FINANCIAL REPORT

FISCAL YEAR 2014

HARVARD UNIVERSITY

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Message from the President

I write to report on Harvard University's financial results for fiscal 2014.

The close of our fiscal year marked the anniversary of the public launch of The Harvard Campaign, which has energized and engaged Harvard alumni around the world, with more than 100,000 people participating to date. It has also demonstrated the vision and generosity of our alumni and donors, who see in Harvard's remarkable students, faculty, and staff the potential to open new frontiers of knowledge and understanding, and to tackle some of the world's most intractable problems.

A transformative gift from Kenneth Griffin primarily in support of Harvard's financial aid program for undergraduates highlights this generosity and will ensure that Harvard College remains affordable for the most talented students, regardless of their economic circumstances, now and for generations to come. More recently, an extraordinary gift from the Morningside Foundation, in memory of the late T.H. Chan, to the School of Public Health will propel efforts to address the most critical global health challenges and to translate rigorous research into action and policy worldwide.

In the past year, Harvard scientists and engineers made meaningful advances in developing renewable sources of energy and groundbreaking discoveries in areas such as Alzheimer's, cancer treatment and diabetes. At the same time, we continue to integrate arts practice and performance into the undergraduate curriculum. To that end, we watched as the new home of the Harvard Art Museums facility neared completion and look forward to its opening. The museums will increase access to Harvard's vast collections for pedagogy and research, while serving as a cornerstone of our collective and ongoing commitment to the study of the humanities. That commitment was highlighted again this year with the launch of three new introductory undergraduate courses in the arts and humanities: "The Art of Looking," "The Art of Listening," and "The Art of Reading."

Demand for knowledge is ever increasing. The number of applicants to Harvard College approached record highs, and our online learning platform, HarvardX, continued to thrive, supporting more than 80 faculty from 10 Harvard Schools and more than 40 online learning opportunities. Harvard Business School also launched its online learning portal, HBX, and HarvardX for Alumni was created to serve our unique community of continuing learners around the globe. We also continued to build a deeper understanding of how students learn and how we can better integrate new forms of teaching into the classroom experience.

Significant progress has been made in House renewal with the completion of Leverett House's McKinlock Hall and the start of construction on Dunster House, the first full House to undergo renewal. The Harvard Kennedy School has received approval for ambitious construction and reconfiguration plans which will begin to be realized this spring. And across the river, our vision for a dynamic future in Allston has begun to take root with the approval of the University's ten year institutional master plan, and with academic and space planning for the move of the School of Engineering and Applied Sciences to Allston well underway. Looking ahead, plans for the Richard A. and Susan F. Smith Campus Center are beginning to take shape, with the goal of creating a welcoming common space for the Harvard community.

All of these things happen against a backdrop of transformation in American higher education. The financial headwinds facing Harvard – among them pressures on federal research funding – continue to challenge all of us to prioritize and adapt, and to act creatively, thoughtfully and decisively as a community.

With the support of alumni and donors, and the remarkable work of our faculty, students and staff, we have made great progress together toward the formation of a financially sustainable model that will better support our shared aspirations for Harvard's future.

Sincerely,

Drew Gilpin Faust

Drew Gilpin Faust
PRESIDENT

November 7, 2014

Financial Overview

From the Executive Vice President and the Treasurer

We write to report on the University's financial position and results for the fiscal year ended June 30, 2014. The University's operating surplus was $2.7 million, which includes the impact of a one-time benefits-related charge of almost $46 million. Excluding this one-time charge, the University's operating surplus would have been approximately $49 million. While this represents an improvement over last year's deficit, in relative terms, this operating surplus is just over 1% of the University's operating revenue. Just as last year's $34 million deficit was not cause for undue alarm, so is this year's surplus not cause for excessive optimism. We are heartened by the University's marginal budgetary improvements, but continue to believe that Harvard, like many other colleges and universities, is facing ongoing foundational financial pressures.

This year's financial report offers much to like. The Harvard Campaign has thus far exceeded initial expectations, and has had a very positive impact on current use giving (24% increase), receipts from philanthropy (46% increase), and year-end pledges receivable (29% increase). Moreover, the overall quality of philanthropy has been quite promising, in terms of the alignment we are achieving between donors' interests and the University's core needs. The most extraordinary examples of such alignment include Kenneth Griffin's $150 million endowment pledge, which is substantially dedicated to undergraduate financial aid, and the more recent unrestricted endowment pledge of $350 million from The Morningside Foundation for the benefit of the Harvard T. H. Chan School of Public Health. We are grateful for and humbled by the energetic engagement of our broad community of alumni and friends in the Campaign, and we are increasingly confident that the Campaign ultimately will yield fundamental improvements in the University's finances and financial prospects.

At the same time, the University continues to recognize the importance of further actions that we must take to counteract pressures on Harvard's revenues and expenses. With respect to revenue, the University achieved meaningful growth in continuing and executive education, driven in part by the opening of Tata Hall, which increased the capacity of executive education programs at Harvard Business School. Even more noteworthy was the encouraging growth in corporate-sponsored research. This is of particular importance to the University in light of a continuing decline in research funding from the federal government.

Cost management has been more challenging, both at Harvard and across higher education more broadly, due to the people- and space-intensive nature of teaching and research. With approximately half of Harvard's budget allocated to compensation, we have been focusing our efforts in recent years on initiatives to control staff growth, to opportunistically seek efficiencies in our business practices, and to evaluate the University's benefits offerings relative to both peers and the local market. We continue to make progress on all of these dimensions, yet in many cases considerable time and resources are required to effect change – particularly where greater efficiencies are being sought by aggregating activities that previously had been undertaken in highly decentralized configurations.

Beyond the University's operating result, we are pleased with the overall growth of $4.6 billion in Harvard's net assets, much of which is attributable to net growth in the market value of the endowment. At $36.4 billion, the endowment is within 2% of its 2008 peak – but with a significantly improved risk and liquidity profile. Harvard's endowment, like those of our peers, still must recapture its lost purchasing power so that future generations of students and scholars will receive the same important support that has been available to past generations. The University has made great progress since the global financial crisis of 2008-2009 in our management and stewardship of this critical asset, and we thank Jane Mendillo and her team at the Harvard Management Company for their successful efforts in this regard.

Despite the financial progress we have made, there are several continuing forces of countervailing pressure, requiring us to remain vigilant and disciplined:

- The prospect of continued volatility in capital markets, after a nearly unprecedented duration of consistent gains in the United States equity market;

- The continuing pressure on the federal budget, which once again can be seen in this year's 5% decline in the University's federal sponsored revenue;
- Ongoing stagnation in median household income growth, coupled with the University's industry – leading financial aid program – both of which put increasing pressure on grant aid expenditures; and
- Harvard's need to make sizable capital investments to maintain and enhance its leading position, including the ongoing renovation of undergraduate houses, the expansion of our School of Engineering and Applied Sciences and its longer-term relocation to Allston, and our continuing exploration of transformative improvements in online teaching and learning.

It is in this difficult context that the University considers equally difficult choices, such as recently announced changes in Harvard's health plan offerings to faculty and non-union staff. Change is never easy and is particularly difficult when the broader operating environment provides both positive and negative signals regarding the future. We must undertake as a community the most thoughtful choices we can, in order to create incremental resources for our current teaching and research, and to ensure that future generations of students and scholars will have opportunities to excel and thrive. Harvard's community of faculty, students and staff has risen admirably to the challenge thus far, and we expect to see still more of their remarkable diligence, thoughtfulness and creativity in the coming months and years. The strength of this community is indeed one of Harvard's greatest competitive advantages.

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

Katherine N. Lapp
EXECUTIVE VICE PRESIDENT

Paul J. Finnegan
TREASURER

November 7, 2014

FINANCIAL OVERVIEW

The University ended fiscal 2014 with an operating surplus of $2.7 million (which includes a one-time benefits adjustment) compared to an operating deficit of $33.7 million in fiscal 2013. The University's net assets increased by $4.6 billion to $43.2 billion at June 30, 2014, driven mainly by positive endowment returns.

OPERATING REVENUE

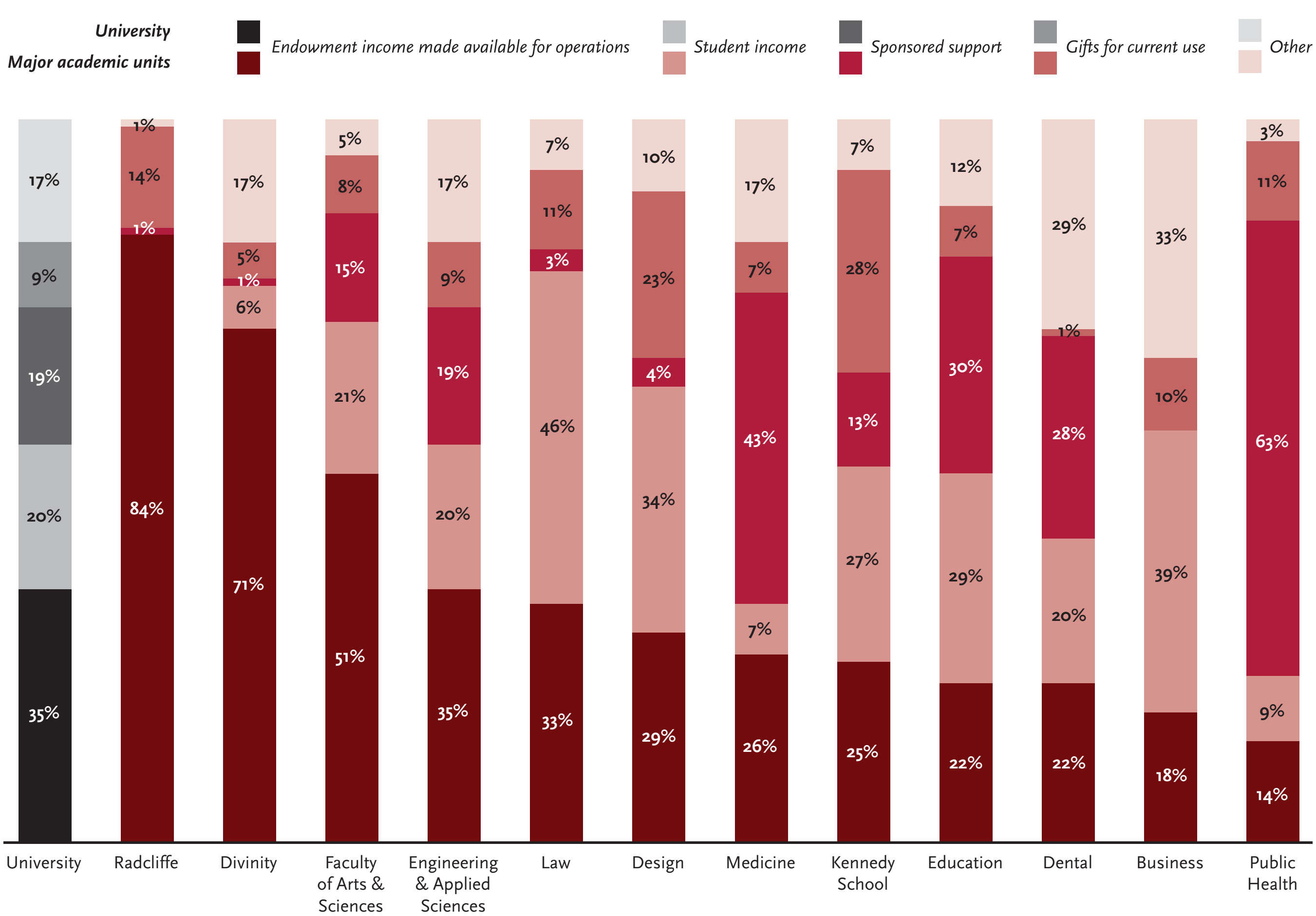
Total operating revenue increased 5% to $4.4 billion. An increase in gifts for current use as a result of The Harvard Campaign and an increase in the annual distribution from the endowment were the largest drivers. The University continues to focus on diversifying its sources of revenue which is reflected in the growth in income from continuing and executive education programs, corporate sponsors and publishing and royalty revenue.

Current use gifts increased by 24% to $419 million in fiscal 2014, and total receipts from giving, including gifts designated as endowment, increased 46% to $1.2 billion (see Note 16 of the audited financial statements). The significant increase in giving is a result of the generosity of our alumni and supporters in their contributions to the University's first capital campaign in over a decade. We are extremely grateful for this support.

In fiscal 2014, the endowment distribution increased 3% to $1.5 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 5.6% compared to the University's targeted payout rate range of 5.0-5.5% and the 5.5% payout rate in fiscal 2013.

Revenue from federal and non-federal sponsored funding declined by $13 million or 2% to $819 million in fiscal 2014. Federal funding, which accounted for approximately 75% of the total sponsored revenue in fiscal 2014, declined 5% to $611 million while

FISCAL 2014 SOURCES OF OPERATING REVENUE



non-federal funding increased 9% to $209 million. The decline resulted from the continuing depletion of American Recovery and Reinvestment Act funding coupled with a decrease in funding from federal sponsors, primarily the National Institute of Health, which is the University's largest source of federal funding. The 9% increase in revenue recorded from non-federal funding, most notably industry sponsors, helped to mitigate the decline in federal funding, which is expected to continue over time.

Total student revenue increased approximately 7% to $878 million in fiscal 2014, driven principally by 11% growth in revenue from continuing and executive education programs. The completion of Tata Hall at the Business School created additional executive education capacity for new offerings and expanded enrollment. Several other schools expanded their course offerings and enrollment as well. Net revenue from undergraduate and graduate students grew 6%, driven by modest increases in rate and enrollment partly offset by a continued commitment to financial aid.

OPERATING EXPENSES

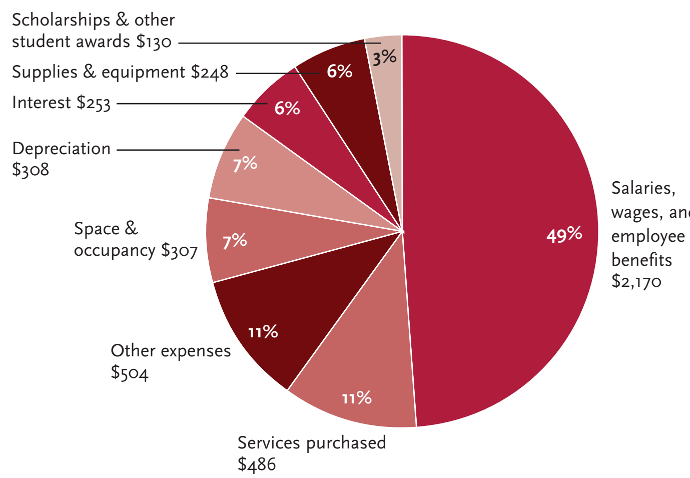
Total operating expenses increased by 4% to $4.4 billion. Compensation expense (i.e., salaries, wages and benefits), which represents approximately half of the University's total operating expense, increased 5% from $2.1 billion in fiscal 2013 to $2.2 billion in fiscal 2014.

Salaries and wages increased by 6%, or $87 million, to $1.6 billion in fiscal 2014 due to the University's budgeted merit programs as well as additional faculty and staff to support strategic areas of focus such as online learning, information technology investments, and continuing and executive education programs.

Employee benefits expense (excluding a $46 million one-time adjustment for a change in valuation methodology for the defined benefit plan) decreased 5%, or $23 million to $484 million. The decrease was mainly driven by a reduction in annual expense for both the University's defined benefit pension and postretirement health plans due to favorable changes in actuarial assumptions that were set when establishing the obligation on the University's *Balance Sheet* at the end of fiscal year 2013. In addition, plan changes slowed the rate of growth in postretirement health benefits costs. Conversely, the University's active employee health plan expense increased 5%, primarily resulting from an increase in total enrollment and health care cost inflation. In order to moderate health cost increases, the University is making changes to its active employee health benefits offering, effective January 1, 2015.

FISCAL 2014 OPERATING EXPENSES

In millions of dollars



TOTAL OPERATING EXPENSES $4,406

BALANCE SHEET

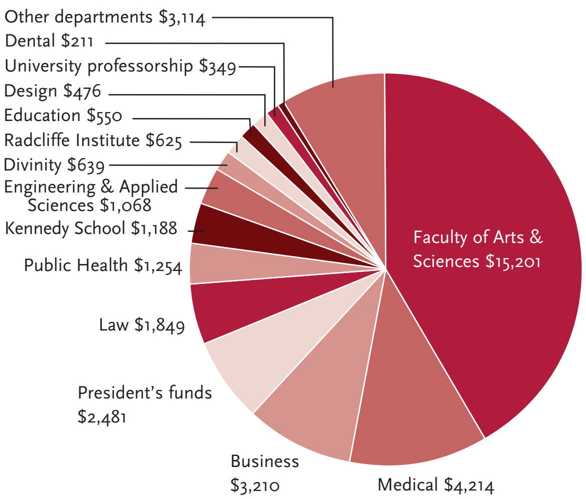
Investments

In fiscal 2014, the endowment earned an investment return of 15.4% 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 $32.7 billion at the end of fiscal 2013 to$36.4 billion at the end of fiscal 2014. More information can be found in the Message from the CEO of Harvard Management Company (HMC), found on page 8 of this report.

The University's holdings of liquid investments (e.g., cash and treasuries) outside of the General Investment Account (GIA) increased from $1.5 billion at June 30, 2013 to $2.1 billion at June 30, 2014. Over the past several years, the University has increased the amount of liquid, low risk investments held outside the GIA to enhance liquidity and financial flexibility.

FAIR VALUE OF THE ENDOWMENT AS OF JUNE 30, 2014

In millions of dollars



TOTAL FAIR VALUE $36,429

Debt

Outstanding debt decreased from $5.7 billion at June 30, 2013 to $5.6 billion at June 30, 2014. The University engaged in 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.

The University is rated AAA by Standard & Poor's Ratings Services (re-affirmed in fiscal 2014) and Aaa by Moody's Investors Service. 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 $83 million or 11% to $837 million at June 30, 2014. The valuation of these obligations is sensitive to interest rates (i.e., lower interest rates result in an increase in future obligations). At June 30, 2014, rates had decreased as compared to interest rates at June 30, 2013, resulting in an increase in both the defined benefit pension and postretirement obligations. These increases coupled with a one-time valuation methodology adjustment of $46 million to the defined benefit pension plan drove the increase in the obligation.

Capital Expenditures

The University invested $465 million in capital projects during fiscal 2014, an increase of approximately 15% versus fiscal 2013. This enabled progress on several significant projects including:

- Completion of the Harvard Art Museums' renovation and expansion, which when opened in the fall of 2014, will result in greater accessibility to the University's world-renowned collections;
- Undergraduate long-term house renewal initiative: completion of Leverett's-McKinlock Hall renovation, onset of the Dunster Hall project, and renovation of the Inn at Harvard, which will be used as swing space;
- Completion of Tata Hall, to support the Business School's portfolio of executive education programs;
- Relocations and preparation for the Barry's Corner Residential Commons project, undertaken in partnership with a third-party developer.

This concludes the summary of the key financial highlights for fiscal 2014. We encourage you to read the audited financial statements and related notes for more information regarding the financial position and results of the University.

Message from the CEO of Harvard Management Company

I am pleased to report that for the fiscal year ended June 30, 2014, the return on the Harvard endowment was 15.4% and the endowment was valued at $36.4 billion. The endowment return exceeded our Policy Portfolio benchmark by 82 basis points.

Over the last five years, we have consistently delivered investment returns in excess of our benchmark, resulting in a cumulative value-added above the markets of $1.9 billion, net of all costs. Additionally, over the last five years we have distributed a total of $11.6 billion in cash to the University, providing substantial financial support for Harvard's academic, financial aid, and research programs.

INVESTMENT RETURNS (ANNUALIZED FOR PERIODS GREATER THAN ONE YEAR)

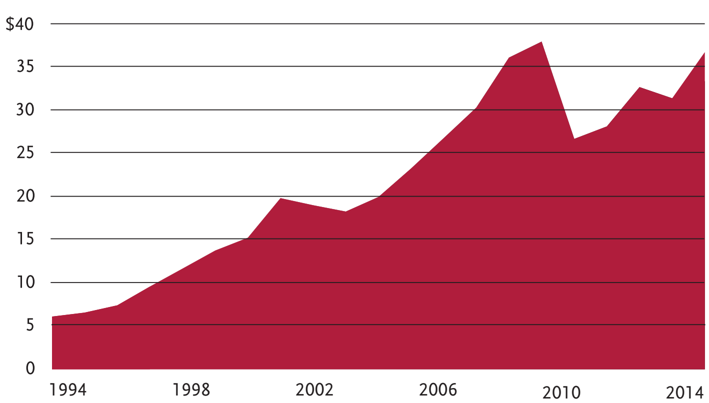
	HMC	Policy Portfolio Benchmark	Relative
1 year	15.4%	14.6%	0.8%
5 year	11.6%	10.2%	1.4%
10 year	8.9%	7.0%	1.9%
20 year	12.3%	9.4%	2.9%
40 year	12.3%	10.9%	1.4%

The last five years have been a period of significant recovery and repositioning for the Harvard endowment. In spite of the many difficulties experienced as a result of the financial crisis, we have delivered a five-year annualized return of 11.6%, which is consistent with the long-term returns HMC has delivered over the last 10, 20, and 40 years. Our organization and our portfolio are now well positioned to continue to deliver substantial returns and cash flow to the University for decades to come.

Many studies have shown that the majority of active investment managers are not successful in beating the markets in which they invest. Achieving returns that are consistently in excess of the markets—adding value above the Policy Portfolio—is not easily accomplished, although HMC has a successful long-term record on this score. Even after accounting for the impact of the financial crisis, the value of $1,000 invested alongside the Harvard endowment in 1994 would have been more than $10,000 at the end of fiscal year 2014.

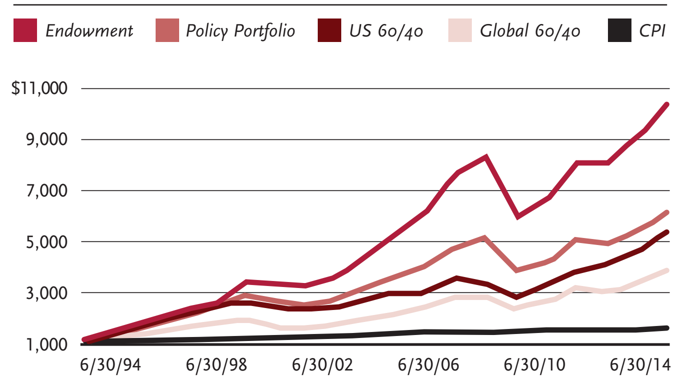
TOTAL VALUE OF THE ENDOWMENT (AFTER DISTRIBUTIONS)

In billions of dollars



GROWTH OF $1,000 INVESTED IN ENDOWMENT VS. POLICY PORTFOLIO AND 60/40 PORTFOLIOS

TWENTY YEAR CUMULATIVE RETURNS



The steady recovery of the endowment is shown in the chart above. Over the last five years the endowment has grown in value by over $10.3 billion.

POLICY PORTFOLIO

The Policy Portfolio is a long-term target portfolio composed of the mix of assets that HMC and our Board judge to be the optimal fit with the University's needs. The HMC Board and management team work together to arrive at a Policy Portfolio allocation designed to achieve three objectives: growth of the portfolio, sufficient liquidity, and appropriate risk management. The Policy Portfolio provides HMC with a guide as to the actual allocation of the investment portfolio and also serves as a measuring stick when judging the success of our active management strategies. When the endowment portfolio outperforms the Policy Portfolio, it means that active management has added value over and above the markets.

The Policy Portfolio for fiscal year 2015 is found below, along with historical Policy Portfolios. As shown in the chart, the expected long-term return for HMC's Policy Portfolio has increased since 2008, even as leverage has decreased, as we have increased exposure to growth assets and reduced the fixed income allocation.

	Policy Portfolio 2015	Policy Portfolio 2014	Policy Portfolio 2008
Domestic equity	11%	11%	12%
Foreign equity	11	11	12
Emerging markets equity	11	11	10
Private equity	18	16	11
Total equity	**51**	**49**	**45**
Public commodities	0	2	8
Natural resources	11	13	9
Real estate	12	10	9
Total real assets	**23**	**25**	**26**
Absolute return	**16**	**15**	**18**
Fixed income	**10**	**11**	**16**
Cash	**0**	**0**	**-5**
Total	**100%**	**100%**	**100%**
Expected long-term return	7.4	7.2	6.9

The asset class allocations in the Policy Portfolio for fiscal year 2015 were decided after in-depth analysis. A few notable topics include:

Emerging markets. The Harvard portfolio has significant exposure to emerging markets equity. Although these markets have underperformed developed markets equity over the last couple of years, we continue to believe that this asset class represents an attractive long-term investment opportunity for several reasons. First, emerging markets are not as crowded with investors as other world markets, resulting in opportunities to identify mispriced assets. Further, emerging markets are currently trading at low valuations versus developed markets. Finally, despite near-term challenges, many emerging countries are building their economies and their markets on attractive long-term fundamentals, including increased domestic consumption, better financial regulation, and improved physical and market logistics. Although our emerging markets exposure caused a nominal drag in recent years, we believe our portfolio's allocation to this asset class will be a significant positive to future returns.

Private equity. Our Policy Portfolio allocation to private equity increased this year for two reasons: (i) we believe that targeted and judicious exposure to this asset class can lead to higher returns; and (ii) while the portfolio experienced liquidity constraints over the past five to six years, the liquidity profile of the endowment is now improved, allowing us to strategically increase our position in illiquid assets. We are aware that market conditions in private equity are somewhat heated today; therefore, we will take our time getting to this allocation. As a result, actual exposure to private equity may decrease in the near term before it increases.

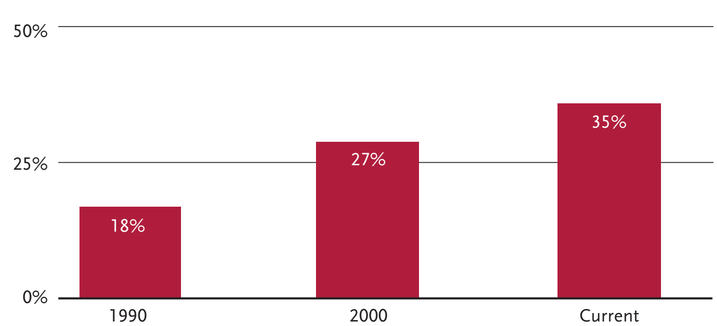
Commodities. We have been reducing our exposure to publicly traded commodities since 2008. In prior years, this asset class served as a diversifier in our portfolio, given its negative correlation to publicly traded equity and significant market inefficiencies. In recent years, we have seen publicly traded commodities become more correlated to emerging markets equity and more populated with speculative investors. As a result, we now consider this area less valuable as a method of diversification. However, we will continue to employ our active management expertise in commodities as a pure alpha generation strategy.

Fixed income. While we have reduced our exposure to this asset class steadily over the last 10 years, we maintain a Policy Portfolio allocation of 10% across all fixed income markets (US, international, and credit). Despite the currently low interest rate environment and the potential risk to the asset class from higher rates, we continue to see opportunities for active management in fixed income, as demonstrated by another year of strong performance in fiscal year 2014. We have also taken steps to partially hedge our portfolio's interest rate risk.

HISTORICAL CONTEXT

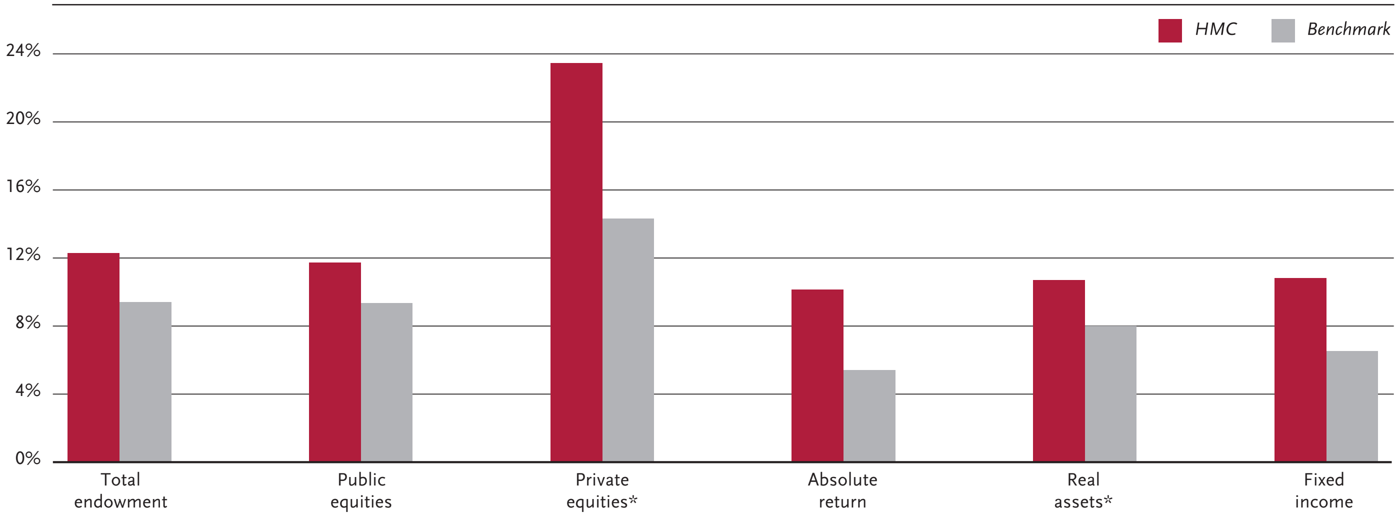
This past year marked an important milestone for Harvard Management Company and Harvard University—it was the 40th anniversary of the founding of HMC. Since inception, HMC has been tasked with a singular mission: to generate strong long-term returns to support what is arguably the world's finest academic institution. In this context, we took a close look at the historical long-term cash distributions and drivers of performance. Over the last four decades, HMC has delivered $23.2 billion in distributions to the University. The proportion of the University's annual operating budget that is funded through endowment distributions has grown considerably over the years, now accounting for approximately 35%. This source of funding, which must be both reliable and growing, is increasingly important as the University faces decreasing federal research support and increasing economic pressures. Over the last five years alone, HMC has distributed a total of $11.6 billion to the University, nearly 50% of the total distributions over the last forty years.

PERCENTAGE OF UNIVERSITY'S OPERATING REVENUE PROVIDED BY ENDOWMENT

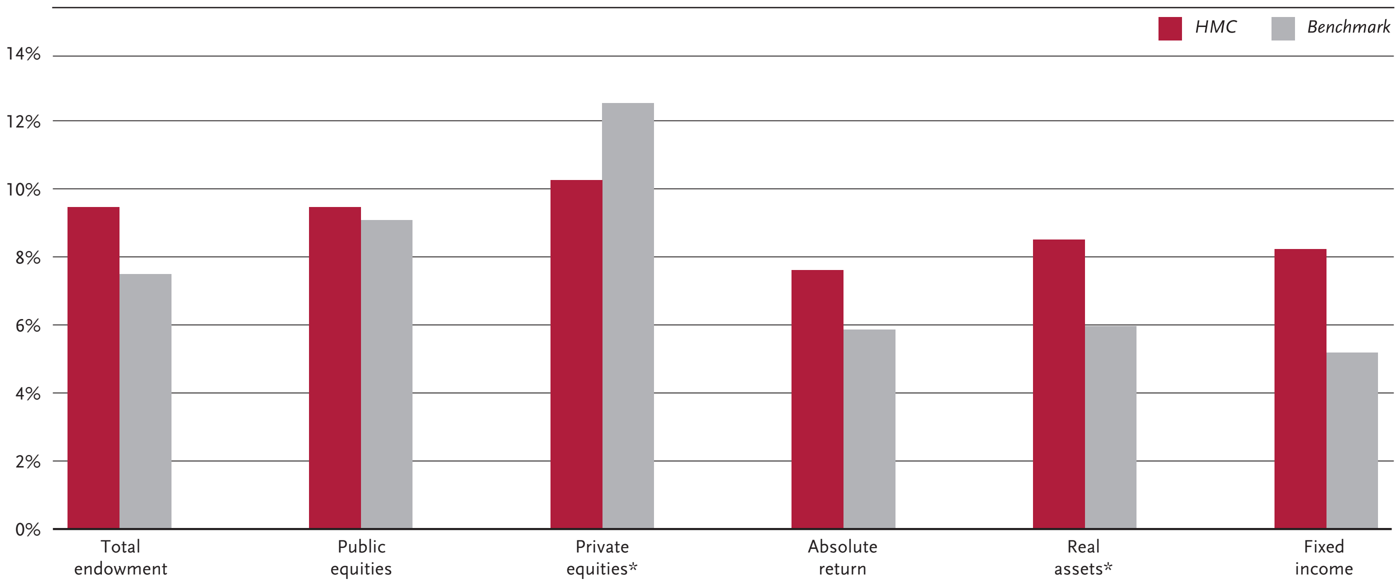


As our portfolio has evolved, the drivers of performance have evolved as well. Over the last twenty years, private equity has been a major contributor to our portfolio return, while over the last ten years the drivers of performance have been more evenly distributed.

ANNUALIZED TWENTY YEAR PERFORMANCE BY ASSET CLASS



ANNUALIZED TEN YEAR PERFORMANCE BY ASSET CLASS



** HMC returns and benchmarks are dollar-weighted*

HMC@40

In March of 1974, the Harvard Corporation embarked on a bold experiment, establishing a dedicated investment management organization serving a single client: Harvard University. On the occasion of this milestone we created a website to share 40 stories about HMC's support of the University and our innovative approach to endowment management. This website, www.hmc40.com, highlights a sampling of the industry-leading financial aid programs, groundbreaking discoveries in scientific research, and world-class academic experiences that have been enabled by returns from the endowment. We also share a historical perspective of the organization from HMC's first CEO, Walter Cabot.

DISCUSSION OF FISCAL YEAR 2014

Market Overview

The US economy continued to recover and strengthen in fiscal year 2014. Equity markets continued their upward climb as the S&P 500 rose 24.6%. Many core economic indicators such as employment and housing have improved while inflation remains benign.

International markets have been mixed, although the EAFE index returned a strong 24.2% for the year. Economic recovery in Europe trailed behind the US, but at the same time interest rates in Europe came down significantly during the fiscal year indicating that at least some of the anxiety about peripheral Europe has abated. This translated to strong foreign bond performance of nearly 8% for fiscal year 2014, versus 2% for the US Treasury market. Emerging markets were mixed during the year though continue to trade at a discount, on a price/earnings basis, to the US market. The emerging markets equity index returned 14.3% for the year.

In both stocks and bonds around the world, a common characteristic was the relatively low level of volatility across markets—the reasons for which are a topic of much study and debate. While we cannot foretell when volatility will return and how it will affect the markets in which we invest, we are fortunate to have an in-house investment team that is proven and nimble to identify alpha opportunities and to react strategically to market signals. We are confident that our portfolio, with active management employed by both internal and external managers, is well structured to ride out future corrections with greater ease and less distress than we experienced in the last crisis.

Portfolio Overview

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
Public equity	20.4%	21.3%	(0.9)%	0.6%
Private equity	20.3	21.6	(1.3)	(0.5)
Fixed income	7.7	4.2	3.5	2.9
Absolute return	12.2	6.8	5.4	3.9
Real assets	10.9	9.7	1.2	1.9
TOTAL ENDOWMENT	**15.4%**	**14.6%**	**0.8%**	**1.4%**

In fiscal year 2014, every asset class across the portfolio achieved a positive nominal return, and the majority of asset classes outperformed their market benchmarks, although there were some places where we did not achieve positive relative performance. One factor that continues to impact our performance is a real and visible overhang from underperforming illiquid investments made during the pre-crisis era. These investments will continue to roll off over the next few years. As liquidity has improved, we have been able to invest in larger proportions in attractive new opportunities, which we are confident will lead to greater outperformance in years to come.

As in prior years, I would like to provide a few highlights regarding performance across asset classes.

Public Equity

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
Domestic equity	25.7%	24.6%	1.1%	3.3%
Foreign equity	20.1	24.2	(4.1)	1.1
Emerging markets	14.3	14.3	0.0	(2.5)
TOTAL PUBLIC EQUITY	**20.4%**	**21.3%**	**(0.9)%**	**0.6%**

Our public markets equity portfolio returned 20.4% this year, trailing the blended public equity benchmark of 21.3%. This total return, both nominal and relative, is composed of three different underlying markets, each of which had their own performance story in fiscal year 2014.

Domestic equity was the place to be in fiscal year 2014. The S&P 500 was up 24.6% for the year. Our domestic equity portfolio outpaced the US index by more than 110 basis points, a nice margin, especially given the challenge of outperforming a roaring market. Harvard's domestic equity portfolio has had a remarkable record of market-beating performance. This year marks the 20th straight year in which we have beaten the US equity market.

Developed foreign equity was also a strong asset class for the fiscal year, although our portfolio significantly lagged the market, underperforming the EAFE index by roughly 400 basis points. Over the last five years, the average relative performance of our developed foreign equity portfolio was positive.

Our emerging markets managers performed on par with the emerging markets benchmark; however, this category of equity well underperformed developed equity for the second year running.

Private Equity

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
US corporate finance	14.1%	18.7%	(4.6)%	(2.3)%
Intl corporate finance	18.3	23.6	(5.3)	(1.4)
Venture capital	32.8	22.5	10.3	4.5
TOTAL PRIVATE EQUITY	**20.3%**	**21.6%**	**(1.3)%**	**(0.6)%**

Private equity had a strong nominal year, although our portfolio underperformed its benchmark. Private equity is one of the areas where large pre-crisis commitments and investments have continued to undercut our recent performance. For the vintage years 2004–2008, our largest commitment years, comprising 73% of the current portfolio, our funds are substantially underperforming. The performance of Harvard's private equity portfolio excluding those outsized investments is considerably better, and we are continuing to concentrate and focus our portfolio on a strong set of relationships with top managers.

Venture capital (about one-third of our total private equity portfolio) was particularly strong in fiscal year 2014, achieving a total return of 32.8% and outperforming the venture capital benchmark by over 1,000 basis points.

Fixed Income

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
Domestic	8.9%	2.0%	6.9%	2.6%
Foreign	18.0	8.0	10.0	5.6
TIPS	6.6	4.4	2.2	2.3
TOTAL FIXED INCOME	**7.7%**	**4.2%**	**3.5%**	**2.9%**

Our fixed income portfolio, managed entirely internally, had strong outperformance in fiscal year 2014, marking five straight years of market-beating returns. Our team's close feel for the market and significant trading experience has enabled HMC to continue to find areas of relative value in a complex global environment.

Absolute Return

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
TOTAL ABSOLUTE RETURN*	**12.2%**	**6.8%**	**5.4%**	**3.9%**

* *Includes high yield*

Absolute return also marks its fifth straight year of outperformance, after sharpening our approach to the asset class following the financial crisis. Our absolute return portfolio is comprised entirely of external hedge fund managers. Unlike many investors, this portfolio does not include equity long/short managers, and we do not view this as a levered bet on equities. In fact, we view the absolute return asset class as a true diversifier relative to equity markets and we look for managers who share this view. Our portfolio—with a beta of 0.1–0.2 to the S&P 500 and a nominal return of 12.2% in fiscal year 2014—is a clear and successful expression of pure alpha generation.

Real Assets

	Fiscal year 2014 return			5-year annualized return
	HMC	Benchmark	Relative	Relative
Real estate	13.0%	12.0%	1.0%	(3.2)%
Natural resources	9.0	7.5	1.5	5.7
Public commodities	8.6	9.4	(0.8)	0.9
TOTAL REAL ASSETS	**10.9%**	**9.7%**	**1.2%**	**1.9%**

HMC's real asset returns were consistent with our expectations and outperformed their benchmarks on average. Our natural resources performance continues to be strong, and we have a solid pipeline of interesting transactions in both timberland and agriculture. Our 10-year annualized return on the natural resources portfolio has been an impressive 11.6% versus 7.1% for the natural resources benchmark.

Our real estate portfolio encompasses direct investments, strategic fund managers (consistent with the new strategy), and legacy investments. Approximately one-third of our $4.8 billion real estate portfolio is now in direct investments—a strategy where HMC was not active before 2010. This new direct investment strategy is working very well, earning a total return in fiscal year 2014 of 20.4%. In contrast, the legacy real estate portfolio, in run-off mode, returned only 7.8%. Below are the annualized returns of the real estate direct investment program since inception in fiscal year 2011.

	Fiscal year 2014 return	Annualized performance since inception of direct investment program
Real estate directs	20.4%	21.8%
Real estate strategic funds	16.0	15.6
Real estate legacy	7.8	3.7
Benchmark	12.0	14.5
TOTAL REAL ESTATE	**13.0%**	**10.3%**

DIRECT INVESTING

One advantage of our hybrid model is the ability to build teams that can create unique investment opportunities through direct investing. We have leveraged this strategy with great success in both our natural resources and real estate portfolios. Direct investing requires specialized teams that can develop sophisticated strategies unique to the markets in which they operate. Direct investing offers the benefits of enhanced transparency, better risk control, greater nimbleness, and lower overall cost structure. It also provides disciplined investors the opportunity to take more control over investment timing—entering markets when there is meaningful growth potential and exiting investments when prices are right. At the end of fiscal year 2014, about 15% of our total portfolio was in direct investments in real estate and natural resources. This is in addition to the 25% of our portfolio that is traded internally in public markets, for a total of about 40% internally managed and 60% managed by external managers.

ORGANIZATIONAL UPDATE

Cost of Management

HMC recently conducted a cost of management study, which compared the total costs associated with managing the actual endowment to a portfolio of externally managed assets similar to the endowment. The objective of the analysis was to estimate the cost differential of managing the Harvard portfolio under the current HMC hybrid model versus a comparable outsourced model. The results of the study show that the Harvard endowment model has saved the University approximately $2.0 billion over the last decade as compared to the cost of management for a completely external model.

Three key factors that contribute to these savings are: (i) lower cost structure for internally managed portfolios; (ii) lower management costs, including performance fees, for direct investing in natural resources and real estate; and (iii) lower expenses for general management activities. In addition to these cost advantages, the HMC model provides other tangible benefits such as better liquidity and flexibility, greater portfolio transparency, and better alignment between performance and compensation (through asset class benchmarks, clawbacks, and multi-year payout of incentive compensation).

Staffing

Throughout our history, HMC has had the good fortune to attract talented individuals who are passionate about supporting the goals of Harvard University. Our organization is in excellent shape, better than it has been in many years, with strong leadership and talent across the board. We recently welcomed two experienced investment leaders to our team: Rich Hall, Head of Private Equity, and Mike Ryan, Head of Public Equity. As the private equity landscape evolves and becomes ever more global, we will look to Rich and our strong Private Equity team to canvas the world in order to bring the best opportunities to the Harvard portfolio, a particular challenge given our size and the high bar that we hold for our illiquid investment partnerships. Mike Ryan will play a lead role in further developing the global strategy and long-term performance of HMC's $13 billion public equity portfolio. Mike will oversee and grow both our internal investment activity in equity markets and our suite of external management relationships, with the goal of outperforming the public equity markets by a meaningful margin across market cycles.

SUSTAINABLE INVESTMENT UPDATE

This past spring HMC further strengthened its commitment to sustainable investment by signing on to the United Nations-supported Principles for Responsible Investment (PRI), becoming the first university endowment in the United States to join the organization. We believe participating in the PRI will enhance our long-term returns by encouraging us to think and act differently with respect to the environmental, social, and governance (ESG) risks that we and all investors face.

Our partnership with the PRI has also established the foundation to support HMC's three-pronged approach to sustainable investment:

- **ESG integration.** Incorporate material ESG factors into our due diligence, investment analysis, and management processes.
- **Active ownership.** Exercise our client's voting rights as shareholders and engage with portfolio companies, as appropriate, on ESG risks.
- **Collaboration.** Collaborate with other global investors to develop and define ESG integration best practices.

We will regularly communicate our progress on these important issues to our internal and external constituents.

Looking Ahead

The future is once again bright for HMC and the Harvard portfolio and, in that context, earlier this spring I announced my decision to step down as CEO at the end of the calendar year. I have spent 22 years at the Harvard endowment, in a wide range of roles, and I can't imagine a better way to spend a career or a more noble cause. It was six years ago this month, September 2008, that I published my first letter as CEO to our alumni community. At that time Harvard University was facing an exceptionally challenging environment as the financial crisis swept through global markets. Six years later it is a completely different story and I am very proud of what we have accomplished. We have recovered from the crisis, generated double-digit investment returns, repositioned the portfolio with adequate liquidity, helped the University to enhance its financial footing, and strengthened the HMC team and outside relationships with some of the best investment managers in the world.

There are many people to thank for this success. The team at HMC, from investments to operations, has shown strength in the face of adversity and remains intensely focused on the mission of generating strong long-term returns for Harvard. Our dedicated set of external managers and partners have been a constant source of market wisdom and new ideas. Our colleagues at the University, from the finance office to the faculty, have become true partners in our work. And I am immensely grateful for the support of the Harvard alumni and the insight of my predecessors at the helm of HMC.

The HMC Board, under Jim Rothenberg's leadership, has provided a steady hand on the tiller and encouraged us to keep looking beyond the headlines and near-term noise to concentrate on the long-term strategy and needs of the University. Most notably, President Drew Faust has been an engaged member of the HMC Board from my first day, and I am incredibly fortunate to have worked with such a strong and supportive leader throughout my tenure as CEO.

I am optimistic about the future for HMC and Harvard, and for myself, although I will miss the remarkable people I work with day in and day out. Looking forward, HMC is well-positioned to continue to deliver double-digit annual returns over the next 40 years, as we have done over the last 40-years, enabling Harvard University to pursue its inspiring and world-changing academic and research objectives. It will be exciting to watch.

Sincerely,

Jane L. Mendillo

Jane L. Mendillo
President and Chief Executive Officer

November 7, 2014

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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

November 7, 2014

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

BALANCE SHEETS

with summarized financial information as of June 30, 2013

In thousands of dollars	June 30 2014	June 30 2013
ASSETS:		
Cash	**$ 87,704**	$ 63,399
Receivables, net (*Note 6*)	**246,482**	226,150
Prepayments and deferred charges	**151,533**	158,655
Notes receivable, net (*Note 7*)	**376,476**	365,626
Pledges receivable, net (*Note 8*)	**1,590,758**	1,236,091
Fixed assets, net (*Note 9*)	**5,986,605**	5,793,371
Interests in trusts held by others (*Note 4*)	**376,526**	352,069
Investment portfolio, at fair value (*Notes 3 and 4*)	**53,308,477**	52,805,403
Securities pledged to counterparties, at fair value (*Notes 3 and 4*)	**7,685,852**	13,209,043
TOTAL ASSETS	**69,810,413**	**74,209,807**
LIABILITIES:		
Accounts payable	**316,699**	324,524
Deposits and other liabilities	**743,120**	705,187
Securities lending and other liabilities associated with the investment portfolio (*Notes 3, 4 and 12*)	**17,608,530**	26,895,350
Liabilities due under split interest agreements (*Note 11*)	**758,991**	717,325
Bonds and notes payable (*Note 12*)	**5,619,190**	5,688,007
Accrued retirement obligations (*Note 13*)	**837,361**	753,957
Government loan advances (*Note 7*)	**68,863**	68,249
TOTAL LIABILITIES	**25,952,754**	**35,152,599**
NET ASSETS, attributable to non-controlling interests in the pooled general investment account (*Notes 3 and 4*)	**646,429**	**453,940**
NET ASSETS, attributable to the University	**43,211,230**	**38,603,268**
TOTAL LIABILITIES AND NET ASSETS	**$ 69,810,413**	**$ 74,209,807**

	Unrestricted	Temporarily restricted	Permanently restricted	June 30 2014	June 30 2013
NET ASSETS, attributable to the University:					
General Operating Account (*Note 10*)	$ 3,798,756	$ 2,267,223	$ 97,198	**$ 6,163,177**	$ 5,344,755
Endowment (*Note 10*)	6,144,514	23,628,147	6,656,595	**36,429,256**	32,689,489
Split interest agreements (*Note 11*)		85,768	533,029	**618,797**	569,024
TOTAL NET ASSETS, attributable to the University	**$ 9,943,270**	**$ 25,981,138**	**$ 7,286,822**	**$ 43,211,230**	**$ 38,603,268**

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, 2013

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2014	For the year ended June 30 2013
OPERATING REVENUE:					
Student income:					
Undergraduate program	$ 282,661			**$ 282,661**	$ 269,431
Graduate and professional degree programs	479,678			**479,678**	456,407
Board and lodging	166,638			**166,638**	160,649
Continuing education and executive programs	321,584			**321,584**	290,760
Scholarships applied to student income (*Notes 2 and 14*)	(372,917)			**(372,917)**	(359,456)
Total student income	877,644	0	0	**877,644**	817,791
Sponsored support (*Notes 2 and 15*):					
Federal government - direct costs	446,270			**446,270**	467,145
Federal government - indirect costs	164,310			**164,310**	173,846
Non-federal sponsors - direct costs	68,447	$ 108,973		**177,420**	165,228
Non-federal sponsors - indirect costs	21,636	9,577		**31,213**	26,156
Total sponsored support	700,663	118,550	0	**819,213**	832,375
Gifts for current use (*Note 16*)	145,101	274,070		**419,171**	338,535
Investment income:					
Endowment returns made available for operations (*Note 10*)	279,450	1,260,012		**1,539,462**	1,499,412
GOA returns made available for operations	133,820			**133,820**	134,170
Other investment income	9,995	7,976		**17,971**	17,782
Total investment income	423,265	1,267,988	0	**1,691,253**	1,651,364
Other income (*Note 17*)	601,384			**601,384**	565,293
Net assets released from restrictions	1,650,254	(1,650,254)		**0**	0
TOTAL OPERATING REVENUE	**4,398,311**	**10,354**	**0**	**4,408,665**	**4,205,358**
OPERATING EXPENSES:					
Salaries and wages	1,640,390			**1,640,390**	1,553,096
Employee benefits (*Note 13*)	529,840			**529,840**	506,570
Services purchased	485,844			**485,844**	465,522
Space and occupancy	306,939			**306,939**	331,264
Depreciation (*Note 9*)	307,614			**307,614**	293,106
Interest (*Note 12*)	253,032			**253,032**	267,634
Supplies and equipment	248,151			**248,151**	234,301
Scholarships and other student awards (*Notes 2 and 14*)	129,974			**129,974**	127,054
Other expenses (*Note 18*)	504,213			**504,213**	460,518
TOTAL OPERATING EXPENSES	**4,405,997**	**0**	**0**	**4,405,997**	**4,239,065**
NET OPERATING SURPLUS/(DEFICIT)	**(7,686)**	**10,354**	**0**	**2,668**	**(33,707)**
NON-OPERATING ACTIVITIES:					
Income from GOA investments	26,555			**26,555**	11,762
Realized and unrealized appreciation net (*Note 3*)	471,332			**471,332**	372,591
GOA returns made available for operations	(133,820)			**(133,820)**	(134,170)
Change in pledge balances (*Note 8*)		164,218		**164,218**	281,400
Change in interests in trusts held by others		(2,956)		**(2,956)**	1,388
Capital gifts for facilities and loan funds (*Note 16*)		91,704	$ 336	**92,040**	88,217
Change in retirement obligations (*Note 13*)	2,762			**2,762**	389,845
Gain from discontinued operations (*Note 2*)	10,500			**10,500**	24,891
Other changes	613			**613**	(88,616)
Transfers between GOA and endowment (*Note 10*)	89,537	84,525	(6,674)	**167,388**	123,921
Transfers between GOA and split interest agreements (*Note 11*)		17,096	26	**17,122**	18,720
Non-operating net assets released from restrictions	52,120	(58,660)	6,540	**0**	0
TOTAL NON-OPERATING ACTIVITIES	**519,599**	**295,927**	**228**	**815,754**	**1,089,949**
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	**511,913**	**306,281**	**228**	**818,422**	**1,056,242**
Endowment net change during the year	535,497	2,477,909	726,361	**3,739,767**	1,943,955
Split interest agreement net change during the year (*Note 11*)		8,350	41,423	**49,773**	18,776
NET CHANGE DURING THE YEAR, attributable to the University	**1,047,410**	**2,792,540**	**768,012**	**4,607,962**	**3,018,973**
NET CHANGE IN NET ASSETS, attributable to non-controlling interests in the pooled general investment account	192,489			**192,489**	**(616,196)**
NET CHANGE DURING THE YEAR	**1,239,899**	**2,792,540**	**768,012**	**4,800,451**	**2,402,777**
Net assets, beginning of year	9,349,800	23,188,598	6,518,810	**39,057,208**	36,654,431
NET ASSETS, end of year	**$ 10,589,699**	**$ 25,981,138**	**$ 7,286,822**	**$ 43,857,659**	**$ 39,057,208**

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

STATEMENTS OF CHANGES IN NET ASSETS OF THE ENDOWMENT

with summarized financial information for the year ended June 30, 2013

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2014	2013
Investment return (*Note 3*):					
Income from general investments	$ 42,575	$ 197,498		**$ 240,073**	$ 98,874
Realized and unrealized appreciation, net	830,892	3,617,985		**4,448,877**	3,168,414
Total investment return	873,467	3,815,483	0	**4,688,950**	3,267,288
Endowment returns made available for operations	(279,450)	(1,260,012)		**(1,539,462)**	(1,499,412)
Net investment return	594,017	2,555,471	0	**3,149,488**	1,767,876
Gifts for capital (*Note 16*)	2,037	68,314	$ 442,502	**512,853**	222,686
Transfers between endowment and the GOA (*Note 10*)	(89,537)	(84,525)	6,674	**(167,388)**	(123,921)
Capitalization of split interest agreements (*Note 11*)		5,905	26,879	**32,784**	44,794
Change in pledge balances (*Note 8*)		17,536	172,833	**190,369**	45,037
Change in interests in trusts held by others (*Note 10*)		(3,038)	30,451	**27,413**	6,883
Other changes	(1,444)	(56,914)	52,606	**(5,752)**	(19,400)
Net assets released from restrictions	30,424	(24,840)	(5,584)	**0**	0
NET CHANGE DURING THE YEAR	**535,497**	**2,477,909**	**726,361**	**3,739,767**	**1,943,955**
Net assets of the endowment, beginning of year	5,609,017	21,150,238	5,930,234	**32,689,489**	30,745,534
NET ASSETS OF THE ENDOWMENT, end of year	**$ 6,144,514**	**$ 23,628,147**	**$ 6,656,595**	**$ 36,429,256**	**$ 32,689,489**

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 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 4,800,451**	$ 2,402,777
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	**(192,489)**	616,196
Depreciation	**307,614**	293,106
Realized and unrealized (gain) on investments, net	**(5,063,953)**	(3,628,851)
Change in fair value of interest rate exchange agreements	**1,941**	(30,574)
Payments to terminate swaps		(345,280)
Change in interests in trusts held by others	**(24,457)**	(8,271)
Change in liabilities due under split interest agreements	**41,666**	47,083
Gifts of donated securities	**(94,671)**	(108,058)
Proceeds from sale of unrestricted donated securities	**19,527**	10,379
Gifts of donated securities in other investments	**(142,900)**	
Gifts restricted for capital purposes	**(398,444)**	(262,814)
Loss on redemption of debt		75,088
Loss on disposal of assets	**54,121**	36,181
Write-off of assets and liabilities related to discontinued operations		(7,340)
Net gain on sale of property related to discontinued operations	**(10,500)**	(22,923)
Change in accrued retirement obligations	**83,404**	(302,058)
Changes in operating assets and liabilities:		
Receivables, net	**(20,332)**	1,251
Prepayments and deferred charges	**7,122**	12,371
Pledges receivable, net	**(354,667)**	(327,533)
Accounts payable	**4,341**	10,751
Deposits and other liabilities	**37,933**	56,291
NET CASH USED IN OPERATING ACTIVITIES	**(944,293)**	**(1,482,228)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	**(54,189)**	(47,669)
Payments received on student, faculty, and staff loans	**42,812**	43,950
Change in other notes receivable	**527**	1,659
Proceeds from the sales and maturities of investments	**78,870,001**	81,084,646
Purchases of investments	**(76,388,470)**	(81,065,595)
Change in repurchase agreements	**(50,902)**	238,358
Additions to fixed assets	**(557,878)**	(463,715)
Proceeds from sale of property related to discontinued operations	**10,500**	167,732
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	**1,872,401**	**(40,634)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in overdrafts included in accounts payable	**(9,257)**	9,656
Proceeds from the issuance of debt	**459**	402,904
Debt repayments	**(69,276)**	(829,124)
Proceeds from sale of restricted donated securities	**75,144**	97,679
Gifts restricted for capital purposes	**398,444**	262,814
Non-controlling interests in the pooled general investment account contributions and distributions, net	**81,482**	45,888
Change in trade-related repurchase and reverse repurchase agreements	**(1,381,413)**	1,440,151
Change in government loan advances	**614**	1,205
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	**(903,803)**	**1,431,173**
NET CHANGE IN CASH	**24,305**	**(91,689)**
Cash, beginning of year	**63,399**	**155,088**
CASH, end of year	**$ 87,704**	**$ 63,399**
Supplemental disclosure of cash flow information:		
Accounts payable related to fixed asset additions	$ 61,015	$ 63,924
Cash paid for interest	$ 256,613	$ 280,134

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 7,290 undergraduate and 13,980 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, the 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 with 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, 2013, from which the summarized information is derived.

Within the prior year *Statement of Changes in Net Assets with General Operating Account Detail*, "Federal government – direct costs" revenue has been reduced by $12.3 million, "Scholarships and other student awards" has been reduced by $9.3 million, and "Scholarships applied to student income" has been reduced by $3.0 million in order to correctly exclude the effect of certain agency funds which were improperly included in the prior year. There is no impact to the prior year operating deficit as a result of these immaterial changes.

The prior year *Statement of Cash Flows* has been adjusted for immaterial items to present operating repurchase agreements within "Change in repurchase agreements" in "Investing activities." As a result, there was a $95.1 million reclassification from "Proceeds from the sales and maturities of investments" to "Change in repurchase agreements" within "Investing activities." Additionally, there was a revision to correctly present $143.2 million from "Change in trade-related repurchase and reverse repurchase agreements" within "Financing activities" to "Change in repurchase agreements" within "Investing activities." This was immaterial to the prior year and current year consolidated financial statements.

Discontinued operations

In fiscal years 2014 and 2013, the University sold properties from which proceeds were $10.5 million and $167.7 million for 2014 and 2013, respectively. These sales resulted in gains of $10.5 million and $24.9 million, respectively. These gains are classified as "Gain from discontinued operations" in the non-operating section of the accompanying *Statement of Changes in Net Assets with General Operating Account Detail*.

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 88% of the University's unrestricted net assets as of June 30, 2014. 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 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/(deficit)

Revenues earned, expenses incurred, payments on current use pledges, and returns made available for operations for the purpose of teaching, conducting research, and the other programs and activities of the University are the components of "Net operating surplus/(deficit)" in the *Statements of Changes in Net Assets with General Operating Account Detail*.

Collections

The University's vast array of museums and libraries house 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, participates in a group captive insurance company, Controlled Risk Insurance Company (CRICO), to secure limited professional liability, general liability, and medical malpractice insurance for its member shareholders. The University self-insures a portion of its professional liability, including those related to Harvard Medical School activities occurring away from the affiliated teaching hospitals, and general liability programs for which it maintains a reserve for incurred claims. 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 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 retention. 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 estimated 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, 2013, the University adopted ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 defines the appropriate financial reporting for the proceeds from donated securities in the *Statements of Cash Flows*. Proceeds from donated securities with no donor-imposed restrictions are included in the operating section of the statement, while proceeds from donated securities with donor-imposed long-term restrictions are included in the financing section. The effect of adopting ASU 2012-05 resulted in the movement of "Proceeds from the sales of gifts of securities" from "Investing Activities" to "Operating Activities" and "Financing Activities" based upon whether they were deemed to be proceeds from the sale of securities restricted for long-term purposes or not.

During 2013, the University adopted ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. The new ASU explains that the 2011 standard, ASU 2011-11, *Balance Sheet (Topic 210): Disclosures About Offsetting Assets and Liabilities*, applies to the following when they are offset in accordance with FASB criteria or subject to a master netting arrangement or similar agreement: derivatives, repurchase and reverse repurchase agreements and securities borrowing and lending transactions. The new disclosures associated with this clarification are included in *Notes 3* and *5*.

Effective July 1, 2012, the University adopted ASU 2011-4, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S.* GAAP and IFRS. ASU 2011-4 aids entities in measuring fair value, as well as provides guidelines for additional quantitative and qualitative disclosures for instruments categorized within Level 3 of the FASB's fair value hierarchy. The effects of adopting this amendment are addressed in *Note 4*.

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, 2014 and 2013 are summarized in the following table (in thousands of dollars):

	2014	2013
Investment portfolio, at fair value:		
Pooled general investment account assets[1]	**$ 57,854,135**	$ 63,746,348
Other investments[2]	**3,140,194**	2,268,098
Investment assets[3]	**60,994,329**	66,014,446
Pooled general investment account liabilities	**17,600,550**	26,889,311
Interest rate exchange agreements	**7,980**	6,039
Investment liabilities	**17,608,530**	26,895,350
TOTAL INVESTMENTS	**43,385,799**	**39,119,096**
Non-controlling interests attributable to the pooled general investment account	**646,429**	453,940
TOTAL INVESTMENTS, NET	**$ 42,739,370**	**$ 38,665,156**

1 *Includes securities pledged to counterparties of $7,685,852 and $13,209,043 at June 30, 2014 and 2013, respectively.*
2 *Consists primarily of repurchase agreements and US government securities of $1,953,994 and $1,365,059 at June 30, 2014 and 2013, respectively.*
3 *Investment holdings 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 $656,577 and $598,083 at June 30, 2014 and 2013, respectively.*

A summary of the University's total return on investments for fiscal 2014 and 2013 is presented below (in thousands of dollars):

	2014	2013
Return on pooled general investment account:		
Realized and change in unrealized appreciation, net	**$ 5,025,864**	$ 3,577,635
Net investment income	**271,731**	112,974
Total return on pooled general investment account[1]	**5,297,595**	3,690,609
Return on other investments:		
Realized and change in unrealized appreciation, net	**38,089**	51,216
Net investment income	**28,540**	30,131
Total return on other investments	**66,629**	81,347
Realized and change in unrealized appreciation/(depreciation) on interest rate exchange agreements, net	**(5,798)**	9,067
TOTAL RETURN ON INVESTMENTS	**$ 5,358,426**	**$ 3,781,023**

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, 2014 and 2013 are summarized as follows (in thousands of dollars):

	2014	2013
POOLED GENERAL INVESTMENT ACCOUNT ASSETS:		
Investment assets:		
Domestic common and convertible equity	**$ 5,592,535**	$ 5,051,705
Foreign common and convertible equity	**2,627,127**	1,985,000
Domestic fixed income	**6,509,373**	5,694,840
Foreign fixed income	**3,404,440**	7,770,908
Emerging market equity and debt	**3,337,388**	2,658,377
High yield	**785,001**	1,477,559
Absolute return	**5,632,820**	5,114,051
Private equities	**7,367,183**	7,271,038
Natural resources	**4,709,950**	3,978,822
Real estate	**7,099,602**	5,948,080
Inflation-indexed bonds	**719,239**	749,993
Due from brokers[1]	**667,983**	649,557
Total investment assets	**48,452,641**	48,349,930
Repurchase agreements[2]	**7,215,852**	13,031,450
Cash and short-term investments	**520,060**	457,185
Other assets[3]	**1,665,582**	1,907,783
POOLED GENERAL INVESTMENT ACCOUNT ASSETS	**57,854,135**	**63,746,348**
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES:		
Investment liabilities:		
Equity and convertible securities sold, not yet purchased	**294,049**	260,056
Fixed income securities sold, not yet purchased	**5,520,809**	9,059,758
Due to brokers[4]	**168,901**	264,471
Total investment liabilities	**5,983,759**	9,584,285
Reverse repurchase agreements[5]	**7,800,215**	14,908,324
Other liabilities[6]	**3,816,576**	2,396,702
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES	**17,600,550**	**26,889,311**
Non-controlling interests attributable to the pooled general investment account	**646,429**	453,940
POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS[7]	**$ 39,607,156**	**$ 36,403,097**

1 *Includes collateral advanced under securities borrowing agreements of $336,123 and $334,053 as of June 30, 2014 and 2013, respectively.*

2 *Includes pending repurchase agreements that settled subsequent to the balance sheet date of $383,955 and $3,067,037 as of June 30, 2014 and 2013, respectively.*

3 *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. As of June 30, 2013, other assets consisted primarily of receivables for transactions that settled subsequent to the balance sheet date of $1,305,981, and assets consolidated under ASC 810 of $493,293.*

4 *Includes collateral held under securities lending agreements of $126,757 and $129,355 as of June 30, 2014 and 2013, respectively.*

5 *Includes pending reverse repurchase agreements that settled subsequent to the balance sheet date of $223,434 and $5,123,004 as of June 30, 2014 and 2013, respectively.*

6 *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. As of June 30, 2013, other liabilities consisted primarily of payables for the purchase of securities of $142,037, and liabilities consolidated under ASC 810 of $1,752,956.*

7 *The cost of the total pooled GIA net assets, net of proceeds received from short positions, was $35,240,844 and $33,979,408 as of June 30, 2014 and 2013, respectively.*

As of June 30, 2014 and 2013, the GIA was composed of the following components (in thousands of dollars):

	2014	2013
POOLED GENERAL INVESTMENT ACCOUNT		
Endowment[1]	**$ 35,039,522**	$ 31,778,186
General Operating Account	**3,255,419**	3,445,655
Split interest agreements	**812,736**	769,566
Other internally designated funds	**499,479**	409,690
TOTAL POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS	**$ 39,607,156**	**$ 36,403,097**

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 investments in natural resources and direct 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 19% 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 $3.5 billion in cash and cash equivalents (including repurchase agreements of $2.8 billion) at June 30, 2014 in the GIA and the GOA. In addition, the University estimates that as of June 30, 2014, it could liquidate additional unencumbered US government securities of $2.5 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, 2014 and 2013 (in thousands of dollars):

	As of June 30, 2014			As of June 30, 2013		
	Gross asset amounts[1]	Collateral[2]	Net exposure[4]	Gross asset amounts[1]	Collateral[2]	Net exposure[4]
Repurchase agreements	$ 8,410,543	$ 8,410,543	$ 0	$ 14,086,336	$ 14,086,336	$ 0
Securities borrowing agreements	336,123	336,123	0	334,053	334,053	0
TOTAL REPURCHASE AND SECURITIES BORROWING AGREEMENTS	**$ 8,746,666**	**$ 8,746,666**	**$ 0**	**$ 14,420,389**	**$ 14,420,389**	**$ 0**
	Gross liability amounts[1]	Collateral[3]	Net exposure[4]	Gross liability amounts[1]	Collateral[3]	Net exposure[4]
Reverse repurchase agreements	$ 7,800,215	$ 7,800,215	$ 0	$ 14,908,324	$ 14,908,324	$ 0
Securities lending agreements	126,757	126,757	0	129,355	129,355	0
TOTAL REVERSE REPURCHASE AND SECURITIES LENDING AGREEMENTS	**$ 7,926,972**	**$ 7,926,972**	**$ 0**	**$ 15,037,679**	**$ 15,037,679**	**$ 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 $358,166 and $3,061,072 as of June 30, 2014 and 2013, respectively, that settled within one to two business days subsequent to the transaction date.*

3 *Includes securities in transit of $197,924 and $5,114,605 as of June 30, 2014 and 2013, respectively, that settled 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 $192.5 million is due to $111.0 million in appreciation on existing non-controlling interests and $109.0 million of contributions made by minority partners offset by $27.5 million in distributions to the minority partners.

Other liabilities on page 23 include debt outstanding on consolidated portfolio investments of $2,018.8 million and $1,404.0 million as of June 30, 2014 and 2013, 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 issues regarding valuation matters 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, 2014 and 2013 (in thousands of dollars):

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:								
Cash and short-term investments	$ 656,577			**$ 656,577**	$ 598,083			**$ 598,083**
Domestic common and convertible equity	597,498	$ 2,612,814	$ 2,631,847	**5,842,159**	630,759	$ 2,339,215	$ 2,303,357	**5,273,331**
Foreign common and convertible equity	619,803	1,534,989	580,131	**2,734,923**	114,636	1,052,088	912,456	**2,079,180**
Domestic fixed income	6,950,344	415,069	3,932	**7,369,345**	6,085,594	10,256		**6,095,850**
Foreign fixed income	1,575,942	1,865,063		**3,441,005**	7,129,303	670,004		**7,799,307**
Emerging market equity and debt	2,650,177	650,962	36,249	**3,337,388**	2,240,427	354,475	63,474	**2,658,376**
High yield	68,504	513,856	215,635	**797,995**	68,670	1,189,459	235,262	**1,493,391**
Absolute return		3,336,141	2,296,679	**5,632,820**		2,546,039	2,568,013	**5,114,052**
Private equities			7,562,727	**7,562,727**			7,387,994	**7,387,994**
Natural resources	9,592		4,703,208	**4,712,800**	9,824		3,972,573	**3,982,397**
Real estate			7,108,269	**7,108,269**	54,052		5,903,979	**5,958,031**
Inflation-indexed bonds	731,925			**731,925**	764,575			**764,575**
Due from brokers	17,656	334,114	7,984	**359,754**	67,387	228,802	19,315	**315,504**
Other investments	17,508	1,986	20,511	**40,005**	21,489	1,712	21,338	**44,539**
TOTAL INVESTMENT PORTFOLIO ASSETS[1]	**13,895,526**	**11,264,994**	**25,167,172**	**50,327,692**	**17,784,799**	**8,392,050**	**23,387,761**	**49,564,610**
Repurchase agreements		8,410,543		**8,410,543**		14,086,336		**14,086,336**
Interests in trusts held by others			376,526	**376,526**			352,069	**352,069**
TOTAL INVESTMENT ASSETS[3]	**$13,895,526**	**$19,675,537**	**$ 25,543,698**	**$ 59,114,761**	**$ 17,784,799**	**$ 22,478,386**	**$ 23,739,830**	**$ 64,003,015**
INVESTMENT LIABILITIES:								
Equity and convertible securities sold, not yet purchased	$ 294,049			**$ 294,049**	$ 260,056			**$ 260,056**
Fixed income securities sold, not yet purchased	3,888,005	$ 1,632,803		**5,520,808**	8,568,564	$ 491,194		**9,059,758**
Due to brokers	15,369	45,454	$ 17,196	**78,019**	52,358	88,137	$ 660	**141,155**
TOTAL INVESTMENT LIABILITIES[2]	**4,197,423**	**1,678,257**	**17,196**	**5,892,876**	**8,880,978**	**579,331**	**660**	**9,460,969**
Reverse repurchase agreements		7,800,215		**7,800,215**		14,908,324		**14,908,324**
Liabilities due under split interest agreements		758,991		**758,991**		717,325		**717,325**
TOTAL LIABILITIES[3]	**$ 4,197,423**	**$10,237,463**	**$ 17,196**	**$ 14,452,082**	**$ 8,880,978**	**$16,204,980**	**$ 660**	**$25,086,618**

1 *Excludes securities borrowing agreements of $336,123 and $334,053 as of June 30, 2014 and 2013, respectively. Also excludes other assets of $1,947,865 and $2,029,447 as of June 30, 2014 and 2013, respectively, which are not subject to fair value.*

2 *Includes fair value of interest rate exchange agreements on the University's debt portfolio of $7,980 and $6,039 as of June 30, 2014 and 2013, respectively. Excludes securities lending agreements of $126,757 and $129,355 as of June 30, 2014 and 2013, respectively. Also excludes other liabilities of $3,816,576 and $2,396,702 as of June 30, 2014 and 2013, respectively, which are not subject to fair value.*

3 *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 23.*

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 gains/(losses)[1]	Purchases/ contributions	Sales/ distributions	Transfers out of Level 3[2]	Ending balance as of June 30, 2014
INVESTMENT ASSETS:							
Domestic common and convertible equity	$ 2,303,357	$ 311,560	$ 797,872	$ 197,467	$ (703,440)	$ (274,969)	**$ 2,631,847**
Foreign common and convertible equity	912,456	327,862	33,923	492,471	(703,683)	(482,898)	**580,131**
Domestic fixed income		(709)	352	4,289			**3,932**
Emerging market equity and debt	63,474	(14,522)	53,818	125,000	(82,695)	(108,826)	**36,249**
High yield	235,262	21,919	44,740	52	(81,100)	(5,238)	**215,635**
Absolute return	2,568,013	387,544	173,041	871,305	(913,122)	(790,102)	**2,296,679**
Private equities	7,387,994	922,956	400,079	724,428	(1,872,730)		**7,562,727**
Natural resources	3,972,573	(54)	530,807	256,432	(56,550)		**4,703,208**
Real estate	5,903,979	254,917	911,226	1,226,795	(1,188,648)		**7,108,269**
Due from brokers	19,315	290	(1,961)	340	(10,000)		**7,984**
Other investments	21,338	188	(1,015)				**20,511**
TOTAL INVESTMENT PORTFOLIO ASSETS	**23,387,761**	**2,211,951**	**2,942,882**	**3,898,579**	**(5,611,968)**	**(1,662,033)**	**25,167,172**
Interests in trusts held by others	352,069		24,457				**376,526**
TOTAL INVESTMENT ASSETS	**$ 23,739,830**	**$ 2,211,951**	**$ 2,967,339**	**$ 3,898,579**	**$(5,611,968)**	**$ (1,662,033)**	**$ 25,543,698**
INVESTMENT LIABILITIES:							
Due to brokers	$ 660	$ (476)	$ 111	$ (1,134)	$ 18,035		**$ 17,196**
TOTAL INVESTMENT LIABILITIES	**$ 660**	**$ (476)**	**$ 111**	**$ (1,134)**	**$ 18,035**	**$ 0**	**$ 17,196**

1 *Total change in unrealized gains/(losses) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2014 is $2,043,609 and is reflected in "Realized and unrealized appreciation/(depreciation), net" in the* Statements of Changes in Net Assets.

2 *Certain investments in public markets and absolute return fund vehicles with liquidity provisions available within one year of the measurement date have been reclassified out of Level 3 into Level 2. There were no other transfers between levels for the year.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2013 (in thousands of dollars):

	Beginning balance as of July 1, 2012	Net realized gains/ (losses)	Net change in unrealized gains/(losses)[1]	Purchases/ contributions	Sales/ distributions	Transfers into Level 3[2]	Transfers out of Level 3[2]	Ending balance as of June 30, 2013
INVESTMENT ASSETS:								
Domestic common and convertible equity	$ 1,807,661	$ 245,989	$ 896,942	$ 276,213	$ (579,599)	$ 306,724	$ (650,573)	**$ 2,303,357**
Foreign common and convertible equity	713,439	(1,761)	99,739	1,260,207	(1,149,738)	147	(9,577)	**912,456**
Domestic fixed income	319						(319)	**0**
Emerging market equity and debt	204,712	(13,792)	(10,855)	202,352	(261,429)		(57,514)	**63,474**
High yield	595,763	12,784	64,578	32,882	(305,634)	211,292	(376,403)	**235,262**
Absolute return	2,017,046	167,631	453,344	1,063,131	(1,609,635)	783,220	(306,724)	**2,568,013**
Private equities	7,193,196	627,978	83,993	843,826	(1,392,339)	32,073	(733)	**7,387,994**
Natural resources	5,278,303	390,492	(967,722)	604,150	(1,163,304)	71,316	(240,662)	**3,972,573**
Real estate	4,758,542	164,280	835,263	1,123,947	(978,053)			**5,903,979**
Due from brokers	26,302	25,296	(25,333)	20,499	(25,296)		(2,153)	**19,315**
Other investments	7,862	197	13,279					**21,338**
TOTAL INVESTMENT PORTFOLIO ASSETS	**22,603,145**	**1,619,094**	**1,443,228**	**5,427,207**	**(7,465,027)**	**1,404,772**	**(1,644,658)**	**23,387,761**
Interests in trusts held by others	343,798		8,271					**352,069**
TOTAL INVESTMENT ASSETS	**$ 22,946,943**	**$ 1,619,094**	**$ 1,451,499**	**$ 5,427,207**	**$ (7,465,027)**	**$1,404,772**	**$ (1,644,658)**	**$ 23,739,830**
INVESTMENT LIABILITIES:								
Due to brokers	$ 1,270	$ 294	$ 675	$ (3,146)	$ 1,912		$ (345)	**$ 660**
TOTAL INVESTMENT LIABILITIES	**$ 1,270**	**$ 294**	**$ 675**	**$ (3,146)**	**$ 1,912**	**$ 0**	**$ (345)**	**$ 660**

[1] *Total change in unrealized gains/(losses) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2013 is $2,228,549 and is reflected in "Realized and unrealized appreciation/(depreciation), 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 the investment exposure; these reclassifications are included in Transfers into Level 3 and Transfers out of Level 3. Additionally, certain investments in public markets and absolute return fund vehicles with liquidity provisions available within one year of the measurement date have been reclassified out of Level 3 into Level 2. There were no other transfers between levels for the year.*

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, 2014 and 2013 are disclosed below (in thousands of dollars):

	As of June 30, 2014			As of June 30, 2013		
	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]
Private equities	$ 6,159,103	$ 2,564,806	4 – 10	$ 5,839,037	$ 2,293,811	4 – 10
Real estate	2,437,070	1,508,439	4 – 10	2,694,348	1,376,584	4 – 10
Other externally managed funds[3]	1,156,671	1,128,653	2 – 8	819,202	567,246	2 – 8
TOTAL	**$ 9,752,844**	**$ 5,201,898**		**$ 9,352,587**	**$ 4,237,641**	

[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. In evaluating the level at which the University's externally managed investments have been classified within this hierarchy, 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 University's ability to redeem these investments 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 fund. While the University generally classifies its interest in these types of entities as Level 3, certain interests in public markets and absolute return fund vehicles with liquidity provisions available within one year of the measurement date have been classified as Level 2 within the aforementioned fair value hierarchy.

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, 2014	As of June 30, 2013
Significant unobservable input by asset class[1]	Range of inputs utilized in valuation model[2]	Range of inputs utilized in valuation model[2]
Natural resources:		
Income approach discount rate	4.0% – 20.0%	4.0% – 13.0%
Price per planted hectare	\$3,347 – \$141,445	\$1,625 – \$88,451
Real estate:		
Income approach discount rate	7.0% – 20.0%	7.0% – 20.0%
Capitalization rate	4.0% – 9.0%	5.0% – 9.5%
Net operating income growth rate	2.0% – 7.0%	2.0% – 5.0%

1 *The fair value of investments may be determined using multiple valuation techniques.*
2 *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 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 set off 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, 2014 and 2013 (in thousands of dollars):

	As of June 30, 2014		For the year ended June 30, 2014	As of June 30, 2013		For the year ended June 30, 2013
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	$ 2,605	$ 5,986	$ (90,410)	$ 8,429	$ 430	$ 27,216
Equity options	6,636	3,667	(16,556)	54,700	38,917	(28,859)
Equity exchange agreements	73,552	51,256	540,750	50,132	145,663	347,357
TOTAL EQUITY INSTRUMENTS	**82,793**	**60,909**	**433,784**	**113,261**	**185,010**	**345,714**
Fixed income instruments:						
Fixed income futures	36,866	32,484	26,469	16,950	16,746	9,222
Fixed income options	2,791	2,049	2,531	4,156	4,105	29
Interest rate exchange agreements[1]	1,613,371	1,394,561	(76,119)	1,101,492	934,331	86,911
Interest rate caps and floors	234,986	182,071	35,130	262,803	229,478	35,059
TOTAL FIXED INCOME INSTRUMENTS	**1,888,014**	**1,611,165**	**(11,989)**	**1,385,401**	**1,184,660**	**131,221**
Commodity instruments:						
Commodity futures	12,031	10,023	(7,560)	6,434	19,117	14,731
Commodity options	9,776	215	(2,272)	4,998	1	(2,845)
Commodity exchange agreements	17,509	15,501	57,111	14,286	12,501	4,169
TOTAL COMMODITY INSTRUMENTS	**39,316**	**25,739**	**47,279**	**25,718**	**31,619**	**16,055**
Currency instruments:						
Currency forwards	2,665,133	2,677,329	(36,123)	2,004,240	1,994,898	37,563
Currency options	50,759	44,644	(1,555)	71,386	53,268	(14,843)
Currency exchange agreements	23,984	12,162	(8,253)	11,819	9,713	(6,814)
TOTAL CURRENCY INSTRUMENTS	**2,739,876**	**2,734,135**	**(45,931)**	**2,087,445**	**2,057,879**	**15,906**
CREDIT INSTRUMENTS	**72,469**	**108,784**	**(17,180)**	**44,992**	**23,300**	**(20,428)**
SUBTOTAL	**4,822,468**	**4,540,732**	**$ 405,963**	**3,656,817**	**3,482,468**	**$ 488,468**
Counterparty netting[2]						
Exchange traded	(49,713)	(49,713)		(48,736)	(48,736)	
Centrally cleared	(117,102)	(117,102)				
Bilateral OTC	(4,331,773)	(4,331,773)		(3,292,577)	(3,292,577)	
TOTAL COUNTERPARTY NETTING	**(4,498,588)**	**(4,498,588)**		**(3,341,313)**	**(3,341,313)**	
NET AMOUNTS INCLUDED IN THE BALANCE SHEETS[3]	**323,880**	**42,144**		**315,504**	**141,155**	
Collateral						
Cash collateral received/posted	3,010				4,481	
Securities collateral received/posted[5,6]	325,890	196,892		235,453	117,854	
TOTAL COLLATERAL	**328,900**	**196,892**		**235,453**	**122,335**	
NET AMOUNT	**(5,020)**	**(154,748)**		**80,051**	**18,820**	
NET AMOUNT IN ACCORDANCE WITH ASC 210[7]	**$ 0**	**$ 0**		**$ 80,051**	**$ 18,820**	

1 *For the year ended June 30, 2014, includes 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. For the year ended June 30, 2013, includes gross derivative liabilities of $6,039 and a net profit of $9,067 related to interest rate exchange agreements 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 unrealized appreciation/(depreciation), 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 $26,780 and $59,064 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 2014 and 2013, the University transacted approximately 400 equity and fixed income option trades each year with an average transaction size of approximately 9,900 and 8,500 contracts, respectively. During the same period the University transacted approximately 200 and 500 currency option contracts with average USD equivalent notional amounts of approximately $19.6 million and $18.0 million per contract, respectively. Additionally, the University transacted approximately 700 and 500 commodity option trades with an average transaction size of approximately 300 and 225 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 2014 and 2013, the University transacted approximately 800 and 600 credit default contracts, respectively. These contracts had average notional amounts of approximately $13.0 million and $8.0 million in fiscal years 2014 and 2013, 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, 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.

As of June 30, 2013, the University's purchased and written credit derivatives had gross notional amounts of $1,400.9 million and $444.0 million, respectively, for total net purchased protection of $956.9 million in notional value.

The table below summarizes certain information regarding credit protection purchased and written as of June 30, 2014 and 2013 (in thousands of dollars):

As of June 30, 2014								
	Purchased protection		Written protection					
			Years to maturity					
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)**

As of June 30, 2013								
	Purchased protection		Written protection					
			Years to maturity					
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	$ 698,486	$ 967		$ 65,000	$ 65,000	$ 17,000	$ 48,000	$ (2,008)
BBB- to BBB+	402,249	(92)	$ 64,249		64,249	15,250	48,999	(206)
Non-investment grade	225,686	22,146	313,039	1,724	314,763	42,250	272,513	888
TOTAL	**$ 1,326,421**	**$ 23,021**	**$ 377,288**	**$ 66,724**	**$ 444,012**	**$ 74,500**	**$ 369,512**	**$ (1,326)**

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 2014 and 2013, the University transacted approximately 3,500 and 3,400 interest rate swap and cap/floor contracts with average notional amounts of approximately $206.0 million and $225.0 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 2014 and 2013, the University transacted approximately 700 and 500 commodity swap contracts with average notional amounts of approximately $1.2 million and $6.0 million;

2,600 and 1,400 equity swap contracts with average notional amounts of approximately $0.4 million and $1.5 million; and 100 and 200 currency swap contracts with average notional amounts of approximately $32.0 million and $25.0 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 2014 and 2013, the University transacted approximately 9,800 and 7,000 forward currency contracts with average USD equivalent notional amounts of approximately $3.4 million and $3.0 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 with its prime broker an amount of cash or securities 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 2014 and 2013, the University transacted approximately 32,600 and 31,800 futures trades with an average transaction size of approximately 60 and 50 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, 2014 no additional collateral would have been due to counterparties whereas at June 30, 2013, additional collateral of $10.4 million would have been due to counterparties for derivative contracts.

6. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of $15.6 million and $13.2 million as of June 30, 2014 and 2013, respectively, were as follows (in thousands of dollars):

	2014	2013
Federal sponsored support	**$ 85,075**	$ 72,095
Publications and royalties	**50,172**	39,758
Executive education	**20,406**	24,351
Tuition and fees	**15,780**	12,738
Non-federal sponsored support	**15,397**	16,822
Gift receipts	**10,825**	14,529
Other	**48,827**	45,857
TOTAL RECEIVABLES, NET	**$ 246,482**	**$ 226,150**

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):

	2014			2013		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student loans:						
Government revolving	$ 77,645	$ 2,493	**$ 75,152**	$ 78,666	$ 2,685	**$ 75,981**
Institutional	89,335	2,812	**86,523**	86,490	2,970	**83,520**
Federally insured	592		**592**	722		**722**
Total student loans	167,572	5,305	**162,267**	165,878	5,655	**160,223**
Faculty and staff loans	199,291	422	**198,869**	189,958	422	**189,536**
Other loans	20,043	4,703	**15,340**	20,358	4,491	**15,867**
TOTAL	**$ 386,906**	**$ 10,430**	**$ 376,476**	**$ 376,194**	**$ 10,568**	**$ 365,626**

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled $68.9 million and $68.2 million as of June 30, 2014 and 2013, 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, 2014 and 2013 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 $68.9 million and $43.8 million for the years ended June 30, 2014 and 2013, respectively, were calculated using rates ranging from 1.1% to 1.94%.

Pledges receivable included in the financial statements as of June 30, 2014 and 2013 are expected to be realized as follows (in thousands of dollars):

	2014	2013
Within one year	**$ 257,380**	$ 214,608
Between one and five years	**1,029,519**	858,429
More than five years	**439,344**	300,568
Less: discount and allowance for uncollectible pledges	**(135,485)**	(137,514)
TOTAL PLEDGES RECEIVABLE, NET	**$1,590,758**	**$1,236,091**

Pledges receivable as of June 30, 2014 and 2013 have been designated for the following purposes (in thousands of dollars):

	2014	2013
General Operating Account balances:		
Gifts for current use	**$ 701,775**	$ 615,878
Non-federal sponsored grants	**87,150**	102,318
Facilities and loan funds	**256,268**	162,699
Total General Operating Account balances	**1,045,193**	880,895
Endowment	**545,565**	355,196
TOTAL PLEDGES RECEIVABLE, NET	**$ 1,590,758**	**$ 1,236,091**

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 $71.1 million and $95.3 million as of June 30, 2014 and 2013, 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, 2014 and 2013 are summarized as follows (in thousands of dollars):

	2014	2013	Estimated useful life (in years)
Research facilities	**$ 2,171,893**	$ 2,139,280	*
Classroom and office facilities	**1,689,795**	1,667,974	35
Housing facilities	**1,312,956**	1,200,518	35
Other facilities	**383,751**	357,273	35
Service facilities	**611,533**	597,034	35
Libraries	**461,284**	440,394	35
Museums and assembly facilities	**646,575**	323,131	35
Athletic facilities	**174,776**	172,089	35
Land	**672,787**	672,222	N/A
Construction in progress	**665,750**	849,654	N/A
Equipment	**1,108,206**	1,043,040	**
SUBTOTAL AT COST	**9,899,306**	9,462,609	
Less: accumulated depreciation	**(3,912,701)**	(3,669,238)	
FIXED ASSETS, NET	**$ 5,986,605**	**$ 5,793,371**	

* *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 $214.9 million and $223.6 million as of June 30, 2014 and 2013, 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 $74.5 million and $77.0 million, which are included in the "Deposits and other liabilities" in the *Balance Sheets* as of June 30, 2014 and 2013, respectively.

10. ENDOWMENT AND GENERAL OPERATING ACCOUNT NET ASSETS

The University's endowment consists of approximately 12,700 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 $6.0 million and $20.2 million for such losses in fiscal 2014 and 2013, 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, 2014 and 2013 (in thousands of dollars):

	2014				2013
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	$ (5,980)	$ 20,613,532	$ 5,836,742	**$ 26,444,294**	$ 23,732,695
Funds functioning as endowment	6,150,494	2,961,930		**9,112,424**	8,302,038
Pledge balances		42,347	503,218	**545,565**	355,196
Interests in trusts held by others		10,338	316,635	**326,973**	299,560
TOTAL ENDOWMENT	**$ 6,144,514**	**$ 23,628,147**	**$ 6,656,595**	**$ 36,429,256**	**$ 32,689,489**

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 2014, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 4.9% 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 $1.5 billion in fiscal 2014 and 2013.

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 $241.3 and $157.4 million in fiscal 2014 and 2013, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 5.6% and 5.5% in fiscal 2014 and 2013, 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, 2014 and 2013 (in thousands of dollars):

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
General Operating Account	$ 3,798,756	$ 2,267,223	$ 97,198	**$ 6,163,177**	**$ 5,344,755**

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 planned giving 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 at fair value as discussed in *Notes 3* and *4*. The publicly traded securities are included as Level 1 and externally managed investments are included as Level 3 investments 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 1.47% and 1.42% as of June 30, 2014 and 2013, respectively, for gifts received beginning in fiscal 2009.

The changes in split interest agreement net assets for fiscal 2014 and 2013 were as follows (in thousands of dollars):

	2014			2013
	Temporarily restricted	Permanently restricted	Total	Total
Investment return:				
Investment income	$ 3,892	$ 11,760	**$ 15,652**	$ 14,668
Realized and unrealized appreciation, net	34,089	102,999	**137,088**	96,353
Total investment return	37,981	114,759	**152,740**	111,021
Gifts for capital (*Note 16*)[1]	10,039	4,439	**14,478**	31,817
Payments to annuitants	(15,230)	(46,019)	**(61,249)**	(58,424)
Transfers to endowment	(5,905)	(26,879)	**(32,784)**	(44,794)
Transfers between SIA and the GOA	(17,096)	(26)	**(17,122)**	(18,720)
Change in liabilities and other adjustments	(1,439)	(4,851)	**(6,290)**	(2,124)
NET CHANGE DURING THE YEAR	**8,350**	**41,423**	**49,773**	**18,776**
Total split interest agreement net assets, beginning of year	**77,418**	**491,606**	**569,024**	550,248
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 85,768**	**$ 533,029**	**$ 618,797**	**$ 569,024**

[1] *Shown net of discount. The undiscounted value of these gifts was $33,817 and $60,481 for the years ended June 30, 2014 and 2013, respectively.*

Split interest agreement net assets as of June 30, 2014 and 2013 consisted of the following (in thousands of dollars):

	2014	2013
Split interest agreement investments (*Note 3*):		
Charitable remainder trusts	**$ 903,725**	$ 834,042
Charitable lead trusts	**126,116**	133,551
Charitable gift annuities	**227,425**	207,215
Pooled income funds	**120,522**	111,541
Total split interest agreement investments	**1,377,788**	1,286,349
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	**(628,483)**	(599,093)
Amounts due to other institutions	**(130,508)**	(118,232)
Total liabilities due under split interest agreements	**(758,991)**	(717,325)
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 618,797**	**$ 569,024**

12. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2014 and 2013 were as follows (in thousands of dollars):

	Fiscal year of issue	Years to final maturity[1]	One-year yield[2]	Outstanding principal 2014[3]	Outstanding principal 2013[4]
Tax-exempt bonds and notes payable:					
Variable-rate bonds and notes payable:					
Series R - daily	2000-2006	18	0.1%	$ **131,200**	$ 131,200
Series Y - weekly	2000	21	0.1	**117,905**	117,905
Commercial paper	2014	<1	0.2	**289,350**	289,299
Total variable-rate bonds and notes payable			0.1	**538,455**	538,404
Fixed-rate bonds:					
Series N	1992	6	6.3	**79,412**	79,311
Series 2005A	2005	22	4.8	**92,723**	92,886
Series 2005B	2006	18	4.8	**103,947**	104,135
Series 2005C	2006	21	4.9	**129,161**	129,315
Series 2008B	2008	24	4.8	**215,301**	215,565
Series 2009A	2009	22	5.5	**982,403**	983,304
Series 2010A	2010	20	4.5	**506,847**	520,172
Series 2010B	2011	26	4.7	**650,409**	654,163
Total fixed-rate bonds			5.0	**2,760,203**	2,778,851
Total tax-exempt bonds and notes payable			**4.2**	**3,298,658**	**3,317,255**
Taxable bonds and notes payable:					
Series 2008A	2008	24	5.6	**242,850**	242,844
Series 2008C	2008	4	5.3	**125,205**	125,205
Series 2008D	2009	25	6.3	**997,418**	997,119
Series 2010C	2011	26	4.9	**298,239**	298,172
Series 2013A	2013	23	3.4	**402,000**	402,000
Commercial paper	2012	<1	0.2	**158,655**	158,347
Total taxable bonds and notes payable			**5.0**	**2,224,367**	**2,223,687**
Other notes payable	Various	Various	Various	**96,165**	147,065
TOTAL BONDS AND NOTES PAYABLE			**4.6%**	**$ 5,619,190**	**$ 5,688,007**

1 *The weighted average maturity of the portfolio on June 30, 2014 was 16.4 years.*

2 *Exclusive of interest rate exchange agreement. Inclusive of this agreement, the overall portfolio rate was 0.06% higher (4.63% vs. 4.57%).*

3 *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.*

4 *Series N, 2008A, 2008D, 2009A and 2010C principal amounts are net of $0.7 million, $0.2 million, $2.9 million, $16.7 million and $1.8 million of discounts, respectively. Series 2005A, 2005B, 2005C, 2008B, 2010A and 2010B principal amounts include premiums of $3.8 million, $3.6 million, $3.4 million, $6.7 million, $40.2 million and $53.1 million, respectively.*

Interest expense related to bonds and notes payable was $250.1 million and $265.1 million for fiscal 2014 and 2013, 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
2015	$ 38,603
2016	38,601
2017	34,724
2018	34,716
2019	654,856
Thereafter	4,289,440
TOTAL PRINCIPAL PAYMENTS	**$ 5,090,940**

In fiscal 2014, the University entered into a $1.0 billion unsecured, revolving credit facility with a syndicate of banks, which expires in January 2015. An additional $1.0 billion unsecured, revolving credit facility with the same syndicate of banks (originally entered into in fiscal 2012) remains in place and expires in January 2017. There was no outstanding balance on either of these credit facilities at June 30, 2014 or June 30, 2013.

The University is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings Services. The Standard & Poor's rating was re-affirmed in fiscal 2014.

As of June 30, 2014, 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 37. 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.

In fiscal 2013, the University defeased the Series 2006A bonds of $402 million by exercising the bonds' call option. The redemption cost of these bonds was funded primarily with proceeds from the sale of the Series 2013A bonds, also completed during fiscal 2013. A $69.8 million loss representing the defeasance cost of the Series 2006A bonds is reflected in the "Other changes" line of the *Statements of Changes in Net Assets with General Operating Account Detail* and in "Loss on redemption of debt" on the *Statements of Cash Flows*.

In fiscal 2013, the University redeemed the full outstanding amount of $161.5 million of the Series FF bonds using cash on hand, while $25.0 million of the bonds matured as scheduled. As a result, none of the Series FF bonds were outstanding at June 30, 2013.

The estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was $6,404.7 million and $6,404.5 million as of June 30, 2014 and 2013, 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.

Interest rate exchange agreements

In fiscal 2014, 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 outstanding agreement is collateralized, as described in *Note 5*, and thereby carries liquidity risk to the extent the relevant agreement has a negative fair value (pursuant to methodologies described below).

The fair value of the interest rate exchange agreement is the estimated amount that the University would have received (or paid), including accrued interest, to terminate the agreement on the dates of the *Balance Sheets*. The notional amount and fair value of the interest rate exchange agreements were $117.0 million and $(8.0) million, respectively, as of June 30, 2014 and $125.4 million and $(6.0) million, respectively, as of June 30, 2013. On July 1, 2013, an interest rate swap with a notional amount of $8.4 million and fair value of $0 matured. The fair value of the University's remaining debt-related interest rate swap agreement is included in the "Securities lending and other liabilities associated with the investment portfolio" line in the *Balance Sheets*.

The expense realized related to the interest rate exchange agreements was $3.7 million and $14.6 million for fiscal 2014 and 2013, respectively. All unrealized and realized gains and losses from the interest rate exchange agreement are included in the "Realized and unrealized appreciation/(depreciation), net" line in the *Statements of Changes in Net Assets with General Operating Account Detail*.

In fiscal 2013, the University terminated interest rate exchange agreements with a notional amount of $942.0 million, for which it realized a loss of $345.3 million.

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 $837.8 million and $758.9 million as of June 30, 2014 and 2013, respectively. During fiscal year 2014, the University made a $6.0 million cash contribution to the defined benefit pension plan.

The University recorded expenses for its defined contribution plans of $120.2 million and $116.4 million for fiscal 2014 and 2013, respectively. Gross benefits paid for pensions were $46.6 million and $42.2 million as of June 30, 2014 and 2013, respectively.

Postretirement health benefits

The University provides postretirement health coverage and life insurance to substantially all of its employees. 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. As of June 30, 2013, the University had internally designated and invested $403.1 million to fund the postretirement health benefit accrued liability of $674.0 million.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Balance Sheets* as of June 30, 2014 and 2013 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ 838,893**	$ 909,909	**$ 673,966**	$ 901,470
Service cost	**8,623**	15,336	**33,711**	43,646
Interest cost	**43,567**	39,906	**35,930**	42,521
Plan participants' contributions			**3,475**	3,425
Plan change[1]		2,900	**(15,537)**	
Gross benefits paid	**(46,595)**	(42,230)	**(21,063)**	(18,050)
Actuarial loss/(gain)	**52,816**	(86,928)	**21,475**	(299,046)
Other adjustments[2]	**45,872**			
BENEFIT OBLIGATION, end of year	**943,176**	**838,893**	**731,957**	**673,966**
Change in plan assets:				
Fair value of plan assets, beginning of year	**758,902**	755,364		
Actual return on plan assets	**119,465**	45,700		
Employer contributions	**6,000**	68		
Gross benefits paid	**(46,595)**	(42,230)		
FAIR VALUE OF PLAN ASSETS, end of year	**837,772**	**758,902**	**0**	**0**
UNFUNDED STATUS	**$(105,404)**	**$ (79,991)**	**$ (731,957)**	**$ (673,966)**

[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. The 2013 pension plan change of $2.9 million relates to a change in the calculation for certain participants hired before 1973, which was immediately recognized.*

[2] *To properly present the pension benefit obligation, an immaterial correction of $45.9 million, related to prior periods, was recorded in 2014.*

The accumulated benefit obligation associated with pension benefits was $774.2 million and $733.9 million at June 30, 2014 and 2013, 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, 2014.

Net periodic benefit cost/(income)

Components of net periodic benefit cost/(income) 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 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2014	2013	2014	2013
Components of net periodic benefit cost/(income):				
Service cost	**$ 8,623**	$ 15,336	**$ 33,711**	$ 43,646
Interest cost	**43,567**	39,906	**35,930**	42,521
Expected return on plan assets	**(47,046)**	(47,484)		
Amortization of:				
Actuarial loss/(gain)	**1,643**	11,867	**(9,822)**	
Prior service (credit)/cost	**455**	(132)	**(3,179)**	(3,179)
Other adjustments	**45,872**			
Total net periodic benefit cost recognized in operating activity	**53,114**	**19,493**	**56,640**	**82,988**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial (gain)/loss	**(19,603)**	(85,143)	**21,475**	(299,046)
Current year net prior service credit			**(15,537)**	
Amortization of:				
Current year prior service cost		2,900		
Prior service credit/(cost)	**(455)**	132	**3,179**	3,179
Actuarial gain/(loss)	**(1,643)**	(11,867)	**9,822**	
Total other amounts recognized in non-operating activity[1]	**(21,701)**	**(93,978)**	**18,939**	**(295,867)**
Total recognized in *Statements of Changes in Net Assets with General Operating Account Detail*	**$ 31,413**	**$ (74,485)**	**$ 75,579**	**$ (212,879)**

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

	2014	2013	2014	2013
Net actuarial loss/(gain)	**$ 22,904**	$ 44,150	**$ (178,186)**	$ (209,483)
Prior service cost/(credit)	**2,695**	3,150	**(44,708)**	(32,350)
Cumulative amounts recognized in unrestricted net assets	**$ 25,599**	**$ 47,300**	**$ (222,894)**	**$ (241,833)**

[1] *These amounts totaling $(2.8) million in fiscal 2014 and ($389.8) million in fiscal 2013 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 cost/(income) and are included in the "Change in Retirement Obligations" line in the Statements of Changes in Net Assets with General Operating Account Detail.*

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 2015 are $3.0 million and $0.4 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 2015 are ($7.4)million and ($4.5) million, respectively.

Assumptions and health care cost trend rates used in determining the year end obligation as well as the net periodic benefit cost/(income) of the pension and postretirement health plans are summarized as follows for fiscal 2014 and 2013:

	Pension benefits		Postretirement health benefits	
	2014	2013	2014	2013
Weighted-average assumptions used to determine benefit obligation as of June 30:				
Discount rate	**4.50%**	4.95%	**4.60%**	5.15%
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	**2**	3	**2**	3
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
Weighted-average assumptions used to determine net periodic benefit (income)/cost:				
Discount rate	**4.95%**	4.45%	**5.15%**	4.55%
Expected long-term rate of return on plan assets	**7.00%**	7.25%	**N/A**	N/A
Compensation increase trend:				
– Initial rate	**3.00%**	4.00%	**3.00%**	4.00%
– Ultimate rate	**4.00%**	4.00%	**4.00%**	4.00%
– Years to ultimate rate	**3**	0	**3**	0
Health care cost trend rate:				
– Initial rate	**N/A**	N/A	**7.00%**	7.00%
– Ultimate rate	**N/A**	N/A	**4.75%**	5.00%
– Years to ultimate rate	**N/A**	N/A	**10**	6

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would affect 2014 as shown in the following table (in thousands of dollars):

	1% point increase	1% point decrease
Effect on 2014 postretirement health benefits service and interest cost	$ 16,712	$ (12,625)
Effect on postretirement health benefits obligation as of June 30, 2014	142,874	(111,439)

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 allocations of the investment portfolio for the pension plan at June 30, 2014 and 2013, along with target allocations for June 30, 2015, are as follows:

	2015 target	June 30, 2014	June 30, 2013
Asset allocation by category for pension plan:			
Equity securities	30 – 50%	33.7%	37.5%
Fixed income securities	30 – 50	45.2	31.8
Real estate	0 – 10	3.5	4.4
Absolute return	10 – 30	16.1	17.2
Cash	0 – 10	1.5	9.1
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 2014, the University has continued to increase its allocation to fixed income securities to better manage the interest rate volatility associated with its pension obligations. 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, 2014 and 2013 (in thousands of dollars):

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:								
Absolute return		$ 124,852	$ 5,348	**$ 130,200**		$ 123,501	$ 5,340	**$ 128,841**
Cash and short-term investments	$ 21,650			**21,650**	$ 64,396			**64,396**
Domestic common and convertible equity	4,957	103,622		**108,579**	8,517	107,820		**116,337**
Domestic fixed income	51,787	234,500		**286,287**	54,543	140,577		**195,120**
Foreign fixed income		23,074		**23,074**				**0**
Due from/(to) broker	2	(3,069)		**(3,067)**	(240)	(1,393)		**(1,633)**
Emerging market equity and debt	53,155	7,502		**60,657**	51,209			**51,209**
Foreign common and convertible equity	99,537			**99,537**	50,849			**50,849**
High yield			1	**1**		4,881	1	**4,882**
Private equities			64,955	**64,955**			63,145	**63,145**
Real estate			28,142	**28,142**			33,014	**33,014**
TOTAL INVESTMENT ASSETS[1]	**$ 231,088**	**$ 490,481**	**$ 98,446**	**$ 820,015**	**$ 229,274**	**$ 375,386**	**$ 101,500**	**$ 706,160**

[1] *Excludes net investment assets not subject to fair value of $17,757 and $52,742 as of June 30, 2014 and 2013, respectively.*

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 gains/(losses)	Purchases/contributions	Sales/distributions	Transfers into Level 3	Ending balance as of June 30, 2014
INVESTMENT ASSETS:							
Absolute return	$ 5,340	$ 54	$ 95	$ 4	$ (870)	$ 725	**$ 5,348**
High yield	1						**1**
Private equities	63,145	5,993	7,838	833	(12,854)		**64,955**
Real estate	33,014	1,164	3,320		(9,356)		**28,142**
TOTAL INVESTMENT ASSETS	**$ 101,500**	**$ 7,211**	**$ 11,253**	**$ 837**	**$ (23,080)**	**$ 725**	**$ 98,446**

The following is a rollforward of Level 3 investments for the year ended June 30, 2013 (in thousands of dollars):

	Beginning balance as of July 1, 2012	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, 2013
INVESTMENT ASSETS:								
Absolute return	$ 24,681	$ 1,062	$ (369)	$ 19	$ (10,550)	$ 10,571	$ (20,074)	**$ 5,340**
High yield	4	(128)	129		(4)			**1**
Private equities	68,261	9,501	(705)	1,761	(15,673)			**63,145**
Real estate	42,918	1,188	(908)	345	(10,529)			**33,014**
TOTAL INVESTMENT ASSETS	**$ 135,864**	**$ 11,623**	**$ (1,853)**	**$ 2,125**	**$ (36,756)**	**$ 10,571**	**$ (20,074)**	**$ 101,500**

Expected future benefit payments

Employer contributions of $6 million are expected for fiscal 2015 to fund pension or postretirement health benefit plans.

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
2015	$ 48,398	$ 20,370
2016	47,714	22,102
2017	50,413	23,652
2018	53,075	25,296
2019	55,424	27,016
Thereafter	306,369	168,883

14. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2014 and 2013 is summarized as follows (in thousands of dollars):

	2014	2013
Scholarships and other student awards:		
Scholarships applied to student income	**$ 372,917**	$ 359,456
Scholarships and other student awards paid directly to students	**129,974**	127,054
Total scholarships and other student awards	**502,891**	**486,510**
Student employment	**68,342**	65,964
Student loans	**24,530**	23,200
Agency financial aid[1]	**20,295**	20,569
TOTAL STUDENT FINANCIAL AID	**$ 616,058**	**$ 596,243**

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 $610.6 million and $641.0 million in fiscal 2014 and 2013, 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 2015. The 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, 2014 and 2013 are summarized as follows (in thousands of dollars):

	2014	2013
Gifts for current use	**$ 419,171**	$ 338,535
Non-federal sponsored grants	**117,140**	111,068
Gifts for capital:		
Endowment funds	**512,853**	222,686
Split interest agreements[1]	**14,478**	31,817
Facilities and loan funds	**92,040**	88,217
Total gifts for capital	**619,371**	342,720
TOTAL GIFTS	**$ 1,155,682**	**$ 792,323**

[1] *Shown net of discount. The undiscounted value of these gifts was $33,817 and $60,481 for the years ended June 30, 2014 and 2013, respectively*

17. OTHER INCOME

The major components of other income for the years ended June 30, 2014 and 2013 were as follows (in thousands of dollars):

	2014	2013
Rental and parking[1]	**$ 137,520**	$ 130,605
Royalties from patents, copyrights, and trademarks	**134,408**	123,086
Publications	**89,517**	79,879
Services income	**80,552**	72,793
Health and clinic fees	**57,746**	55,968
Sales income	**44,390**	45,961
Interest income	**9,516**	9,527
Other student income	**5,669**	5,995
Other	**42,066**	41,479
TOTAL OTHER INCOME	**$ 601,384**	**$ 565,293**

[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, 2014 and 2013 were as follows (in thousands of dollars):

	2014	2013
Subcontract expenses under sponsored projects	**$ 152,062**	$ 160,048
Travel	**88,055**	83,616
Publishing	**48,053**	48,409
Taxes and fees	**30,478**	26,371
Advertising	**24,922**	21,474
Postage	**20,904**	22,648
Insurance	**14,037**	16,047
Telephone	**13,138**	13,300
Other	**112,564**	68,605
TOTAL OTHER EXPENSES	**$ 504,213**	**$ 460,518**

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, 2014 and 2013 were as follows (in thousands of dollars):

	2014	2013
Instruction	**$ 1,163,900**	$ 1,105,090
Research	**806,081**	796,606
Institutional support	**721,242**	734,290
Academic support	**620,552**	579,739
Auxiliary services	**535,172**	486,292
Libraries	**238,280**	229,748
Student services	**190,796**	180,246
Scholarships and other student awards	**129,974**	127,054
TOTAL EXPENSES	**$ 4,405,997**	**$ 4,239,065**

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 $60.0 million and $52.8 million in fiscal 2014 and 2013, respectively.

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

	Operating	Capital
2015	$ 55,189	$ 7,059
2016	50,259	7,362
2017	44,127	7,550
2018	33,698	7,556
2019	27,346	11,621
Thereafter	118,317	162,917
TOTAL FUTURE MINIMUM PAYMENTS	**$ 328,936**	**$ 204,065**

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, 2014 totaled approximately $228.5 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.

Electricity 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, 2014, future obligations under the PPAs are as follows (in thousands of dollars):

2015	$ 20,994
2016	12,750
2017	7,370
2018	6,464
2019	4,485
Thereafter	20,439
TOTAL UTILITY FUTURE PURCHASE OBLIGATIONS	**$ 72,502**

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 November 7, 2014, the date the financial statements were issued.