

Northeastern University
Consolidated Financial Statements
June 30, 2015 and 2014

Northeastern University
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June 30, 2015 and 2014

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Independent Auditor's Report

To the Board of Trustees of
Northeastern University

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

Management's Responsibility for the 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 Northeastern 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 Northeastern 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 Northeastern University and its subsidiaries at June 30, 2015, and the results of 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 Matter

We have previously audited Northeastern University's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Boston, Massachusetts
September 30, 2015

Northeastern University
Consolidated Statements of Financial Position
June 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Assets		
Cash and cash equivalents	\$ 381,810	\$ 315,765
Accounts and other receivables, net	60,370	46,915
Prepays and other assets (Note 4)	29,770	29,116
Pledges receivable, net (Note 5)	105,466	99,468
Student and other loans receivable, net	35,017	35,427
Deposits with trustees (Note 3)	86,901	139,547
Investments (Notes 3 and 6)	873,885	886,713
Property, plant and equipment, net (Note 7)	1,170,426	1,095,328
Total assets	<u>\$ 2,743,645</u>	<u>\$ 2,648,279</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 138,748	\$ 130,541
Accounts payable on construction projects	27,153	18,628
Deferred revenue and student deposits	71,253	63,602
Refundable advances	35,432	33,309
Interest rate swap agreement (Notes 3 and 9)	52,264	46,584
Capital lease obligation (Note 8)	27,936	29,057
Long-term debt (Notes 3 and 9)	932,479	951,367
Total liabilities	<u>1,285,265</u>	<u>1,273,088</u>
Net assets		
Endowment and similar funds (Note 14)	428,838	433,487
Net investment in plant	323,956	293,444
Other unrestricted	246,587	217,617
Total unrestricted	<u>999,381</u>	<u>944,548</u>
Endowment and similar funds (Note 14)	144,649	147,051
Other temporarily restricted	95,211	84,410
Total temporarily restricted (Note 13)	<u>239,860</u>	<u>231,461</u>
Permanently restricted endowment and similar funds (Notes 13 and 14)	<u>219,139</u>	<u>199,182</u>
Total net assets	<u>1,458,380</u>	<u>1,375,191</u>
Total liabilities and net assets	<u>\$ 2,743,645</u>	<u>\$ 2,648,279</u>

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

Northeastern University
Consolidated Statement of Activities
Year Ended June 30, 2015
(with summarized financial information for the year ended June 30, 2014)

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Operating					
Revenues and other support					
Tuition and fees	\$ 1,015,064	\$ -	\$ -	\$ 1,015,064	\$ 934,128
Less: Financial aid	<u>(266,063)</u>	<u>-</u>	<u>-</u>	<u>(266,063)</u>	<u>(245,454)</u>
Net student-related revenues	749,001	-	-	749,001	688,674
Contributions available for operations	4,089	27,411	-	31,500	29,228
Grants and contracts	81,391	-	-	81,391	78,475
Indirect cost recovery	23,119	-	-	23,119	23,219
Auxiliary enterprises	130,638	-	-	130,638	125,581
Endowment spending available for operations (Note 14)	13,923	8,204	-	22,127	21,756
Other investment return available for operations	2,642	-	-	2,642	1,782
Other	<u>34,261</u>	<u>-</u>	<u>-</u>	<u>34,261</u>	<u>35,910</u>
Total operating revenues	1,039,064	35,615	-	1,074,679	1,004,625
Net assets released for operations	<u>25,555</u>	<u>(25,555)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>1,064,619</u>	<u>10,060</u>	<u>-</u>	<u>1,074,679</u>	<u>1,004,625</u>
Expenses					
Instruction	392,597	-	-	392,597	362,681
Research	102,204	-	-	102,204	97,010
Academic support	131,527	-	-	131,527	122,575
Student services	117,366	-	-	117,366	109,195
Institutional support	119,018	-	-	119,018	110,385
Other student aid	4,947	-	-	4,947	4,935
Auxiliary enterprises	114,262	-	-	114,262	108,876
Other	<u>6,564</u>	<u>-</u>	<u>-</u>	<u>6,564</u>	<u>5,490</u>
Total operating expenses (Notes 7 and 9)	<u>988,485</u>	<u>-</u>	<u>-</u>	<u>988,485</u>	<u>921,147</u>
Increase in net assets from operating activities	<u>76,134</u>	<u>10,060</u>	<u>-</u>	<u>86,194</u>	<u>83,478</u>
Nonoperating					
Contributions	6,459	31,588	11,727	49,774	55,003
Contributions available for operations	(4,089)	(27,411)	-	(31,500)	(29,228)
Endowment and other investment return (Note 6)	10,561	8,278	454	19,293	104,183
Endowment spending available for operations (Note 14)	(13,923)	(8,204)	-	(22,127)	(21,756)
Other investment return available for operations	(2,642)	-	-	(2,642)	(1,782)
Change in annuity and life income funds	-	(1,773)	-	(1,773)	(1,384)
Net realized and change in unrealized loss on interest rate swap agreement (Note 9)	(13,264)	-	-	(13,264)	(9,279)
Loss on sale of property, net	(766)	-	-	(766)	(39)
Net assets released from restrictions and other transfers	<u>(3,637)</u>	<u>(4,139)</u>	<u>7,776</u>	<u>-</u>	<u>-</u>
Change in net assets	54,833	8,399	19,957	83,189	179,196
Net assets at beginning of year	<u>944,548</u>	<u>231,461</u>	<u>199,182</u>	<u>1,375,191</u>	<u>1,195,995</u>
Net assets at end of year	<u>\$ 999,381</u>	<u>\$ 239,860</u>	<u>\$ 219,139</u>	<u>\$ 1,458,380</u>	<u>\$ 1,375,191</u>

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

Northeastern University
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

(in thousands of dollars)

	2015	2,014
Cash flows from operating activities		
Cash received from student-related revenues	\$ 875,229	\$ 809,471
Cash received from sponsored programs	93,362	92,064
Cash received from donors	22,926	18,735
Cash received from endowment and other investment income	9,002	8,870
Cash received from auxiliary enterprises other than student housing	11,222	11,645
Cash received from other income	33,982	37,978
Cash paid to employees and vendors	(892,480)	(830,332)
Interest and other payments	(42,893)	(39,416)
Cash received from premium on bonds	-	2,658
Net cash provided by operating activities	<u>110,350</u>	<u>111,673</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(124,524)	(90,100)
Decrease (increase) in deposits with trustees	52,646	(139,547)
Proceeds from sale or maturities of investments	127,637	125,306
Purchases of investments	(105,187)	(206,448)
Student loans and other loans issued	(5,840)	(6,480)
Proceeds from student and other loans	5,987	5,337
Proceeds from sale of property	1,893	289
Net cash used in investing activities	<u>(47,388)</u>	<u>(311,643)</u>
Cash flows from financing activities		
Increase (decrease) in refundable advances	2,123	(261)
Interest and dividends restricted for long-term investments	454	655
Payment to annuitants and life income funds	(703)	(745)
Contributions for long-term investments	12,626	7,704
Proceeds from sale of restricted contributed securities	6,189	7,849
Payments on capital lease obligation	(1,121)	(1,068)
Proceeds from notes payable	-	720
Proceeds from issuance of long-term debt	-	250,000
Payments on long-term debt	(16,485)	(15,727)
Bond issuance costs on new financing	-	(1,715)
Net cash provided by financing activities	<u>3,083</u>	<u>247,412</u>
Increase in cash and cash equivalents	66,045	47,442
Cash and cash equivalents at the beginning of the year	<u>315,765</u>	<u>268,323</u>
Cash and cash equivalents at the end of the year	<u>\$ 381,810</u>	<u>\$ 315,765</u>

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

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

1. Background

Founded in 1898, Northeastern University (“the University” or “Northeastern”) is one of the largest private urban universities in the United States. It is a world leader in experiential education, an academic approach that integrates study and professional experience to provide a more powerful learning experience. The University is also a leader in the production of use-inspired research that meets societal needs. Northeastern grants associate, bachelor, master and doctoral degrees. The University attracts students from all 50 states within the United States and more than 125 countries.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the University are set forth below.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with the reporting standards for not-for-profit organizations and include the University and its subsidiaries, principally a real estate holding entity and a research institute.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset classification as well as certain summarized footnotes. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University’s consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Generally Accepted Accounting Principles (“GAAP”) require classification of net assets and revenues, expenses, gains and losses into three categories, based on the existence or absence of donor or legal restrictions. The categories, unrestricted, temporarily restricted and permanently restricted net assets, are defined as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by management or the Board of Trustees.

Temporarily Restricted - Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the University.

Permanently Restricted - Reflects the original amount of gifts and, in some cases, the income generated from these gifts, which are required by the donor to be invested in perpetuity to produce income for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Net realized and change in unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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Unconditional promises to give (pledges) are recognized as temporarily or permanently restricted revenues in the period received. Pledges are recorded at the present value of expected future cash flows. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts of noncash assets are recorded at their fair market value at the date of contribution.

The University has received beneficial interests in irrevocable charitable remainder trusts, for which the University does not serve as trustee. For these trusts, the University recorded its beneficial interest in those assets as contributions revenue and pledges receivable at the present value of the expected future cash inflows. Trusts are recorded at the date the University has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets are recorded as a nonoperating change in the valuation of pledges receivable of either temporarily or permanently restricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets in the statement of activities. Gifts with donor-imposed restrictions, which are reported as temporarily restricted revenues, are released to unrestricted net assets when appropriated for an expenditure that satisfies the donor-imposed restriction. Gifts restricted for the purchase of land, buildings and equipment are reported as temporarily restricted nonoperating revenues and are released to unrestricted net assets when the assets are placed into service.

Net tuition and fees reflect student financial aid funded by the University's operating budget, restricted endowment funds, and federal and state student assistance programs. Compensation of students for services provided and tuition benefits for employees are presented as expenses. Tuition and fees billed but not earned are reported as deferred revenue and student deposits.

Revenues associated with research and other contracts and grants are recognized when related costs are incurred. Indirect cost recovery by the University on U.S. Government contracts and grants is based upon a negotiated rate and are recorded as unrestricted revenue.

Federally funded operating grants and contracts for the year ended June 30, 2015 and 2014 were \$85,978,000 and \$87,180,000 respectively, including indirect costs of \$20,930,000 and \$20,912,000.

Auxiliary enterprises include the operation of student housing and dining services, the daycare center and managed properties.

Nonoperating activities include all contributions, endowment and other investment return, change in annuity and life income funds, realized and changes in unrealized losses on interest rate swap agreements, net loss on sale of property and net assets released from restrictions and other transfers during the period used for current operations. Nonoperating revenues also include the portion of the endowment return in connection with the University's spending policy in excess of the amount appropriated and other investment return. Contributions available for operations received and spent in the same year are presented as reductions to nonoperating revenues and are reclassified to operating revenues. All other activities are classified as operating.

Expenses incurred in carrying out the fund-raising activities of the University, amounted to \$19,421,000 and \$19,231,000 for the years ended June 30, 2015 and 2014, respectively.

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Certain 2014 amounts have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash management accounts, money market funds and bonds with maturities when purchased of three months or less.

Most of the University's banking activity, including cash and cash equivalents, is conducted with several national banks with investment grade credit ratings. From time to time in the regular course of business deposit amounts exceed federal insurance limits. It is the University's policy to monitor these banks' financial strength and deposit balances on a daily basis and no losses have been experienced to date.

Accounts and Loans Receivable

Accounts receivable are stated net of allowance for doubtful accounts of \$7,531,000 and \$6,545,000 at June 30, 2015 and 2014, respectively. Loans receivable are stated net of allowance for doubtful accounts of \$687,000 at June 30, 2015 and 2014. Loans receivable are principally amounts due from students under Federally Sponsored Loan Programs, which are subject to significant restrictions; accordingly, it is not practical to determine the fair value of such amounts.

The University records an allowance for doubtful accounts for student and other loans receivables including those under the Federal Perkins Loan Program. Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain nonrepayment situations. Management believes that this allowance at June 30, 2015 and 2014 is adequate to absorb credit losses inherent in the portfolio as of that date.

Deposits with Trustees

These funds are established in accordance with the resolutions and loan agreements related to the issuance of the Massachusetts Development Finance Agency Series 2014A bonds. These funds are used for construction of the Interdisciplinary Science and Engineering Complex and are invested in U.S Treasuries, Federal agency bonds and money market funds.

Investments

Investments include cash and cash equivalents which are designated for long term investment by the University. They also include fixed income and equity portfolios with broadly defined investment strategies. Managers of these portfolios may utilize hedging strategies, invest in securities denominated in foreign currencies, or invest in options, futures, forward contracts, or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty to the transactions. The University also invests in a number of limited partnerships which sell securities short and which use leverage.

All investments are carried at estimated fair value.

Gains and losses upon sale of certain investments are calculated using average cost at trade date.

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Property, Plant and Equipment

Property, plant and equipment are stated at cost on the date of acquisition, net of accumulated depreciation. Plant assets donated to the University are stated at fair market value on the date of the gift, net of subsequent accumulated depreciation.

Depreciation is calculated using the straight-line method, with a half-year convention over the following estimated useful lives:

Buildings	50 years
Building improvements	30 years
Furniture, equipment and books	5-20 years
Software	4-7 years

Expenditures for maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized.

Conditional Asset Retirement Obligations

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of activities.

The University recognized \$1,140,000 and \$1,155,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2015 and 2014, respectively. Conditional asset retirement obligations of \$22,406,000 and \$21,855,000 at June 30, 2015 and 2014, respectively, are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Net Investment in Plant

Net investment in plant includes the net book value of all capital assets offset by outstanding liabilities associated with those capital assets. Capital assets include prepaid assets, unamortized debt issuance costs and discounts and property, plant and equipment (net of accumulated depreciation). Outstanding liabilities include the conditional asset retirement obligation, accounts payable associated with construction projects, premiums on long-term debt, capital lease obligation and outstanding long-term debt, including amounts of the associated interest rate swap agreement.

Endowment

The endowment includes both donor-restricted funds and funds designated by the Board of Trustees ("the Board") to function as endowments. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions in accordance with the laws of the Commonwealth of Massachusetts.

The Board of Trustees has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA or Act) for donor-restricted endowment funds as requiring the preservation of the original value of gifts, as of the gift date, to donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The University classifies as permanently

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restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively these amounts are referred to as the historic dollar value of the fund.

In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources available; and investment policies.

Unrestricted net assets include funds designated by the Board of Trustees to function as endowments and the income from certain donor-restricted endowment funds, and any accumulated investment return thereon, which pursuant to donor intent may be expended based on trustee or management designation. Temporarily restricted net assets include funds appropriated for expenditure pursuant to endowment and investment spending policies, certain expendable endowment gifts from donors, and any retained income and appreciation on donor-restricted endowment funds, which are restricted by the donor to a specific purpose or by law. When the temporary restrictions on these funds have been met, the funds are reclassified to unrestricted net assets.

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University expects its endowment funds, over time, to provide an average real rate of return of approximately 4% annually.

The University's endowment spending policy is calculated using 4% of a sixty month moving average of the endowment fund's market value. This amount is distributed to the appropriate funds and treated as operating revenue in the statement of activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains. The amount distributed each year is subject to the Board's approval. During fiscal year 2015, the full payout amount was distributed.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment fund deficits exist, they are classified as a reduction of unrestricted net assets. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of recently established endowments.

Tax Status

The University and its subsidiaries are tax-exempt organizations as described in section 501(c)(3) of the Internal Revenue Code.

GAAP requires that Northeastern evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service ("IRS"). The University has analyzed the tax positions taken and has concluded that as of June 30, 2015, there are no significant uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

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Use of Estimates

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

Recently Adopted Accounting Standards

On July 1, 2014, the University early adopted new guidance about Fair Value Measurement and Disclosures for Investments in certain entities that calculate net asset value per share (or its equivalent). This guidance requires the University to show investments that use net asset value ("NAV") as a practical expedient for valuation purposes, separately from other investments categorized in the fair value hierarchy described in Footnote 3. This disclosure change, which was applied retrospectively, can be seen in the investment levelling tables shown in Footnote 3 for both fiscal years 2015 and 2014.

New Accounting Pronouncements

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

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

3. Fair Value Measurements

The University values its financial assets and liabilities at fair value in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and delineates the disclosures required about fair value measurements. Financial assets consist primarily of the endowment and other investments. Additionally, GAAP allows the University the use of estimates to fair value alternative investments at the measurement date using net asset values ("NAV") reported by the investment managers without further adjustment, provided that the University does not expect to sell the alternative investments at a value other than the NAV. The University performs due diligence procedures on its alternative investments to determine the values recorded are appropriate.

GAAP clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, this standard establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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- Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.
- Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Valuations using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015, and indicates the fair value hierarchy utilized to determine such fair value:

	Fair Value Measurements at the End of the Reporting Period Using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	6/30/2015	Level 1	Level 2	Level 3
<i>(in thousands)</i>				
Beneficial interest in charitable remainder trust investments	\$ 4,306	\$ -	\$ -	\$ 4,306
Deposit with trustees	86,901	86,901	-	-
Endowment Investments:				
Cash and cash equivalents	25,537	25,537	-	-
Fixed income	40,043	40,043	-	-
Domestic equity	119,127	119,127	-	-
International equity	157,950	157,950	-	-
Other investments	17,382	17,382	-	-
Private equity at NAV (a)	115,870	-	-	-
Hedge funds at NAV (a)	227,391	-	-	-
Other alternative investments at NAV (a)	39,732	-	-	-
Total endowment investments	<u>743,032</u>	<u>360,039</u>	<u>-</u>	<u>-</u>
Other investments:				
Fixed income	113,996	113,996	-	-
Domestic equity	1,135	1,135	-	-
Auction rate securities and other	15,722	-	-	15,722
Total other investments	<u>130,853</u>	<u>115,131</u>	<u>-</u>	<u>15,722</u>
Total investments	<u>873,885</u>	<u>475,170</u>	<u>-</u>	<u>15,722</u>
Total assets	<u>\$ 965,092</u>	<u>\$ 562,071</u>	<u>\$ -</u>	<u>\$ 20,028</u>
Interest rate swap agreements – liability	(52,264)	-	(52,264)	-
Total liabilities	<u>\$ (52,264)</u>	<u>\$ -</u>	<u>\$ (52,264)</u>	<u>\$ -</u>

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- (a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Excluded from the fair value hierarchy at June 30, 2015 are \$115,870,000 of private equity, \$227,391,000 of hedge funds and \$39,732,000 of other equities for which fair value is measured at NAV per share using the practical expedient.

The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2014, and indicates the fair value hierarchy utilized to determine such fair value:

	6/30/2014	Fair Value Measurements at the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>(in thousands)</i>				
Beneficial interest in charitable remainder trust investments	\$ 4,091	\$ -	\$ -	\$ 4,091
Deposit with trustees	139,547	139,547		
Endowment Investments:				
Cash and cash equivalents	21,529	21,529	-	-
Fixed income	32,594	32,594	-	-
Domestic equity	110,214	110,214	-	-
International equity	160,374	160,374	-	-
Other investments	17,221	17,221	-	-
Private equity at NAV (b)	124,479	-	-	-
Hedge funds at NAV (b)	214,562	-	-	-
Other alternative investments at NAV (b)	48,061	-	-	-
Total endowment investments	729,034	341,932	-	-
Other investments:				
Fixed income	141,126	141,126	-	-
Domestic equity	831	831	-	-
Auction rate securities and other	15,722	-	-	15,722
Total other investments	157,679	141,957	-	15,722
Total investments	886,713	483,889	-	15,722
Total assets	\$ 1,030,351	\$ 623,436	\$ -	\$ 19,813
Interest rate swap agreements – liability	(46,584)	-	(46,584)	-
Total liabilities	\$ (46,584)	\$ -	\$ (46,584)	\$ -

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(b) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Excluded from the fair value hierarchy at June 30, 2014 are \$124,479,000 of private equity, \$214,562,000 of hedge funds and \$48,061,000 of other equities for which fair value is measured at NAV per share using the practical expedient.

All financial instruments are valued using a market approach involving identical or comparable assets or liabilities except for auction rate securities and the University's beneficial interest in charitable remainder trusts which are valued using an income approach.

At June 30, 2015 the change in the fair value of financial instruments valued using significant unobservable inputs (Level 3) is shown below:

<i>(in thousands of dollars)</i>	Auction Rate Securities and Other	Beneficial Interest in Charitable Remainder Trust	Total
Fair value recorded at July 1, 2014	\$ 15,722	\$ 4,091	\$ 19,813
Unrealized gains	-	215	215
Fair value recorded at June 30, 2015	<u>\$ 15,722</u>	<u>\$ 4,306</u>	<u>\$ 20,028</u>

The fair values of marketable domestic and international equities and fixed income instruments are determined generally based on quoted market prices in active markets. Alternative investments include private equity funds, hedge funds and other alternative investments. Private equity investments may consist of commitments in a limited partnership that invests in private companies or properties. Hedge funds may include investments that are publicly traded and may be subject to redemption restrictions.

At June 30, 2015, redemption terms for investments consist of the following:

<i>(in thousands of dollars)</i>	Within 30 Days	31-60 Days Prior Written Notice	61-90 Days Prior Written Notice	91-180 Days Prior Written Notice	181-365 Days Prior Written Notice	1-5 Years	6-10 Years	Total
Cash and cash equivalents	\$ 25,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,537
Fixed income	154,039	-	-	-	-	-	-	154,039
Domestic equity	120,262	-	-	-	-	-	-	120,262
International equity	157,950	-	-	-	-	-	-	157,950
Private equity	-	-	-	-	-	-	115,870	115,870
Hedge funds	-	9,503	4,711	54,827	81,642	75,929	779	227,391
Other alternative investments	-	19,142	-	8,864	-	11,726	-	39,732
Other investments	17,382	-	-	-	-	-	15,722	33,104
	<u>\$ 475,170</u>	<u>\$ 28,645</u>	<u>\$ 4,711</u>	<u>\$ 63,691</u>	<u>\$ 81,642</u>	<u>\$ 87,655</u>	<u>\$ 132,371</u>	<u>\$ 873,885</u>

The University's auction rate securities, which were determined to have a fair value of \$15,501,000 reflective of a \$4,499,000 discount at June 30, 2015 and 2014, are valued using the income approach, specifically a discounted cash flow analysis. This valuation methodology includes utilizing unobservable inputs such as offered quotes and comparability adjustments to arrive at the estimated fair value. The University performs ongoing due diligence to determine that the auction rate securities' fair value is reasonable.

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At June 30, 2015, the approximate fair value of outstanding long-term debt on the statement of financial position is \$989,560,000 based on estimates using current interest rates available for long-term debt with similar remaining maturities. The long-term debt is considered a Level 2 financial instrument.

Deposits with trustees are carried at fair value.

The estimated fair value of the interest rate swap agreement is based on an independent third party valuation. The fair value of swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date. The University has performed due diligence on the fair value of its interest rate swap agreement to determine fair value at June 30, 2015 and 2014.

4. Prepays and Other Assets

Five universities in the Commonwealth of Massachusetts formed The Massachusetts Green High Performance Computing Center, Inc., ("MGHPCC") and MGHPCC Holyoke, Inc. in May 2010 and April 2011, respectively, to construct and operate a research computing center located in Holyoke, Massachusetts. Both MGHPCC and MGHPCC Holyoke, Inc. are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code. Each respective university has agreed to contribute \$10,000,000 in total. The University has contributed \$10,000,000 which is included in the University's statement of financial position within prepaids and other assets. The center became fully operational in January 2013, and the University has begun amortizing the asset over the 10 year expected useful life.

5. Pledges

Pledges receivable as of June 30 are expected to be realized in the following time periods:

<i>(in thousands of dollars)</i>	2015	2014
One year or less	\$ 28,047	\$ 29,095
Between one and five years	59,386	54,126
Greater than five years	<u>36,199</u>	<u>32,395</u>
	123,632	115,616
Less: Discount	(13,304)	(12,428)
Allowance for doubtful pledges	<u>(4,862)</u>	<u>(3,720)</u>
	<u>\$ 105,466</u>	<u>\$ 99,468</u>

At June 30, 2015, the University has \$3,100,000 of conditional pledges that are not reflected in the consolidated financial statements due to their conditional nature.

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6. Investments

Investments, stated at fair value, held by the University at June 30 were as follows:

<i>(in thousands of dollars)</i>	2015	2014
Cash and cash equivalents	\$ 25,537	\$ 21,529
Fixed income	154,039	173,720
Domestic equity	120,262	111,045
International equity	157,950	160,374
Private equity	115,870	124,479
Hedge funds	227,391	214,562
Other alternative investments	39,732	48,061
Other investments	33,104	32,943
	<u>\$ 873,885</u>	<u>\$ 886,713</u>

The unfunded commitments, consisting of commitments that the University has made to various private equity investments at June 30, 2015 are listed below. These funds may be called for a period to extend between one and fifteen years.

<i>(in thousands of dollars)</i>	2015
Venture capital	\$ 44,444
Real estate	6,741
Energy & commodities	21,609
	<u>\$ 72,794</u>

Endowment and other investment return is comprised of:

<i>(in thousands of dollars)</i>	2015	2014
Realized and change in unrealized gains (losses)		
Endowment investments	\$ 6,916	\$ 91,669
Other investments	(1,366)	(140)
Investment yield		
Endowment investments	11,101	10,872
Other investments	2,642	1,782
	<u>\$ 19,293</u>	<u>\$ 104,183</u>
Unrestricted	\$ 10,561	\$ 64,963
Temporarily restricted	8,278	38,565
Permanently restricted	454	655
	<u>\$ 19,293</u>	<u>\$ 104,183</u>

Direct investment management fees paid were \$1,677,000 and \$1,304,000 for the years ended June 30, 2015 and 2014, respectively.

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7. Property, Plant and Equipment

Property, plant and equipment at June 30 consisted of the following:

<i>(in thousands of dollars)</i>	2015	2014
Land	\$ 23,443	\$ 26,103
Building and improvements	1,356,563	1,299,874
Capitalized lease	38,410	38,410
Furniture and equipment	288,626	303,651
Library books	49,727	47,527
Construction in progress	76,275	19,713
	<u>1,833,044</u>	<u>1,735,278</u>
Less: Accumulated depreciation	(662,618)	(639,950)
	<u>\$ 1,170,426</u>	<u>\$ 1,095,328</u>

Depreciation expense amounted to \$56,716,000 and \$54,742,000 for the years ended June 30, 2015 and 2014, respectively, and is allocated in the consolidated statement of activities to functional expenses based on specific use of the related facilities. Operation, maintenance and security of plant expense totaled \$72,752,000 and \$67,803,000 for the years ended June 30, 2015 and 2014, respectively, and is allocated to functional expense categories in the consolidated statement of activities based on salary expense.

8. Capitalized Lease

The University commenced the residence hall lease in July 2001. The rent, over the 30-year term of the lease, will be equal to the actual debt service plus customary fees payable with respect to the \$31,130,000 principal amount of the bonds issued to finance the building. The annual lease commitments for future years range from \$2,623,000 in 2016 to \$2,576,000 in 2031.

Approximate future annual principal requirements as of June 30, 2015 are as follows:

<i>(in thousands of dollars)</i>	Principal Payments
Year	
2016	\$ 1,178
2017	1,237
2018	1,299
2019	1,365
2020	1,433
2021-2031	21,424
	<u>\$ 27,936</u>

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9. Long-Term Debt

Long-term debt consists of the following at June 30:

(in thousands of dollars)

Name	Rate	Maturity	2015	2014
Massachusetts Development Finance Agency				
Series R	4.50%-5.00%	2033	\$ 76,205	\$ 78,595
Series T -1	2.00%-5.00%	2037	62,610	62,935
Series T -2	3.00%-5.00%	2037	65,690	66,015
Series T -3	Variable	2019	69,375	69,700
Series Y-1	5.00%-5.62%	2029	31,400	32,755
Series Y-2	5.00%-5.50%	2024	13,120	14,165
Series 2010A	3.00%-5.00%	2035	216,955	225,400
Series 2012	4.00%-5.00%	2035	54,385	54,385
Series 2014A	4.37%-5.25%	2044	150,000	150,000
Taxable Revenue Bonds				
Series 2010B	3.35%-6.43%	2035	68,600	70,875
Series 2014B	.098%-5.29%	2032	100,000	100,000
Other Notes Payable	2.50%	2019	900	900
			<u>909,240</u>	<u>925,725</u>
Add: Unamortized Premium on Bonds			23,239	25,642
			<u>\$ 932,479</u>	<u>\$ 951,367</u>

Approximate future annual principal requirements are below:

<i>(in thousands of dollars)</i>	Principal Payments
Year	
2016	\$ 22,126
2017	23,011
2018	24,015
2019	25,074
2020	26,209
Thereafter	788,805
	<u>\$ 909,240</u>

The tables above reflect the contractual maturities of the debt agreements which were effective as of June 30, 2015.

Interest expense totaled \$31,215,000 and \$30,857,000 for the years ended June 30, 2015 and 2014, respectively. Interest expense has been allocated to each functional expense category in the consolidated statement of activities based on specific identification. Total amounts paid in 2015 and 2014, were \$49,235,000 and \$41,059,000, respectively, to meet interest costs including settlement costs on the related interest rate swap agreement. Interest expense capitalized totaled \$7,845,000 and \$3,204,000 for the years ended June 30, 2015 and 2014, respectively.

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In January 2014, the Massachusetts Development Finance Agency (“MDFFA”) Series 2014A bonds were issued in the amount of \$150,000,000. The proceeds will be used to finance the construction of the new Interdisciplinary Science and Engineering Complex. Principal payments commence in 2032 with final tender in March 2044. At the same time, the University issued \$100,000,000 in US Bank National Association taxable bonds Series 2014B for the purpose of financing the construction of the new Interdisciplinary Science and Engineering Complex. Principal payments commence in 2016 with final tender in March 2032. The Series 2014A bonds were issued with an original premium totaling \$2,658,000 which is recorded in long-term debt. The premium will be amortized using the effective interest method over the life of the respective bonds.

In February 2014, T-3 bonds for \$69,700,000 were remarketed as five-year tender bonds with a maturity date in February 2019.

The University entered into an interest rate swap agreement to manage the interest cost and variable rate risk associated with its Series T3 outstanding debt. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of the agreement, the University pays a fixed rate, determined at inception, to a third party who in turn pays the University a variable rate on these respective notional principal amounts.

The University records the interest rate swap at fair value. Net payments or receipts under the swap agreement along with the change in fair value of the swap are included in the nonoperating section on the consolidated statement of activities.

The University has adopted guidance related to the *Disclosures about Derivative Instruments and Hedging Activity*. Under this guidance, the University is required to disclose the location and amounts of derivatives within the consolidated financial statements. The tables below depict the impact the derivative has on both the consolidated statement of financial position and consolidated statement of activities.

<i>(in thousands of dollars)</i>	June 30, 2015	June 30, 2014
	Fair Value	Fair Value
Interest rate swap agreement	\$ (52,264)	\$ (46,584)

Net realized and unrealized loss on the interest rate swap recorded in the consolidated statement of activities as nonoperating was as follows for the years ended June 30, 2015 and 2014:

<i>(in thousands of dollars)</i>	2015	2014
Realized loss	\$ (7,584)	\$ (7,615)
Change in unrealized loss	(5,680)	(1,664)
	<u>\$ (13,264)</u>	<u>\$ (9,279)</u>

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The following schedule presents the notional principal amounts and fair value of the University's interest rate swap agreement at June 30, 2015:

(in thousands of dollars)

Bond Issue	Counterparty	Trade Type	Notional Amount	Date Expiration October 1,	Fair Value at June 30, 2015
MDFA Series T3	AIG	Swap	\$ 208,100	2037	\$ (52,264)

There is no collateral posting requirement for the University related to the swap with AIG.

The University maintained lines of credit with two banks in the aggregate amount of \$50,000,000 for years ended June 30, 2015 and 2014. There were no amounts outstanding on the line of credit at June 30, 2015 and 2014.

10. Retirement Plan

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute an amount of their eligible compensation up to the Internal Revenue Service published limit toward the purchase of contracts with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and/or Fidelity Management Trust Company. After two years of employment, the University contributes 10% of the participants' eligible compensation to each participant's account providing that the participants contribute a minimum of 5% of their eligible compensation to the plan. The cost of the University's contribution to this plan was \$25,049,000 and \$23,559,000 for the years ended June 30, 2015 and 2014, respectively.

11. Post-Retirement Medical Plan

The University sponsors a post retirement plan under which faculty and staff who are 55 years of age and have at least 10 years of service can participate. Under the plan retirees can contribute 50% of the premium for the medical plan selected. The plan is provided for Pre-Medicare coverage and such coverage terminates at age 65. Spouses and dependent children may elect coverage under the plan by contributing 100% of the premium. Spouses are eligible until they are able to participate in Medicare and dependent children until age 26.

For the year ended June 30, 2015 and 2014, net periodic post-retirement medical benefits cost includes the following:

(in thousands of dollars)

	2015	2014
Service cost	\$ 617	\$ 770
Interest cost	394	560
Amortization of:		
Actuarial loss	-	219
	<u>\$ 1,011</u>	<u>\$ 1,549</u>

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Changes in the post-retirement medical benefit obligations are as follows:

<i>(in thousands of dollars)</i>	2015	2014
Benefit obligations at beginning of year	\$ 11,771	\$ 15,478
Service cost	617	770
Interest cost	394	560
Participant contributions	495	670
Actuarial gain	(424)	(3,945)
Benefits paid	<u>(1,330)</u>	<u>(1,762)</u>
Benefit obligations at end of year	<u>\$ 11,523</u>	<u>\$ 11,771</u>

These costs are allocated to the functional expense categories in the statement of activities based on salary expense. The accrued post-retirement benefit obligation in the table above is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The plan does not hold assets and is funded as benefits are paid.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 5.5%, 5.0% and 4.5%, for the years ending 2016, 2017, 2018, respectively, and was graded down to 4.0% for fiscal year 2019 and thereafter. The discount rate used to determine the accumulated benefit obligation is 3.56% and 3.47% as of June 30, 2015 and 2014, respectively. The discount rate used to determine the net periodic post-retirement benefit cost is 3.47% and 3.75% as of June 30, 2015 and 2014, respectively. The cumulative amount within unrestricted net assets related to unamortized gains is \$1,123,000 as of June 30, 2015.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effect:

<i>(in thousands of dollars)</i>	2015	2014
Impact of 1% increase in health care cost trend		
on interest cost plus service cost during the past year	\$ 121	\$ 122
on accumulated post-retirement benefit obligation	875	935
Impact of 1% decrease in health care cost trend		
on interest cost plus service cost during the past year	(105)	(106)
on accumulated post-retirement benefit obligation	(787)	(833)

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Expected future benefit payments and cash contributions to the plan are as follows:

(in thousands of dollars)

Year	Future Benefit Payments
2016	\$ 843
2017	904
2018	941
2019	970
2020	1,026
2021-2025	5,177
	<u>\$ 9,861</u>

12. Self-Insurance

The University is self-insured for certain employee health benefits, workers' compensation, a portion of property and casualty coverage and a student health plan. The self-insurance reserve balances were \$4,651,000 and \$4,534,000 at June 30, 2015 and 2014, respectively, and are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

13. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are composed of the following general classes of uses or purpose at June 30:

<i>(in thousands of dollars)</i>	2015		2014	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Instruction and academic administration	\$ 88,498	\$ 95,085	\$ 83,834	\$ 91,666
Research	19,243	16,858	18,324	13,309
Scholarships, fellowship and other aid	104,316	96,108	100,245	86,762
Capital construction and maintenance	8,381	694	7,680	694
Life income funds	8,253	3,522	10,180	3,234
Other	11,169	6,872	11,198	3,517
	<u>\$ 239,860</u>	<u>\$ 219,139</u>	<u>\$ 231,461</u>	<u>\$ 199,182</u>

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14. Endowment and Similar Net Assets

Endowment and similar net assets composition by type of fund as of June 30, 2015:

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (13) ⁽¹⁾	\$ 144,649	\$ 219,139	\$ 363,775
Board-designated endowment funds	428,851	-	-	428,851
	<u>\$ 428,838</u>	<u>\$ 144,649</u>	<u>\$ 219,139</u>	<u>\$ 792,626</u>

Endowment and similar net assets composition by type of fund as of June 30, 2014:

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 147,051	\$ 199,182	\$ 346,233
Board-designated endowment funds	433,487	-	-	433,487
	<u>\$ 433,487</u>	<u>\$ 147,051</u>	<u>\$ 199,182</u>	<u>\$ 779,720</u>

⁽¹⁾ The \$13,000 deficits in unrestricted net assets on June 30, 2015 represent the amounts by which the fair values of certain donor-restricted endowment funds were below the amount required to be retained permanently. There were no such funds on June 30, 2014.

Changes in Endowment and similar net assets for the fiscal year ended June 30, 2015:

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and similar net assets at July 1, 2014	\$ 433,487	\$ 147,051	\$ 199,182	\$ 779,720
Investment income	6,453	4,648	-	11,101
Net appreciation (realized and change in unrealized)	3,896	4,303	454	8,653
Total endowment return	10,349	8,951	454	19,754
Contributions	120	3,475	11,727	15,322
Endowment spending for operations and reinvestment	(13,923)	(8,204)	-	(22,127)
Other expenses and transfers	(1,195)	(6,624)	7,776	(43)
Endowment and similar net assets at June 30, 2015	<u>\$ 428,838</u>	<u>\$ 144,649</u>	<u>\$ 219,139</u>	<u>\$ 792,626</u>

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Changes in Endowment and similar net assets for the fiscal year ended June 30, 2014:

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and similar net assets at July 1, 2013	\$ 380,016	\$ 107,905	\$ 183,789	\$ 671,710
Investment income	6,634	4,233	5	10,872
Net appreciation (realized and change in unrealized)	<u>57,589</u>	<u>34,846</u>	<u>650</u>	<u>93,085</u>
Total endowment return	64,223	39,079	655	103,957
Contributions	61	10,399	14,255	24,715
Endowment spending for operations and reinvestment	(13,880)	(7,876)	-	(21,756)
Other expenses and transfers	<u>3,067</u>	<u>(2,456)</u>	<u>483</u>	<u>1,094</u>
Endowment and similar net assets at June 30, 2014	<u>\$ 433,487</u>	<u>\$ 147,051</u>	<u>\$ 199,182</u>	<u>\$ 779,720</u>

Endowment and similar net assets classified as unrestricted net assets include unrestricted gifts from donors and other funds designated by the University as quasi-endowment for the long-term support of the University, including any accumulated income and appreciation. Temporarily restricted endowment net assets include accumulated income and appreciation on permanently restricted endowment funds, life income, annuities and trust funds (net of actuarial liability). Permanently restricted endowment and similar net assets consist of those funds designated by donors to be invested in perpetuity to provide a permanent source of income. Endowment and similar net assets are primarily used to fund scholarships and professorships.

15. Lease Commitments and Contingencies

The University is subject to certain legal proceedings and claims which arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position.

The University leases property, plant and equipment. The annual operating minimum lease commitments for property rentals through the year 2020 are approximated below:

<i>(in thousands of dollars)</i>	Minimum Lease Commitments
Year	
2016	\$ 29,737
2017	25,034
2018	24,909
2019	25,068
2020	<u>24,759</u>
	<u>\$ 129,507</u>

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Total rental expense, including computer software licenses, for the University was \$37,418,000 and \$28,274,000 for the years ended June 30, 2015 and 2014, respectively.

The University has entered into contracts for various construction, maintenance and renovation projects for which a balance of \$124,465,000 is committed at June 30, 2015.

16. Cash Flow Statement

The University has presented cash flows from operating activities in the statement of cash flows using the direct method. The following table reconciles total changes in net assets to net cash provided by or used in operating activities.

<i>(in thousands of dollars)</i>	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 83,189	\$ 179,196
Adjustments to reconcile total changes in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	54,556	52,543
Accretion expense	1,140	1,154
Student loan cancellations	263	554
Loss on disposals of property, plant, and equipment	826	842
Changes in assets and liabilities		
Increase in receivables and prepaid assets	(20,350)	(24,000)
Increase in accounts payable and accrued liabilities	7,770	5,892
Increase in deferred revenue and student deposits	7,651	2,218
Other items		
Contributions in kind	(2,250)	(222)
Contributed securities	(7,487)	(10,505)
Proceeds from sale of contributed securities	1,298	2,656
Contributions for long-term investments	(12,626)	(7,704)
Interest and dividends restricted for long-term investments	(454)	(655)
Net realized and change in unrealized gain on investments	(9,622)	(94,657)
Unrealized loss on interest rate swap agreement	5,680	1,664
Cash received from premium on bonds issued	-	2,658
Net loss on sale of property	766	39
Net cash provided by operating activities	<u>\$ 110,350</u>	<u>\$ 111,673</u>

17. Subsequent Events

The University has assessed the impact of subsequent events through September 30, 2015, the date of the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.