William Marsh Rice University

Consolidated Financial Statements
June 30, 2015 and 2014

William Marsh Rice University
Index
June 30, 2015 and 2014

pwc

Independent Auditor's Report

To the Board of Trustees of
William Marsh Rice University

We have audited the accompanying consolidated financial statements of William Marsh Rice University (the "University"), which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities and cash flows for the year then ended.

Management's Responsibility for the 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 William Marsh Rice University at June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited William Marsh Rice University's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 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 26, 2015

William Marsh Rice University
Consolidated Statements of Financial Position
June 30, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Assets		
Cash and cash equivalents	$ 13,896	$ 11,171
Cash of consolidated endowment investments	111,924	1,376
Accounts receivable and other assets, net	103,071	58,778
Pledges receivable, net	184,063	166,316
Investments	6,032,613	5,955,204
Property and equipment, net	1,190,319	1,171,752
Total assets	$ 7,635,886	$ 7,364,597
Liabilities		
Accounts payable and other liabilities	$ 80,497	$ 89,969
Liabilities of consolidated endowment investments	75,703	3,753
Notes and bonds payable	967,718	815,777
Actuarial liability for annuities payable	116,940	124,352
Government refundable advances	7,443	7,354
Total liabilities	1,248,301	1,041,205
Net Assets		
Unrestricted net assets	2,970,505	2,983,441
Temporarily restricted net assets	2,287,048	2,261,951
Permanently restricted net assets	1,100,699	1,078,000
Noncontrolling interests	29,333	-
Total net assets	6,387,585	6,323,392
Total liabilities and net assets	$ 7,635,886	$ 7,364,597

The accompanying notes are an integral part of these consolidated financial statements.

William Marsh Rice University
Consolidated Statements of Activities
Years Ended June 30, 2015 and 2014
(With Summarized Financial Information for the Year Ended June 30, 2014)

	2015				2014
(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Operating revenues					
Investment returns distributed for operations	$ 135,680	$ 113,604	$ -	$ 249,284	$ 232,734
Student tuition and fees, net	148,227	-	-	148,227	144,188
Grants and contracts	127,076	-	-	127,076	116,709
Gifts and pledges	39,775	17,058	-	56,833	40,920
Gifts and trusts released from restrictions	135,120	(135,120)	-	-	-
Auxiliary enterprises	41,454	-	-	41,454	41,261
Other revenues	30,491	-	-	30,491	23,301
Total operating revenues	657,823	(4,458)	-	653,365	599,113
Operating expenses					
Salaries and wages	304,692	-	-	304,692	283,966
Benefits	71,186	-	-	71,186	62,964
Scholarships	19,077	-	-	19,077	18,900
Depreciation and amortization	67,080	-	-	67,080	65,085
Interest and bond costs	32,931	-	-	32,931	32,873
Utilities and rent	13,627	-	-	13,627	15,586
Other operating expenses	117,875	-	-	117,875	115,541
Total operating expenses	626,468	-	-	626,468	594,915
Net operating income	31,355	(4,458)	-	26,897	4,198
Nonoperating changes					
Gifts, grants, and pledges for property and endowment	2,151	56,267	17,075	75,493	45,416
Investment returns, reduced by operating distribution above	(19,797)	(10,865)	812	(29,850)	641,992
Revenues of consolidated endowment investments	18,203	-	-	18,203	6,339
Expenses of consolidated endowment investments	(24,274)	-	-	(24,274)	(9,851)
Net assets released from restrictions	3,434	(4,208)	774	-	-
Change in liabilities due under life-income agreements	-	(11,691)	4,042	(7,649)	(33,348)
Other nonoperating changes, net	(23,960)	-	-	(23,960)	2,812
Net nonoperating changes	(44,243)	29,503	22,703	7,963	653,360
Net increase in net assets	(12,888)	25,045	22,703	34,860	657,558
Net assets					
Beginning of year	2,983,441	2,261,951	1,078,000	6,323,392	5,665,834
End of year	2,970,553	2,286,996	1,100,703	6,358,252	6,323,392
Change in net assets of noncontrolling interests	29,333	-	-	29,333	-
Total net assets	$ 2,999,886	$ 2,286,996	$ 1,100,703	$ 6,387,585	$ 6,323,392

The accompanying notes are an integral part of these consolidated financial statements.

William Marsh Rice University
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Cash flows from operating activities		
Net increase in net assets	$ 34,860	$ 657,558
Adjustments to reconcile increase (decrease)		
in net assets to net cash used in operating activities		
Depreciation of property and equipment	67,080	65,085
Loss on disposal of property and equipment	616	287
Net realized and unrealized investment gains	(163,024)	(814,573)
Contributions restricted for long term purposes		
and noncash contributions	(54,046)	(50,430)
Donated securities received	(25,292)	(20,084)
Proceeds from sale of donated securities	10,004	5,060
Actuarial change in life-income agreements	7,649	33,348
Change in fair value of commodity swap agreements	(405)	(3,159)
Gain on settlement of interest rate swap agreements	(3,748)	-
Loss on extinguishment of debt	27,196	-
Debt prepayment costs	(28,128)	-
Change in noncontrolling interest	29,333	-
Change in		
Accounts receivable and other assets	(31,096)	2,860
Accounts receivable associated with consolidated		
endowment companies	(7,713)	-
Pledges receivable for current purposes	(27,267)	(2,669)
Liabilities of consolidated endowment investments	27,366	-
Accounts payable and other liabilities	1,461	10,329
Net cash used in operating activities	(135,154)	(116,388)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,054,496	809,262
Purchases of investments	(939,491)	(685,338)
Purchases of consolidated endowment investments	(39,048)	(4)
Purchases of fixed assets of consolidated endowment investments	(16,700)	-
Purchases of property and equipment	(66,766)	(53,401)
Net cash (used in) provided by investing activities	(7,509)	70,519
Cash flows from financing activities		
Contributions restricted for long term purposes		
Endowment	18,702	18,360
Property	16,049	6,002
Trusts and other	16,441	15,849
Proceeds from sale of donated securities		
Endowment	10,363	8,368
Property	4,925	6,656
Interest rate swap termination	(7,365)	-
Principal payment of tax-exempt bonds	(2,500)	(2,405)
Advance refunding of tax-exempt bonds	(537,315)	-
Proceeds from issuance of taxable commercial paper	22,365	-
Payment of outstanding tax-exempt commercial paper	(25,695)	(1,675)
Proceeds from issuance of taxable bonds	695,955	-
Issuance cost for taxable bonds	(662)	-
Issuance of debt from consolidated endowment		
investments	44,584	-
Change in government refundable advances	89	86
Net cash provided by financing activities	255,936	51,241
Net increase in cash and cash equivalents	113,273	5,372
Cash and cash equivalents		
Beginning of year	12,547	7,175
End of year	$ 125,820	$ 12,547

Noncash investing activities: The University had open accounts payable and accruals of $3,201 at June 30, 2015 and of $1,886 at June 30, 2014, related to property, plant and equipment purchases.

Consolidated endowment investments: The statements of cash flows include both the cash and cash equivalent balances of the University as well as the balances of the consolidated endowment investments.

(all dollar amounts in thousands)

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

William Marsh Rice University (the "University") is a Texas not-for-profit corporation that operates a private research university in Houston, Texas. The consolidated financial statements of the University as of June 30, 2015, and for the year then ended, have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all consolidated subsidiaries. All material transactions between the University and its subsidiaries have been eliminated.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. 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 was derived.

The consolidated financial statements of the University include the accounts of all academic and administrative departments of the University, and affiliated organizations that are controlled by the University. The University is the controlling owner for several entities that are investments of the endowment and has presented the noncontrolling interests on the Consolidated Statements of Financial Position and the Consolidated Statements of Activities to reflect the results attributable to other owners. The revenues and expenses of the consolidated endowment investments are presented in the nonoperating section of the Consolidated Statements of Activities.

Net Asset Categories

Standards for external financial reporting by not-for-profit organizations require that resources be classified for reporting purposes into three net asset categories according to donor-imposed restrictions. A description of the University's three net asset categories follows:

a. Unrestricted net assets and related activity include the following:

   1. All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts, investment returns on unrestricted funds designated to function as endowment, recovery of facility and administrative costs from grants and contracts and auxiliary enterprise revenues;

   2. Revenues related to sponsored research and other sponsored program agreements, which are considered exchange transactions;

   3. Unrestricted funds functioning as endowment;

   4. Gifts with donor imposed restrictions, if the restriction will be met within the current fiscal year of the University;

   5. Investments in plant assets; and

   6. All expenses of the University.

(all dollar amounts in thousands)

b. Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and investment returns from unrestricted and restricted endowments. The restriction on unrestricted endowment returns (income and realized and unrealized gains and losses) is released when appropriations are distributed for use in the current fiscal year. The category also includes pledges receivable and life income gifts for which the ultimate purpose of the proceeds is not permanently restricted.

c. Permanently restricted net assets include gifts, trusts and pledges on which donors have imposed the restriction that the corpus be maintained in perpetuity and only the investment returns be made available for program operations. In the case of trusts, gains and losses are added to the gift amount. Gifts restricted by donors to provide loans to students are also included in permanently restricted net assets.

The terms of certain gifts of real property made by the founder of the University provide that all returns realized from these properties are to be invested to generate income to be used for University purposes. Changes in the market value of these specific properties, whether gains or losses, are recorded as permanently restricted as required by the donor.

Expirations of temporary restrictions on net assets are reported as released from restrictions on the Consolidated Statements of Activities. Donor required matching from University funds and donor release or clarification of restrictions is also included in this line.

The Board of Trustees interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Texas, to require the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) other additions to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the addition is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA (Note 5).

Contributions

Contributions, including unconditional promises to give and irrevocable trusts held by others under which the University is the beneficiary, are recognized as revenues in the period received or promised. Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets when the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets. It is the University's practice to sell marketable securities received as donations upon receipt.

In the Consolidated Statements of Cash Flows, the University classifies cash receipts from the sale of donated marketable securities in a manner that is consistent with cash donations received if the donated marketable securities are converted into cash on receipt or shortly thereafter.

(all dollar amounts in thousands)

Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted using a market rate (Note 3). Amortization of the discount is recorded as contribution revenue.

Operating and Nonoperating Activities

The Consolidated Statements of Activities reports the change in net assets from the University's operating and nonoperating activities. Operating activities exclude (a) gifts, grants and pledges for property and endowment (including annuity and life income trusts), (b) release from restrictions of contributions restricted for the acquisition of property and equipment, (c) donor release of restrictions from permanently restricted net assets, (d) endowment returns net of the University's operating needs as defined by University spending policy (Note 5), (e) actuarial adjustments of annuities payable, (f) changes in fair value of swap agreements (Note 6), (g) net gain or loss on nonrecurring transactions, and (h) investment subsidiaries of the endowment which are consolidated for financial reporting purposes.

Cash and Cash Equivalents

The University considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash equivalents, except those amounts assigned to its investment managers and unspent bond and commercial paper proceeds, which are classified as investments. Also included on the Consolidated Statements of Financial Position are the cash and cash equivalents of endowment investment companies consolidated with the University. These cash balances are shown in a separate line item as these funds are not available to the University but are for the use of the endowment investment company to whom these assets belong. The Consolidated Statements of Cash Flows have been prepared with both lines included.

Investments and Other Financial Instruments

Investments are made within guidelines authorized by the University's Board of Trustees. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date. Marketable securities transactions that have not settled are recognized as accounts receivable or accounts payable until the settlement date. Endowment income is calculated net of internal and external investment management expenses.

Investments are stated at fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The hierarchy of valuation inputs is based on the extent to which inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on four levels of inputs, of which the first two are considered observable and the last two unobservable, that may be used to measure fair value.

(all dollar amounts in thousands)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis (Note 6). The four levels of inputs are as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities, such as exchange-traded equity securities.
Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities, including corporate bonds and most Treasury securities.
Level 3	Unobservable inputs, such as valuations supplied by the investment managers, that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including investments in certain hedge strategies and all private market strategies.
NAV	As a practical expedient, the University is permitted under GAAP to estimate the fair value of its investments with external managers using the external managers' reported net asset value ("NAV") without further adjustment unless the University expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The estimated fair value of certain alternative investments, such as private equity and other limited partnership interests, is based on valuations provided by the general partners or partnership valuation committees. Such valuations consider variables such as financial performance of investments, recent sale prices of similar investments and other pertinent information. The University reviews and evaluates the data used in determining fair value, including the valuation methods, assumptions, and values provided by the investment managers. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These differences could be material.

Direct investments in natural resources, specifically timberland and oil and gas, 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

(all dollar amounts in thousands)

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.

Derivative financial instruments are recorded on the Consolidated Statements of Financial Position as either an asset or liability measured at fair value as of the reporting date. Derivative financial instruments consist of interest rate swaps and energy hedge agreements. Changes in fair value of these derivatives are recognized in the Consolidated Statements of Activities.

The University's investments are exposed to a number of risks including interest rate, market, and credit risks. Due to the level of risk exposure, it is possible that changes in the valuation of these investments may occur in the near term and that such changes could be material.

Property and Equipment
Property used by the University is stated at cost for purchased assets and fair value at the date of donation in the case of gifts. Interest expense incurred during the period of construction of an asset for University use is capitalized until that asset is substantially completed and ready for use. The University depreciates its physical assets (excluding works of art, which are not depreciated) using the straight-line method over their estimated useful lives. Repairs and maintenance of property and equipment are expensed as incurred. Property and equipment are removed from the records at the time of disposal.

Works of art, historical treasures, literary works and artifacts are preserved and protected for educational, research and public exhibition purposes. Donations and purchases of such collections are recorded for financial statement purposes as property and equipment.

Asset Retirement Obligations
The University recognizes asset retirement obligations (AROs) that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished. The University measures conditional AROs at estimated fair value using a probability-weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of weighted, discounted cash flows is calculated annually using credit-adjusted, risk-free rates applicable to the University in order to determine the estimated fair value of the conditional AROs.

Life Income Agreements
Life income agreements include charitable remainder trusts and gift annuities. Charitable remainder trusts hold donated assets for which the University's subsidiary acts as trustee and periodically pays specified amounts to the designated beneficiaries. Generally, beneficiary payments are a fixed amount for annuity trusts and a fixed percentage of the fair value of the trust assets or based on income earned for other charitable remainder trusts. At a date specified in each gift instrument, usually the beneficiary's date of death, ownership of the trust assets will transfer to the University and the beneficiary payments will cease. The University also enters into gift annuity agreements, which require that the University take ownership of the assets at the date of gift with an obligation to periodically pay specified amounts to designated beneficiaries for their lifetimes. Assets held in life income trusts and those assets associated with gift annuities are included in investments at fair value. Contribution revenues are recognized at the date the trusts or gift annuities are established at the net present value calculated based on an actuarial table. Liabilities are recorded at the same time using actuarial tables established by the IRS and discounted according to the risk-free rate at the time of the gift. Discount rates range from 1% to 6%. The liability represents the present value of the estimated future payments to be made to the

(all dollar amounts in thousands)

beneficiaries. The liabilities are adjusted annually for changes in the value of the assets and actuarial changes, which impact the estimates of future payments.

Grants and Contracts
Revenues from both government and private sources are recognized as earned in accordance with the terms of the grant or contract. Any payment received prior to it being expended is recorded as a refundable advance. Projects that incur expenses prior to payment receipt are recorded as revenue with a corresponding receivable. The recovery of indirect costs, also referred to as facilities and administrative costs, is recognized primarily based on predetermined rates negotiated with the federal government (Note 13). The amount of indirect cost permitted to be recovered is determined on a per grant or contract basis.

Use of Estimates
Financial statements prepared in conformity with accounting principles generally accepted in the United States of America rely on estimates. Management makes certain estimates and assumptions which affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results could differ from these estimates.

Credit Risk
The University maintains operating cash and other cash balances in financial institutions which from time to time may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

The University has evaluated the credit risk associated with financing receivables, primarily student loans, and determined that both the receivables and the related allowances are immaterial to the financial statements.

Tax Status
The University is exempt from federal income tax to the extent provided under Section 501(c)(3) of the Internal Revenue Code. The IRS issued a determination letter in January 1938 that recognized the University as exempt from federal income tax under Section 501(c)(3). The IRS confirmed in 2008 that this exemption still applies.

The University has 14 subsidiary corporations that are included in the consolidated financial statements. Six of these subsidiary corporations are exempt from federal income taxes under 501(c)(2), two are exempt under 501(c)(3), one is exempt under 501(c)(4), and five are subject to taxation. The University is classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code because it is described in Sections 509(a)(1) and 170(b)(1)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions to the extent provided by law. The University and its subsidiary corporations that are exempt from federal income tax are required to pay federal income tax on unrelated business income. The University and its subsidiary corporations recorded estimated income tax liabilities of $240 and $0 for the years ended June 30, 2015 and 2014, respectively. The University has no financial reporting requirements for uncertain tax positions for the years ended June 30, 2015 and 2014.

(all dollar amounts in thousands)

Recently Adopted Accounting Standards
On July 1, 2014, the University early adopted new guidance about Fair Value Measurement and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This guidance requires the University to show investments that use NAV as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy described in Note 6. This disclosure change, which was applied retrospectively, can be seen in the investment leveling tables shown in Note 6 for both fiscal years 2015 and 2014.

New Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

In April 2015, the FASB issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2016. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2018.

Revision of Previously Issued Financial Statement
The University has revised its 2014 Statement of Cash Flows to correct errors in the classification of cash flows associated with the presentation of contributions restricted for long-term purposes. The effect of the revision was to decrease cash used in operating activities by $898, from ($117,286) to ($116,388), to decrease cash provided by investing activities by $25,260, from $95,779 to $70,519, and to increase cash provided by financing activities by $24,362, from $26,879 to $51,241. No other financial statements were impacted by the error. The University does not consider the errors to be material to the FY 2014 financial statements taken as a whole.

Reclassifications
Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation. These classifications had no significant impact on the University's financial position, change in net assets, or cash flows.

(all dollar amounts in thousands)

2. Accounts Receivable and Other Assets

Accounts receivable and other assets of the University at June 30, 2015 and 2014, were as follows:

	2015	2014
Unsettled investment sales and receivables	$ 12,434	$ 7,674
Investment income receivable	3,266	3,464
Student loans receivable, net of allowance of $1,097 in 2015 and $1,103 in 2014	11,202	8,910
Inventory, prepaid expenses, and other assets	16,525	15,287
Sponsored programs receivable	21,184	16,373
Beneficial interest in escrow funds related to settlement of debt	23,000	-
Other accounts receivable, net of allowance of $479 in 2015 and $1,115 in 2014	7,105	6,428
University accounts receivable and other assets	94,716	58,136
Accounts receivable and other assets of consolidated endowment investments	8,355	642
Total accounts receivable and other assets	$ 103,071	$ 58,778

3. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows. Unconditional promises to give at June 30, 2015 and 2014 are expected to be realized in the following periods:

	2015	2014
In one year or less	$ 25,454	$ 44,486
Between one year and five years	152,753	98,389
More than five years	43,263	59,940
Gross pledges receivable	221,470	202,815
Less:		
Discount to net present value	(24,118)	(24,330)
Allowance for uncollectible pledges	(13,289)	(12,169)
Net pledges receivable	$ 184,063	$ 166,316

(all dollar amounts in thousands)

Pledges receivable at June 30, 2015 and 2014, had the following restrictions:

	2015	2014
Long-term investment	$ 37,302	$ 49,113
Buildings	80,722	62,980
Support of University programs and activities	103,446	90,722
Gross pledges receivable	221,470	202,815
Less:		
Discount to net present value	(24,118)	(24,330)
Allowance for uncollectible pledges	(13,289)	(12,169)
Net pledges receivable	$ 184,063	$ 166,316

Rates ranging from 1% to 6% are used to discount pledges. A reserve rate of 6% was used for the allowance for uncollectible pledges as of June 30, 2015 and 2014. The reserve rate is reviewed annually to ensure adequate provision for uncollectible amounts.

At June 30, 2015 and 2014, the University had conditional pledge commitments of $55,900 and $50,600, respectively, from two donors for the construction of a campus building and a program initiative.

4. Investments

Investments at June 30, 2015 and 2014, were as follows:

	2015	2014
Short term investments and fixed income securities	$ 1,025,714	$ 817,888
Equity securities and equity funds	1,907,714	1,861,471
Limited partnerships and other funds	2,545,557	2,760,459
Real assets, oil and gas, and other	553,628	515,386
University investments	$ 6,032,613	$ 5,955,204

Investments include annuity and life income fund assets of $164,475 and $178,169 as of June 30, 2015 and 2014, respectively. Fixed income securities include unspent bond proceeds that are available to fund project expenditures in future years (Note 10).

The following table presents investment income and net gains (losses) for the year ended June 30, 2015 by net asset classification, with summarized information for the year ended June 30, 2014:

(all dollar amounts in thousands)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Investment earnings	$ 40,913	$ 9,768	$ 5,729	$ 56,410	$ 60,153
Net gains (losses) on investments	74,970	92,971	(4,917)	163,024	814,573
Total investment gains and earnings	115,883	102,739	812	219,434	874,726
Less: Investment returns distributed for operations	(135,680)	(113,604)	-	(249,284)	(232,734)
Net investment returns, reduced by operating distribution	$ (19,797)	$ (10,865)	$ 812	$ (29,850)	$ 641,992

Return on investments is presented net of investment management fees. Certain expenses paid directly by the University for investment management and custody services, including certain internal costs, amounted to approximately $46,500 and $53,665 for the years ended June 30, 2015 and 2014, respectively. Certain investments report net returns without specific identification of management fees.

5. Endowments

The University's endowment pool consists of approximately 1,700 individual donor restricted endowment funds and approximately 200 funds designated by the Board of Trustees to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The following table presents endowment net asset composition by type of fund for the year ended June 30, 2015, with summarized information for the year ended June 30, 2014:

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Donor restricted	$ -	$ 2,057,740	$ 1,083,083	$ 3,140,823	$ 3,114,956
Board designated	2,430,934	1,281	-	2,432,215	2,438,761
Total endowment funds	2,430,934	2,059,021	1,083,083	5,573,038	5,553,717
Pledges restricted for long-term investment, net of discount and allowance	-	-	(32,594)	(32,594)	(42,114)
Endowment funds excluding pledges	$ 2,430,934	$ 2,059,021	$ 1,050,489	$ 5,540,444	$ 5,511,603

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund;

2. The purposes of the University and the donor restricted endowment fund;

3. General economic conditions;

(all dollar amounts in thousands)

4. The possible effect of inflation and deflation;

5. The expected total return from income and the appreciation of investments;

6. Other resources of the University; and

7. The investment policies of the University.

Endowment Investment Policies
The University has adopted endowment investment policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain, and, if possible, enhance the purchasing power of endowment assets. The University has a diversified approach to management of the endowment investment portfolio. By diversifying among asset classes and rebalancing toward policy target allocations, the University strives to manage and maintain the risk profile implied by the policy targets adopted by the board.

To achieve its long term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University's diversified asset allocation places greater emphasis on equity based investments to achieve its long-term objectives within prudent risk and liquidity constraints. The long term investment objectives of the endowment are to attain an average annual real total return in excess of endowment spending and to outperform various strategic policy and comparable industry universe benchmarks over the long term.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives
The Board of Trustees of the University approves the appropriation of endowment funds for expenditure. In establishing a distribution policy, the Board of Trustees considered a number of factors, including the expected long term investment rate of return on the endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment assets to grow, consistent with its intention to maintain the purchasing power of the endowment assets while providing a relatively predictable and stable (in real terms) stream of earnings for current use. Under the University's endowment earnings distribution policy, endowment returns on donor restricted endowments, net of operating distributions, remain in the investment pool as temporarily restricted net assets and endowment returns on board designated endowment funds, net of operating distributions, remain in the investment pool as unrestricted net assets functioning as endowment.

Endowment Funds With Deficits
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts creating a deficit. These deficits generally result when unfavorable market fluctuations occur shortly after the investment of newly established endowments. Deficits in donor restricted endowment funds are classified as a reduction of unrestricted net assets in the year they occur and as an increase in unrestricted net assets in the year the fair value exceeds the gift amounts. There were no material deficits of this nature as of June 30, 2015 and 2014.

Changes in endowment net assets for the year ended June 30, 2015, with summarized information for the year ended June 30, 2014, were as follows:

(all dollar amounts in thousands)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment net assets at beginning of year	$ 2,437,483	$ 2,061,685	$ 1,054,549	$ 5,553,717	$ 4,895,299
Investment returns					
Investment income	24,790	27,935	7,360	60,085	62,388
Net realized and unrealized gains (losses)	75,066	93,018	(1,680)	166,404	791,192
Total investment returns	99,856	120,953	5,680	226,489	853,580
Contributions	-	4,718	14,827	19,545	18,032
Appropriation of endowment assets for expenditure	(118,741)	(128,930)	-	(247,671)	(231,626)
Other changes					
Transfers to board designated endowment funds	12,336	-	-	12,336	14,167
Donor designation	-	-	8,027	8,027	1,128
Other transfers	-	595	-	595	3,137
Change in endowment net assets	(6,549)	(2,664)	28,534	19,321	658,418
Endowment net assets at end of year	$ 2,430,934	$ 2,059,021	$ 1,083,083	$ 5,573,038	$ 5,553,717

6. Financial Instruments

The following tables present the financial instruments carried at fair value on the Consolidated Statements of Financial Position as of June 30, 2015 and 2014, by category, in accordance with the valuation hierarchy defined in Note 1. Certain alternative investments, such as hedge funds, that do not have readily determinable fair values, are shown at investee-reported net asset value per share:

	2015				
	Level 1	Level 2	Level 3	NAV	Total
Investments					
Short term investments and fixed income securities					
Cash and equivalents	$ 108,648	$ -	$ -	$ -	$ 108,648
Short term investments	-	669,107	-	-	669,107
Investment grade U.S. bonds	-	267,190	-	-	267,190
Equity securities	740,071	-	-	-	740,071
Equity funds	-	-	-	998,080	998,080
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	995,115	995,115
Hedge	-	-	-	1,180,134	1,180,134
Real estate	-	-	-	187,162	187,162
Energy and natural resources	-	-	-	183,596	183,596
Real assets, oil and gas, and other	40,490	-	498,545	-	539,035
Life income agreements	163,458	910	107	-	164,475
Total investments at fair value	$ 1,052,667	$ 937,207	$ 498,652	$ 3,544,087	$ 6,032,613
Swaps payable	$ -	$ -	$ (132)		$ (132)

(all dollar amounts in thousands)

	2014				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Investments					
Short term investments and fixed income securities					
Cash and equivalents	$ 16,981	$ -	$ -	$ -	$ 16,981
Short term investments	-	465,331	-	-	465,331
Investment grade U.S. bonds	-	267,203	-	-	267,203
Equity securities	838,008	-	-	-	838,008
Equity funds	-	-	-	1,045,037	1,045,037
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	1,033,264	1,033,264
Hedge	-	-	-	1,033,469	1,033,469
Real estate	-	-	-	341,573	341,573
Energy and natural resources	-	-	-	237,133	237,133
Real assets, oil and gas, and other	238	-	498,798	-	499,036
Life income agreements	176,343	958	868	-	178,169
Total investments at fair value	$ 1,031,570	$ 733,492	$ 499,666	$ 3,690,476	$ 5,955,204
Swaps payable	$ -	$ -	$ (11,650)		$ (11,650)

The following tables present the changes in amounts included in the Consolidated Statements of Financial Position for financial instruments classified by the University within Level 3:

Assets
Investments

	Real Assets, Oil and Gas, and Other	**Life Income Agreements**	**Total**
Fair value July 1, 2014	$ 498,798	$ 868	$ 499,666
Realized gains	7,438	-	7,438
Unrealized losses	(36,818)	(761)	(37,579)
Capital calls/purchases	76,170	-	76,170
Distributions	(7,336)	-	(7,336)
Other	539	-	539
Transfers out	(40,246)	-	(40,246)
Fair value June 30, 2015	$ 498,545	$ 107	$ 498,652

(all dollar amounts in thousands)

	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
Fair value July 1, 2013	$ 431,653	$ 868	$ 432,521
Realized gains	5,955	-	5,955
Unrealized gains	68,295	-	68,295
Capital calls/purchases	500	-	500
Distributions	(7,235)	-	(7,235)
Other	(370)	-	(370)
Fair value June 30, 2014	$ 498,798	$ 868	$ 499,666

Liabilities
Swap Agreements

	Interest Rate Swaps	Commodity Swaps	Total
Fair value July 1, 2014	$ 11,113	$ 537	$ 11,650
Settlement of swap	(7,365)	-	(7,365)
Realized gains	(3,748)	-	(3,748)
Unrealized gains	-	(405)	(405)
Fair value June 30, 2015	$ -	$ 132	$ 132

	Interest Rate Swaps	Commodity Swaps	Total
Fair value July 1, 2013	$ 13,591	$ 1,218	$ 14,809
Unrealized gains	(2,478)	(681)	(3,159)
Fair value June 30, 2014	$ 11,113	$ 537	$ 11,650

The following table presents a summary of Level 3 valuation techniques and quantitative information utilized in determining the value of real assets, oil and gas, and other investments, where no practical expedient to using external manager's reported NAV exists.

Asset Type	Fair Value 2015	Fair Value 2014	Valuation Technique	Unobservable Input	2015 Rates	2014 Rates
Real estate	$ 252,535	$ 136,232	Discounted cash flow	Discount rate	5.5%-8.5%	6%–8%
Timber	83,943	85,571	Income approach	Discount rate	6%-8%	6%–8%
Oil and gas	128,000	121,810	Discounted cash flow	Discount rate	8%-10%	8%–10%
Purchase option	-	24,200	Income approach	Capitalization rate	0.0%	5.5%
Directly held stock	33,491	129,210	Varies	Varies	Varies	Varies
Other	576	1,775	Varies	Varies	Varies	Varies
	$ 498,545	$ 498,798				

(all dollar amounts in thousands)

The University recognizes transfers between levels as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2015 and 2014. There were no transfers between Level 2 and Level 3 in 2015 or 2014. There was one transfer between Level 1 and Level 3 in 2015.

As a practical expedient, the University is permitted under GAAP to estimate the fair value of its investments with external managers using the external managers' reported NAV without further adjustment unless the University expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP. Investments valued at NAV primarily consist of the University's ownership in alternative investments (including limited partnerships and interests in certain hedge and other similar funds). For those investments not valued at NAV, the University utilizes a hierarchy of inputs in determining fair value (Note 1). The following is a description of the University's valuation methodologies for assets and liabilities measured at fair value. The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Certain alternative investments, such as hedge funds, that offer redemptions within 180 days of the measurement date at investee-reported net asset value per share or its equivalent are reported as Level 2. Hedge funds that have significant portions of the net asset value in side pockets or special purpose vehicles and/or are only redeemable at fund manager discretion are reported as Level 3. If the redemption extends beyond 180 days, the investment is categorized as Level 3. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all. The fair values held by funds that do not have readily determinable fair values are determined by the respective managers and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investments, the fair value is determined by the manager taking into consideration, among other things, the cost of the investments, prices of recent significant placements of investments of the same issuer, and subsequent developments concerning the companies to which the investments relate. The University has performed due diligence with respect to these investments to ensure NAV or partners' capital per share is an appropriate measure of fair value as of June 30.

Hedge funds held by the University may be subject to restrictions that limit (i) the University's ability to redeem/withdraw capital from such funds during a specified period of time subsequent to the University's investment of capital (lockups) and/or (ii) the amount of capital that investors may redeem/withdraw as of given redemption/withdrawal dates (side pockets). Capital available for

(all dollar amounts in thousands)

redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the University's participation in illiquid investments. These funds generally limit redemptions to monthly, quarterly, semiannually, annually or longer, at NAV, and require between 30 and 90 days prior written notice, limiting the University's ability to respond quickly to changes in market conditions. The value of hedge funds classified as NAV included investment lockups that will expire over the next 12 to 36 months of $571,543 and $382,862 at June 30, 2015 and 2014, respectively, and side pockets of $48,612 and $35,821 at June 30, 2015 and 2014, respectively, that had indeterminate redemption periods. The University's nonhedge fund investments restrict the ability to withdraw, which limits the University's ability to respond quickly to changes in market conditions. These investments are therefore illiquid.

The University entered into an agreement in June 2012 to hedge a portion of the cost of electricity that took effect on July 1, 2013. The estimated fair value of the arrangement was a liability of $132 as of June 30, 2015 and a liability of $537 as of June 30, 2014. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities. The fair value of the agreements is the estimated amount that the University would pay or receive to terminate these contracts as of June 30.

Life income agreement assets consist primarily of mutual funds, with some directly held assets in real estate, oil and gas, and bonds. Life income investments included in Level 1 are cash and cash equivalents and mutual funds investing in equities, real estate funds and fixed income securities. Life income investments included in Level 2 are directly held bonds and U.S. Treasury securities. Life income investments included in Level 3 are directly held interests in real estate, oil and gas, and other investments. The life income agreement investments are managed by an external manager.

7. Property and Equipment

Property and equipment at June 30, 2015 and 2014 were as follows:

	Estimated Useful Lives (Years)	**2015**	**2014**
Land	-	$ 23,803	$ 23,785
Buildings and improvements	20–50	1,459,584	1,429,846
Equipment, furniture and library books	2–20	406,230	378,839
Art	-	10,784	10,636
Construction in progress	-	24,676	22,083
Less: Accumulated depreciation	-	(751,468)	(693,447)
Property and equipment of educational plant		1,173,609	1,171,742
Fixed assets of consolidated endowment investments, net		16,710	10
Total property, plant, and equipment		$ 1,190,319	$ 1,171,752

(all dollar amounts in thousands)

8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2015 and 2014, were as follows:

	2015	2014
Unsettled investment purchases and advances	$ 1,275	$ 2,004
Vendor accounts payable	17,313	13,707
Accrued payroll and employee benefits	12,245	13,278
Sponsored programs unearned income	29,806	32,962
Other unearned income	5,140	4,793
Asset retirement obligations	5,153	5,317
Swap agreements	132	11,650
Accrued interest payable	6,039	3,484
Other liabilities	3,394	2,774
Total accounts payable and other liabilities	$ 80,497	$ 89,969

9. Liabilities of Consolidated Endowment Investments

Liabilities of consolidated endowment investments are the liabilities of the companies that the University endowment has invested in and are required to be consolidated in the University's financial statements. Deferred revenue is the future obligation for payments received for multi-year contracts. Notes payable are the debt obligations, secured by assets, of the borrower. The liabilities are the obligation of the underlying endowment investment companies with no recourse to the University.

	2015	2014
Accrued interest payable	$ 167	$ -
Unearned income	25,960	1,023
Accrued payroll and employee benefits	-	693
Other accrued liabilities	-	1,179
Vendor accounts payable	4,992	858
Notes and bonds payable	44,584	-
Total liabilities of consolidated endowment investments	$ 75,703	$ 3,753

(all dollar amounts in thousands)

10. Notes and Bonds Payable

Notes and bonds payable at June 30, 2015 and 2014, were as follows:

	2015	2014
Taxable bonds, Series 2015, maturing 2016 through 2055, with an average coupon of 3.686% per annum payable semiannually	$ 700,000	$ -
Taxable bonds, Series 2013, maturing 2061 through 2063, with an average coupon of 4.63% per annum payable semiannually	113,985	113,985
City of Houston Higher Education Finance Corporation (CHHEFC)		
Tax-exempt revenue refunding bonds, Series 2013A & 2013B, maturing 2023 through 2048, with an average coupon of 0.46% for Series 2013A and an average coupon of 0.59% for Series 2013B per annum payable semiannually	-	247,180
Tax-exempt revenue bonds, Series 2010A & 2010B, maturing 2031 through 2048, with an average coupon of 5% per annum payable semiannually for Series 2010A and an average coupon of 0.05% per annum payable monthly for Series 2010B	121,250	121,250
Tax-exempt revenue bonds, Series 2007A & 2007B, maturing 2010 through 2047, with an average coupon of 4.75% per annum payable semiannually in 2014 and maturing 2016 through 2017 with an average coupon of 5% in 2015	5,405	298,040
Total bond liability	940,640	780,455
Tax-exempt commercial paper notes, Series A, with interest ranging from 0.08% to 0.13% at June 30, 2014 per annum payable upon maturity	-	25,695
Taxable commercial paper notes, Series A, with interest ranging from 0.14% to 0.17% at June 30, 2015 per annum payable upon maturity	22,365	-
Discount on 2007B bonds, premium on 2007A and 2010A bonds	4,713	9,627
Total notes and bonds payable	$ 967,718	$ 815,777

The University incurred interest expense and bond costs, net of interest earned, of approximately $33,505 and $32,873 in 2015 and 2014, respectively. Of these amounts, interest expense of $32,931 and $32,962 was charged to operations in 2015 and 2014, respectively. Interest expense of $574 and $7 was capitalized in 2015 and 2014, respectively. The University made interest payments of approximately $24,294 and $24,954 in 2015 and 2014, respectively.

The estimated fair value is listed below after each series. These values are based on the market price quoted from external sources. This is classified as Level 2 in the fair value hierarchy.

(all dollar amounts in thousands)

Taxable Bonds
Series 2015
On April 22, 2015, the University issued taxable bonds with a par value of $700,000 with an underwriters discount of $4,045 and issuance costs of $662. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually beginning May 15, 2015. These bonds mature in the amount of $20,000 on May 15, 2016, $340,000 on May 15, 2045, and $340,000 due on May 15, 2055. Mandatory sinking fund redemption payments are required for the 2045 and 2055 bond maturities in each of four years leading up to the maturity dates.

The estimated fair value of the Series 2015 taxable bonds was $631,939 at June 30, 2015.

Proceeds from these bonds were used to advance refund the Series 2013A and 2013B debt of $247,180 and a portion of Series 2007A and 2007B revenue bonds of $292,635 by irrevocably placing assets with a trustee to pay principal, interest and call premium on the obligations. The University has met all requirements for legal defeasance and therefore considers the debt to be defeased. The University also used the proceeds to terminate interest rate swap agreements for $7,365 and provide the University with $92,930 proceeds to be used for future capital projects. The University recognized a loss on the extinguishment of debt of $27,197, which includes the writeoffs discussed below and a gain on the termination of the interest rate swap agreements of $3,748. Both of these items are included in the Other nonoperating changes, net line in the Consolidated Statements of Activities.

Legal provisions related to the advance refunding of the Series 2013A and 2013B tax-exempt revenue bonds, which were floating rate notes, required that funds sufficient to pay interest at the maximum rate permitted under the bond documents be placed in escrow. The funds placed in escrow are expected to be in excess of the amount necessary to satisfy principal and interest obligations at current interest rates and therefore the University has a beneficial interest in the escrow funds which will vary based on actual interest rates. After the debt is retired on May 15, 2016, the amount related to the beneficial interest in the escrow funds will be returned to the University. The University has recorded an estimate of this asset of $23,000 within accounts receivable and other assets. This estimate is based on comparing expected interest rates to the maximum rate of interest that was required to be funded. The fair value of the beneficial interest was further adjusted for potential interest rate volatility. This is classified as Level 3 in the fair value hierarchy.

Series 2013
On June 26, 2013, the University issued taxable bonds. Interest payments on the bonds are payable semiannually beginning November 15, 2013. Principal payments start May 15, 2061 and continue annually until their maturity on May 15, 2063.

The proceeds of the bonds were used to refund all of the Series 2008A revenue bonds of $100,000, refund a portion of the outstanding commercial paper notes of $13,000, and pay the costs of issuance of the bonds of $985.

The estimated fair value of the Series 2013 taxable bonds was $113,456 and $118,665 at June 30, 2015 and 2014, respectively.

(all dollar amounts in thousands)

Tax-Exempt Revenue Bonds
Series 2013A and 2013B
On June 26, 2013, the University issued Series 2013A and 2013B revenue refunding bonds through the CHHEFC. These bonds were fully refunded with the proceeds from the Series 2015 taxable bonds on April 22, 2015.

The Series 2013A revenue bonds had a face value of $147,180 and the Series 2013B revenue bonds had a face value of $100,000. Both were issued as Securities Industry and Financial Markets Association (SIFMA) Index floating rate notes.

The Series 2013A and 2013B bonds were issued without an original issue premium or discount and with issuance costs of $1,265. The issuance costs were paid by the University and amortized over the term of the bond issue. Remaining unamortized issuance costs of $1,157 were recognized as a loss at the time of refunding.

The estimated fair value of the CHHEFC Series 2013A and Series 2013B bonds approximated the face value at June 30, 2014 as the rates are reset weekly.

Series 2010A and 2010B
On June 2, 2010, the University issued Series 2010A and 2010B revenue bonds through the CHHEFC. The Series 2010A revenue bonds, with a face value of $94,485, were issued as fixed rate debt with an average coupon of 5%. The Series 2010B revenue bonds, with a face value of $39,765, were issued as variable rate demand bonds (VRDBs), which are subject to optional and mandatory tender. The University is not required to obtain or maintain a liquidity facility for the Series 2010B bonds.

In the event that the University receives notice of any optional tender on its Series 2010B bonds, or if these 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 is obligated to purchase the bonds tendered at 100% of par value on the tender date.

The Series 2010A bonds were issued with a $5,637 original issue premium and issuance costs of $606. The Series 2010B bonds were issued without an original issue premium or discount and are being amortized over the term of the bond issue. Interest payments on the Series 2010A bonds are payable semiannually and interest payments on the Series 2010B bonds are payable monthly. Principal payments for Series 2010A commence on May 15, 2031 and will be required annually until the scheduled maturity date of May 15, 2040. Principal payments for Series 2010B begin May 15, 2041 and continue annually until their maturity date on May 15, 2048. On June 20, 2013, the University returned $13,000 of unspent Series 2010B bond proceeds.

Unspent bond proceeds of $15,697 and $16,912 at June 30, 2015 and 2014, respectively, were invested in a mutual fund holding U.S. government securities.

The estimated fair value of the CHHEFC series 2010A bonds was $106,623 and $105,956 at June 30, 2015 and 2014, respectively. The estimated fair value of the CHHEFC Series 2010B bonds approximated the face value at June 30, 2015 and 2014 as the rates are reset weekly.

Series 2007A and 2007B
On June 12, 2007, the University issued Series 2007A and 2007B revenue bonds through the CHHEFC; Series 2007A bonds with a face value of $209,165 and Series 2007B bonds with a face value of $100,000. Interest payments on the bonds are payable semiannually.

(all dollar amounts in thousands)

On April 22, 2015, substantially all of the bonds were refunded in the amount of $292,635 with proceeds of the Series 2015 taxable bonds. At June 30, 2015, there was $5,405 outstanding which is scheduled to be paid by June 30, 2017 through regularly scheduled debt service payments.

The Series 2007A bonds were issued with a $5,832 original issue premium and the Series 2007B bonds were issued net of a $365 original issue discount. The underwriters discount and issuance costs of both issuances of $2,538 were capitalized by the University and all are being amortized over the term of the bond issue. Remaining unamortized issuance premium, discounts and costs of $2,088 were recognized as a loss at the time of refunding.

The estimated fair value of the CHHEFC Series 2007A bonds was $5,405 and $214,209 at June 30, 2015 and 2014, respectively. The estimated fair value of the CHHEFC Series 2007B bonds was $107,769 at June 30, 2014.

Principal maturities for notes and bonds payable as of June 30, 2015, excluding commercial paper and unamortized discounts and premiums, were as follows:

2016	$ 22,635
2017	2,770
2018	-
2019	-
Thereafter	915,235
	$ 940,640

Commercial Paper Notes
The University has a tax-exempt commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of $100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days. The outstanding balance under the facility was $25,695 with an average interest rate 0.14% and an average maturity of 94 days as of June 30, 2014. The tax-exempt commercial paper outstanding was paid in full as of June 17, 2015.

The University established a taxable commercial paper program in May 2015 that provides for borrowings in the form of individual notes up to an aggregate of $100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days. The outstanding balance under the facility was $22,365 with an average interest rate of 0.16% and an average maturity of 33 days as of June 30, 2015.

The estimated fair value of the commercial paper notes approximates the face value.

Interest Rate Swaps
Effective June 29, 2011, the University entered into an interest rate swap agreement with a notional amount of $100,000. The University received amounts based on SIFMA swap index and made payments based on a fixed rate of 1.46%.

The estimated fair value of this swap arrangement was a liability of $2,315 at June 30, 2015. The change in value is reported in other nonoperating changes in the Consolidated Statements of Activities.

(all dollar amounts in thousands)

Effective March 29, 2006, the University entered into interest rate swap agreements with a notional amount of $147,180. The University received amounts based on 67% of the three-month London Interbank Offered Rate (LIBOR) and made payments based on a fixed rate of 3.868%. While the Series 2006A and 2006B and the Series 2008A and 2008B bonds were repaid, the swap agreements remained outstanding.

The estimated fair value of these swap arrangements was a liability of $8,797 as of June 30, 2014. The change in value is reported in other nonoperating changes in the Consolidated Statements of Activities.

Both interest rate swap agreements were terminated on April 22, 2015 for a net gain of $3,748, which has been reported in other nonoperating changes in the Consolidated Statements of Activities.

11. Net Assets

The University's unrestricted, temporarily restricted, and permanently restricted net assets as of June 30, 2015 are categorized by purpose as follows, with summarized information as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Internally designated	$ 146,226	$ -	$ -	$ 146,226	$ 138,765
Restricted by donor	139,888	132,180	-	272,068	227,884
Net investment in plant	252,453	61,718	-	314,171	344,147
Endowment and designated for long-term investment	2,430,934	2,059,021	1,083,083	5,573,038	5,553,717
Life-income trusts	-	34,129	14,725	48,854	55,299
Student loans	1,004	-	2,891	3,895	3,580
Net assets Rice University	$ 2,970,505	$ 2,287,048	$ 1,100,699	6,358,252	6,323,392
Net assets noncontrolling interests				29,333	-
Total net assets				$ 6,387,585	$ 6,323,392

12. Student Financial Aid

Gross student tuition and fees of $250,475 and $239,682 in 2015 and 2014, respectively, are presented in the consolidated financial statements net of scholarship and fellowship awards of $102,248 and $95,493, respectively. Auxiliary enterprises revenue was reduced by scholarship awards applied to room and board charges of $6,429 and $5,671 in 2015 and 2014, respectively. Scholarship and fellowship awards in excess of the above amounts are reported as expense.

(all dollar amounts in thousands)

13. Grants and Contracts

The major components of grants and contracts revenue for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Government		
Direct	$ 69,989	$ 68,550
Indirect	18,454	18,033
Total government	88,443	86,583
Foundation, industrial, and other		
Direct	34,437	26,935
Indirect	4,196	3,191
Total foundation, industrial, and other	38,633	30,126
Total grants and contracts	$ 127,076	$ 116,709

The University receives funding from federal government agencies for research and other programs conducted under government grants and contracts. The grants and contracts provide for reimbursement of direct and indirect costs. Indirect (facilities and administrative) costs are reimbursed under a negotiated rate agreement with the federal government which is predetermined through fiscal year 2015.

14. Functional Expenses

Expenses of the University by major functional category for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Instruction and department research	$ 288,857	$ 268,556
Sponsored research and other sponsored programs	101,544	103,062
Library	33,531	30,248
Scholarships and fellowships	19,077	18,900
Auxiliary enterprises	55,713	52,238
Student services	70,605	65,100
General administration	31,804	32,057
Institutional development and other activities	25,337	24,754
Total operating expenses	$ 626,468	$ 594,915

The above table includes depreciation expense of $56,987 and $55,251 and operations and maintenance expense of $44,121 and $42,409 in 2015 and 2014, respectively, which were allocated to the major functional categories based on space usage. Depreciation of library books of $10,093 and $9,834 was recognized as library expense in 2015 and 2014, respectively. Interest of $32,931 and $32,962 in 2015 and 2014, respectively, was recorded by functional category based on identification of related construction projects.

(all dollar amounts in thousands)

15. Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. The University employs a conflict of interest policy that requires any such associations to be disclosed in writing on an annual basis and updated as appropriate during the year. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the entity doing business with the University. The transactions with entities associated with trustees or senior management are not considered to be significant and may include investment management, common membership in investment partnerships or other investment vehicles, or the purchase of goods or services.

16. Retirement Plans

Substantially all employees are eligible to participate in a defined contribution retirement plan, which is administered by a third party. The plan operates in accordance with Section 401(a) of the Internal Revenue Code. University contributions are made to this plan. In addition, employees may elect to participate in plans created under Section 403(b) of the Internal Revenue Code. The contributions of the University and its employees can be applied to a range of investments. The University's contributions to the plan of $22,633 and $21,075 were recorded as expense in the appropriate functional categories in 2015 and 2014, respectively.

17. Commitments and Contingencies

A number of suits and claims are pending against the University. While final outcomes cannot be determined at this time, management believes, after consultation with its legal counsel, that the uninsured liability, if any, resulting from these suits and claims will not have a material adverse effect on the University's financial position, operations, or cash flows.

The University receives funding from federal government agencies for research and other programs conducted under government grants and contracts. The costs recovered by the University in support of sponsored programs are subject to audit and adjustment.

In connection with its private equity investment program (Note 4), the University is obligated under certain limited partnership agreements to advance additional funding up to levels specified in each agreement upon the request of the general partner. At June 30, 2015 and 2014, the University had unfunded commitments of approximately $670,000 and $609,000, respectively, which are expected to be called primarily over the next five to seven years.

Additionally, the University was committed under contracts at June 30, 2015 and 2014 for capital construction and improvements and major maintenance of approximately $37,061 and $21,000, respectively, to be financed primarily from gifts and net assets designated for long-term investments, and from debt to the extent other resources are not available. Other purchasing commitments of approximately $7,210 and $9,000 were also outstanding at June 30, 2015 and 2014, respectively.

(all dollar amounts in thousands)

18. Subsequent Events

The University evaluated subsequent events from July 1, 2015 to October 26, 2015, the date these consolidated financial statements were issued, for events that occurred after the financial position date that would have a material impact on the University's consolidated financial statements. No material items were noted which require disclosure.