windows where we can judge ourselves versus peers is a reasonable metric of whether we are fulfilling this part of our mission.

One can debate the appropriate peer group to which HMC should compare itself. Our asset base of approximately $38 billion, and hybrid investment structure involving both internally managed portfolios, direct investments and external managers, are more similar to that of large sophisticated pension funds or some sovereign wealth funds than to smaller endowments, which are generally fully externally managed. The assets under management (AUM) of the ten endowments in our peer group range from approximately $25 billion to $9 billion, the latter being less than 25% of Harvard's AUM, so we are comparing ourselves to institutions of different size. Nevertheless, Harvard University aims to remain preeminent amongst its peer universities, and the comparison group we have established includes many of the universities that Harvard would likely consider its competitors for students, faculty and staff.

Top quartile performance over a rolling five-year period is a widely held goal for many investment organizations, and empirically has been achieved on five occasions by HMC in the past fifteen years. However, recent performance against this metric has been disappointing. Figure 7 shows how HMC has performed from fiscal year 2000 through fiscal year 2014.

Full peer data for fiscal year 2015 is not available at time of writing. HMC's fiscal year 2015 return of 5.8% exceeds the median return of 3.4%, and falls just below the 95th percentile return of 6.2%, for the 104 TUCS[4] plans with over $5 billion in AUM. However, we believe it is unlikely that our return in fiscal year 2015 will materially improve our performance relative to our endowment peer group.

Figure 7

Quartile Performance versus Ten Largest US Endowments

(Rolling Five-Year Annualized)

Objective: Top Quartile

Risk Tolerance and Liquidity

Our objectives are to be achieved while maintaining a portfolio whose risk profile is in line with the University's risk tolerance. Thus, in addition to these investment objectives, we have established an appropriate set of risk guidelines that provide suitable flexibility for a long-term endowment portfolio, yet maintain a prudent set of risk parameters within the portfolio. In addition, HMC will maintain portfolio liquidity so that at least 5% of the endowment (that is, a full year of distribution to the University) can be realized in liquid form within 30 days.

(b) Asset Allocation

Asset allocation is arguably the most fundamental strategic investment decision an institutional investor can make; it is also arguably the most challenging. At its core, the goal of our strategic asset allocation process is to settle on appropriate asset class targets and reasonable ranges that best suit the long-term risk and return objectives of the University. In past years, HMC has essentially employed a standard mean-variance framework. This approach, in which asset class return, risk and correlation

[3] As of 30 June 2014, these are: University of Texas, Yale, Stanford, Princeton, MIT, Texas A&M, Northwestern, Michigan, Pennsylvania and Columbia.

[4] Wilshire Trust Universe Comparison Service

expectations serve as the basis for optimization, has high uncertainty in its inputs, and often failed to provide motivating insights regarding how we should conceive of and shape our asset allocation. Upon taking over as CEO, I believed the time was right to revisit thoroughly our process for strategic asset allocation.

Spearheaded by our Chief Risk Officer Jake Xia and Senior Vice President Mark Szigety AM '00, DBA '08, our asset allocation research involved a thorough literature review; consultations with academic experts in the field; and meetings with a range of institutional investors. From this research we reached several conclusions, the most important of which is that all asset allocation approaches are imperfect in their own way. For example, mean-variance relies on highly uncertain risk and return assumptions for an often large number of asset classes. Others may be overly simple, or difficult to implement. On the other hand, many had enviable features: a "factor" (as opposed to an asset class) view promotes simplicity and clarity on major risk and return drivers, and a "best ideas" approach is attractive from a fundamental investor standpoint. Consequently, while no approach struck us as superior, we determined that a selective combination of various asset allocation frameworks may represent a meaningful improvement over our current process.

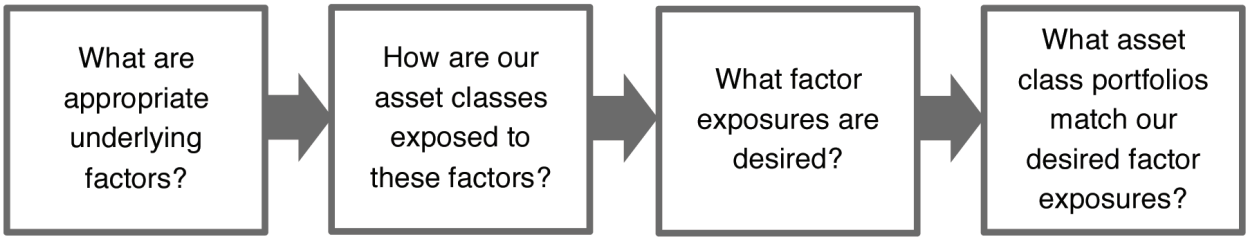
Additionally, we recognized that investors generally like to follow a tried-and-true formula for asset allocation, but at the same time understand that any such objective methodology will often fail to incorporate nuances and subtleties that investment expertise and judgment suggest are important. As my advisor in the Statistics Department, Professor Emeritus Arthur Dempster, wrote: a worthy practical approach "balances [the] objective and subjective, and puts aside an operationally spurious concept of [a] true model."[5] Thus, we have aimed to build a process that is capable of expressing less quantifiable investment ideas and objectives around a rigorous core. The result is a comprehensive process that we term Flexible Indeterminate Factor-based Asset Allocation (FIFAA).[6]

The core of our proposal is an assumption that our strategic asset allocation, as expressed through asset classes, can be conceived of as a combination of a chosen systematic "factor" portfolio and a non-systematic "residual" portfolio. By conceptually partitioning in this manner, we hope to focus on the principle drivers of our risk and return while at the same time accommodating a variety of desirable portfolios.

FIFAA comprises the four steps shown in Figure 8: (i) selecting factors; (ii) measuring asset class factor exposures; (iii) choosing desirable factor exposures; and (iv) determining the most appropriate asset class targets and ranges for achieving our long-term investment objectives, which at the same time maintain our preferred factor exposures. Each of the four steps is briefly described below.

Figure 8

Flexible Indeterminate Factor-based Asset Allocation



(i) Selecting Appropriate Factors

The selection of factors is a matter of informed judgment, and based on our research we believe there is no ideal set that is appropriate for every institutional investor. For our purposes, we have currently selected a parsimonious set of five factors—enough to span more of the primary risk and return drivers than solely equities and bonds (the so-called "reference portfolio"), but not too many so as to prevent increased simplicity and heightened confidence in our risk and return expectations.

[5] Dempster, A.P. (1998), "Logicist Statistics I: Models and Modeling." *Statistical Science* 13, no.3, 248-276.

[6] For complete details, see Blyth, S.J., Szigety, M. and Xia, J. (2016), "Flexible Indeterminate Factor-based Asset Allocation", *The Journal of Portfolio Management*, forthcoming.

Our five factors include world equities, US Treasuries, high yield credit, inflation and currency. In selecting these factors, we placed a premium on tradability (can we inexpensively manage risk or rebalance?) and suitability (will this capture our strategy?). Parsimony also demanded that we not include what we consider to be more asset-class specific factors, such as value, momentum, carry and illiquidity.

(ii) Measuring Asset Class Exposures to Factors

The second step involves determining how asset classes or investment universes relate to the selected factors. One of the attractive features of FIFAA is that it gives us the flexibility to implement our factor exposures with any set of asset classes or investment opportunities. As just one possible example, we can separate emerging market equities into commodity exporters and commodity importers. This is a plausible approach because it is reasonable to believe that commodity exporters such as Brazil, South Africa, Mexico and Russia have different factor exposures than commodity importers such as China, South Korea, Taiwan and India.

Our analysis proceeded from two directions. First, we employed well-known empirical approaches to pin down a parsimonious set of estimated exposures. Secondly, together with our portfolio managers, we applied a market-informed overlay to ensure the estimates appear appropriate on a forward-looking basis. The end result of this step is a matrix of linear exposures (or so-called "betas") for use in a variety of subsequent steps.

(iii) Choosing Factor Exposures

The third step involves selecting appropriate factor exposures using insights from a variety of both return- and risk-based portfolio construction approaches. We believe that developing reliable capital market assumptions of our five factors is more tractable than for a full set of asset classes. For implementation, we leaned heavily on mean-variance analysis to inform us as to which factor exposures were most attractive. Our initial analysis from this step argued that we should: decrease our equity exposure; slightly increase high yield exposure; lower our inflation exposure; increase our exposure to the dollar; and increase bond exposure. These factor exposures form the basis of our strategic asset allocation and can be reviewed on a frequency consistent with long-term objectives.

(iv) Selecting an Asset Class Portfolio

The fourth and final step involves setting the final target weights and ranges for the asset classes. The main challenge here is that, in general, there are an infinite number of portfolio solutions of twelve (or more) asset classes that satisfy the optimal five factor exposures. To tackle this problem, we computationally searched for a portfolio that maximizes our asset class specific return per unit of risk, penalizes illiquidity and satisfies the desired factor exposures. To establish target ranges, we ran many searches, each time adding a small amount of error to our asset class-to-factor mappings from step (ii). This explicitly acknowledges that there is uncertainty in the asset-class-to-factor mappings, and it allows us to establish the lower 5% and upper 95% bounds of the portfolio's target asset class weights. The resulting portfolio parameters are shown in Figure 9.

The ranges for our asset classes reflect inherent uncertainty in mapping asset classes to factors, and are a manifestation of the natural uncertainty present in any asset allocation approach. The ranges provide us with appropriate flexibility to execute a variety of investment opportunities and strategies as they arise, while still maintaining the desired factor exposures. Note that asset allocations that match desired factor exposures are, for example, unlikely to have most asset classes at the top of their ranges.

Figure 9

Fiscal Year 2016 Asset Class Ranges

Asset Class	Range	
US Equity	6%	16%
Foreign Equity	6%	11%
Emerging Market Equity	4%	17%
Private Equity	13%	23%
Absolute Return	11%	21%
High Yield	0%	3%
Natural Resources and Commodities	6%	16%
Real Estate	10%	17%
Domestic Bonds	5%	9%
Foreign Bonds	0%	4%
Inflation-Linked Bonds	0%	6%

The goal of our strategic asset allocation review was to introduce a meaningful improvement over our current multi-asset class, mean-variance approach. We believe that we have made substantive progress in developing a flexible approach that accommodates necessarily subjective investment judgment within a rigorous, factor-based framework. Based on this new approach, we have set an asset allocation for fiscal year 2016, approved by the HMC Board.

(c) Reinvigorating HMC's Investment Process

The Harvard Management Company has a remarkably powerful investment platform. After several years of necessarily dealing with the depths of the financial crisis and its aftermath, and the accompanying severe liquidity issues across the University as a whole, we are now in a position to harness that power to deliver on our objectives.

In order to increase the rigor of our investment debate and decision making process, I have charged my portfolio managers —whether they be managing internal investment strategies, participating in direct investments for Harvard or building and developing relationships with our suite of outstanding external managers—to focus on the following areas.

First, we will engage in more cross-asset class discussion and collaboration. Increasingly, investment opportunities lie at the border of traditional asset classes, or are informed by knowledge from different areas. For instance, the real estate market for laboratory space for life science companies is highly related to the biotech sector within venture capital, the willingness of public equity investors to fund mid- to late-stage companies as well as the development of the underlying science. We will develop a strong culture of constructive challenge and comparison of investment opportunities across the portfolio.

Secondly, I am encouraging our portfolio managers to be creative in considering new partnerships, vehicles and platforms for investing that provide the maximum benefit for Harvard, in terms of access to compelling opportunities, transparency to our investments, flexibility in and control of investment decisions and reduction in management fees.

In addition, we need to develop the conviction to invest in scale. HMC manages approximately $38 billion of endowment assets. With the appropriate rigor of analytical work and open debate, deep market experience and the identification of investment opportunities that fulfil our objectives within our portfolio, we will be prepared to invest at the appropriate scale. This does not mean leveraging up, running higher risk or having a higher beta portfolio; indeed, it could mean the opposite depending on the market environment. We will do the depth of work to allow ourselves to take positions to the appropriate endowment scale when opportunities arise.

Finally, HMC will engage more fully both with our investment partners and with peer institutional investors globally. I have greatly enjoyed—and benefited from—meeting groups of our investment manager partners, where market insights can be shared both between HMC and our managers, and also between our external managers. I have also found it especially helpful to meet CEOs of several comparable investment institutions. I am grateful to them for their openness, insights and wisdom, and I look forward to developing a range of collaborative endeavors between our institutions.

(d) Compensation

The compensation plan currently in place at HMC has served Harvard for many years. The majority of portfolio manager compensation is linked to long-term outperformance versus market indices or industry benchmarks. In particular, we do not pay for "beta" returns simply provided by the market. Overall, HMC's compensation model has provided significant savings to the University over decades.

However, I also believe that we should align compensation more closely with the aggregate goals of HMC, as stated above, in addition to the success of individual portfolios. Fostering a deeper sense of ownership in the overall success of HMC amongst all our staff, and developing a true sense of partnership amongst senior investment professionals at HMC, are key priorities for me.

We have therefore undertaken a review of the compensation system at HMC. Whilst we will continue to have a significant component of compensation linked to outperformance of portfolios versus their market indices and industry benchmarks, I plan to introduce components linked to the overall success of HMC. Incenting all our staff to improve the aggregate performance of HMC can only increase the likelihood of us achieving our goals over the long term.

Designing a new compensation model is, of course, a complex and sensitive task, and I look forward to working with my colleagues, the Finance and Compensation Committee of the HMC Board and external experts, as we develop and implement this plan.

IN MEMORIAM

James F. Rothenberg (1946-2015)

Jim Rothenberg was chair of the Board of Harvard Management Company from 2005 to 2015. It was Jim who, at 10:30am on 24 September 2014, called me to state that the Board would like me to become the next President and CEO of HMC. Since that moment, he provided me with support, kind encouragement and a calm guiding hand. His last message to me, sent the weekend before he so unexpectedly died in July, was: "I am on the same train as you are. Cheers."

Cheers Jim.

3. Outlook

I described briefly in my letter of introduction in April[7] that current market conditions present various challenges to investors. We are carefully monitoring market liquidity conditions, given that the risk capacity and shock absorption ability of sell-side market-makers is low, as a result of the new regulatory regime that has shrunk balance sheets and reduced risk appetite. The US Treasury "flash crash" of 15 October 2014, when the US ten-year Treasury note moved a total of 68 basis points in one day, was a stark manifestation of the evaporation of liquidity that can occur even when no material economic event has occurred. The recent high volatility in the US stock market is another indicator that market liquidity can be prone to rapid evaporation. To give an order of magnitude, from 1 January 2015 to 10 August 2015, the S&P had a trading range of 7%. On 24 August 2015, the Dow Jones industrial Average fell 6.6%, rallied 6.4% and then fell 4.7% within the trading day.

The new regulatory environment for financial institutions is having significant effects on the ability of banks to use balance sheets, warehouse risk, or act as market shock absorbers. Given Harvard's strong balance sheet, we view this as an opportunity, as price dislocations or stress in risk parameters (and hence the ability to generate alpha) is likely to increase when there is less capacity to accommodate and absorb these risk factors.

The debate about highly-valued assets continues to get louder: private equity valuations are now, on average, at higher levels than in 2007. There are over eighty "unicorns" (venture-capital portfolio companies with valuations over $1 billion), as many as in the last three years combined. Venture capital continues to receive ample funding, and private company valuations are also bolstered by public mutual funds entering late stage funding rounds in significant size. This environment is likely to result in lower future returns than in the recent past.

Furthermore, it is hard to know the impact of the eventual rise of interest rates in the US on asset classes domestically and globally. Monetary accommodation in the US has been in place for almost eight years, since the first Federal Reserve intervention on 11 December 2007, the Term Auction Facility (TAF). An extensive number of policy interventions, with a long lexicon of acronyms, followed. As hard as it was to predict the impact of these policy actions, it will be equally hard to predict the effect of their removal. We are analyzing potential effects of higher rates throughout the portfolio, in particular examining the possibility of second order effects if many asset classes (e.g., bonds, high-yielding stocks, high-yield debt, emerging markets and real estate) were to decline simultaneously. An interesting question emerges: could rising interest rates in 2016 have an analogous impact to falling house prices in 2007, where a range of largely unanticipated second-order effects was triggered?

[7] Letter of Introduction

We are proceeding with caution in several areas of the portfolio: many of our absolute return managers are accumulating increasing amounts of cash; we are being careful about not over-committing into illiquid investments in potentially frothy markets, while still ensuring we will be involved if market dislocations arise; and we are being particularly discriminating about underwriting and return assumptions given current valuations. In addition, we have renewed focus on identifying public equity managers with demonstrable investment expertise on both the long and short sides of the market. And we are concentrating on investment opportunities with idiosyncratic features that still offer value creation, such as the life science laboratory space, and the retail sector where transformation continues at rapid pace.

We are executing on these themes through a variety of instruments, including equity, debt, private securities and real assets. More broadly, across HMC we are developing new platforms, fund relationships and internal capabilities that will give us greater flexibility to respond to the changing market environment.

4. Concluding Remarks

As Professor of the Practice in Statistics, within the Faculty of Arts and Sciences, I have had the privilege since 2010 to teach the class Statistics 123, "Applied Quantitative Finance", to over 350 outstanding young women and men. Teaching Harvard undergraduates has been a joy; it is in fact my one regret about becoming CEO of HMC that I will be unlikely to teach in the near future. I often say that my experiences in the lecture hall, in office hours and at student-faculty dinners have "made flesh" the mission of HMC. I know that my colleagues at HMC share deeply the special role that HMC plays in the support of our great University.

We have clearly stated this mission and have laid out straightforward, ambitious investment objectives. I have found my first nine months as CEO to be intensely fulfilling and intensely enjoyable. I will do everything in my power to maximize the probability of HMC achieving its objectives over the coming years and decades. We have challenges ahead and much hard work to be done, but I believe we have gained significant traction in 2015, and I am highly optimistic that we can achieve our goals.

I thank you all for your support of Harvard University and of HMC, and in particular for the many personal messages of encouragement. I look forward to meeting many of you in the years ahead.

Yours sincerely,

Stephen Blyth PhD '92
President and Chief Executive Officer
Harvard Management Company

Independent Auditor's Report

To the Board of Overseers of Harvard College:

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.

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. 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.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University at 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.

PricewaterhouseCoopers LLP

October 29, 2015

PricewaterhouseCoopers LLP, 101 Seaport Blvd, Suite 500, Boston, MA 02210
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

BALANCE SHEETS

with summarized financial information as of June 30, 2014

In thousands of dollars	June 30 2015	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	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.

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