Howard Hughes Medical Institute

Consolidated Financial Statements
for the years ended August 31, 2015 and 2014
and Report of Independent Auditors Thereon

Independent Auditor's Report

To Trustees of the
Howard Hughes Medical Institute:

We have audited the accompanying consolidated financial statements of the Howard Hughes Medical Institute and its subsidiaries ("Institute"), which comprise the consolidated statements of financial position as of August 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and of 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 audits. We conducted our audits 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 Institute'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 Institute'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 Howard Hughes Medical Institute and its subsidiaries at August 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Financial Position
August 31, 2015 and 2014

(In thousands)

Assets	2015	2014
Cash and cash equivalents	$ 583,467	$ 456,996
Escrowed bond proceeds	1,556	10,951
Investment receivables	236,410	86,518
Investments	19,792,189	20,464,210
Securities pledged as collateral	269,307	-
Laboratory space, equipment, buildings and other property, net	761,223	795,980
Other assets	49,584	45,675
Total assets	$ 21,693,736	$ 21,860,330
Liabilities		
Accounts payable and accrued liabilities	$ 117,454	$ 111,804
Investment payables	111,199	89,583
Investment and derivative liabilities	540,268	571,679
Repurchase obligations	269,615	-
Grant commitments	118,379	148,458
Post-retirement/employment obligations	406,052	380,501
Capital financing		
Note payable	40,376	40,376
Capital lease obligation	4,999	10,409
Bonds payable	1,914,159	1,913,913
Total liabilities	3,522,501	3,266,723
Net assets	18,171,235	18,593,607
Total liabilities and net assets	$ 21,693,736	$ 21,860,330

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

HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended August 31, 2015 and 2014

(In thousands)

Revenue	2015	2014
Investment earnings		
Interest, dividends, and other income from investments	$ 204,560	$ 282,551
Realized gains on investment sales, net	1,758,663	1,705,844
Change in unrealized (losses)/gains of investments	(1,391,339)	852,161
Less - expenses incurred in the production of income:		
Investment management expenses	(97,240)	(113,745)
Interest expense	(267)	(6)
Net investment earnings	474,377	2,726,805
Intellectual property and other income	19,344	15,110
Total revenue	493,721	2,741,915
Expenses		
Program activities		
Medical research	720,993	787,415
Science education and other scientific programs	64,484	129,678
General and administrative	67,079	68,459
Interest expense	63,537	63,762
Total expenses	916,093	1,049,314
(Decrease)/increase in net assets	(422,372)	1,692,601
Net assets, beginning of year	18,593,607	16,901,006
Net assets, end of year	$ 18,171,235	$ 18,593,607

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

HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Cash Flows
For the Years Ended August 31, 2015 and 2014

(In thousands)	2015	2014
(Decrease)/increase in net assets	$ (422,372)	$ 1,692,601
To reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	92,705	96,561
Loss on disposal of assets	5,252	6,633
(Increase)/decrease in receivables	(154,366)	36,657
(Increase) in securities pledged as collateral	(269,307)	-
Increase in accounts payable, accrued liabilities, commitments and obligations	20,312	146,138
Realized gains on investment sales, net	(1,758,663)	(1,705,844)
Change in unrealized losses/(gains) of investments	1,391,339	(852,161)
Net cash used in operating activities	(1,095,100)	(579,415)
Cash flows from investing activities		
Receipt of escrowed bond proceeds	9,394	19,598
Purchases of facilities, leasehold improvements, and equipment	(61,512)	(85,360)
Sale of equipment	2,620	2,315
Proceeds from sales of investments	13,866,800	11,507,677
Purchases of investments	(12,857,284)	(11,003,564)
Net cash provided by investing activities	960,018	440,666
Cash flows from financing activities		
Repayment on capital lease obligations	(8,030)	(10,930)
Proceeds from repurchase obligations	269,583	-
Net cash provided by/(used in) financing activities	261,553	(10,930)
Net increase/(decrease) in cash	126,471	(149,679)
Cash and cash equivalents, beginning of year	456,996	606,675
Cash and cash equivalents, end of year	$ 583,467	$ 456,996

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Howard Hughes Medical Institute ("HHMI" or the "Institute") was established for the purpose of promoting knowledge within the basic sciences, principally medical research and education, and the effective application of this knowledge for the benefit of humanity. The Institute conducts basic biomedical research at its Janelia Research Campus located in Loudoun County, Virginia, and at universities, hospitals, and other non-profit research institutions ("host institutions") throughout the U.S. under the terms of collaboration agreements. Under these arrangements, the Institute appoints biomedical researchers, referred to as investigators, at host institutions; employs these investigators and members of their laboratory teams; and provides investigators with laboratory budgets to cover research costs. The collaboration agreements generally require the Institute to pay occupancy charges for a reasonable amount of laboratory and office space occupied by Institute investigators, and to reimburse certain other research-related costs. The host institution provides laboratory and office space together with related maintenance and repairs, and is responsible for a range of functions including animal care, laboratory safety, hazardous materials purchasing, management and disposal, and management of intellectual property created by Institute scientists. The Institute typically has contractual rights to occupy host institution facilities for as long as there are Institute investigators at that host institution. The Institute's obligation to pay a host institution occupancy charges is not fixed, and will vary depending on the number of investigators at a host institution and the space occupied by each of them, up to per-investigator limits set by the Institute.

In addition to its basic research activities, the Institute funds grants to both institutions and individuals in support of a wide range of science and research-related initiatives, including precollege and undergraduate science education, pre- and post-doctoral research fellowships, and international research activities. Most of the Institute's grant awards to individuals are fellowships administered by the awardee's institution for the benefit of the awardee.

For many years, the Institute has created science education resources for use by classroom teachers, and has distributed these broadly without charge. In 2011, the Institute launched a documentary science film initiative to develop, produce, and disseminate science programming through broadcast television and other media channels. Film footage produced through this initiative may also be used to expand and enhance the science education resources designed for classroom use. The first production of Tangled Bank Studios, LLC, the Institute's production company, titled "Your Inner Fish", aired on PBS in April, 2014. Since then, two additional Tangled Bank Studios films have aired, and more are in production.

The consolidated financial statements include the accounts of the Institute's wholly-owned subsidiaries, which are used primarily in connection with investment activities. All intra-company transactions and accounts have been eliminated.

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the dates of the financial statements, and reported revenues and expenses for the years then ended. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents includes both U.S. and non-U.S. currency held at the Institute's custodians, prime brokers, clearing agents, and banking institutions held for investment or spending purposes and short-term interest-bearing marketable instruments with original maturities of 90 days or less from the initial purchase date. Cash equivalents include short-term U.S. Treasury Bills and other short-term, highly liquid investments that are carried at cost, which approximates fair value. Cash equivalents may also include U.S. Treasury Notes/Bonds, sovereign debt and corporate debt that are carried at fair value if they were initially purchased within 90 days of maturity.

The total cash and cash equivalents maintained at various institutions exceeds the amount guaranteed by federal agencies and, therefore, bears some risk. The Institute has not experienced any loss due to this risk.

Escrowed Bond Proceeds - Escrowed bond proceeds are restricted to the construction of an apartment complex at the Janelia Research Campus located in Loudoun County, Virginia. These funds are maintained in an interest bearing account.

Restricted Funds – The Institute generally does not accept contributions, but has made exceptions for grants to laboratory heads. These grants entail restrictions on how the funds may be used. As a result, there are restrictions on net assets, which the Institute considers immaterial to its financial statements.

Intellectual Property - The Institute receives licensing fees and royalty income in connection with the commercialization of intellectual property created by its scientists. Licensing fees and royalty income are recorded as revenue in the Consolidated Statements of Operations and Changes in Net Assets at the time of receipt.

In addition, the Institute has equity interests in startup companies formed to commercialize inventions created by its investigators. Such equity interests are held in the host institution's name for the benefit of HHMI until such time as the host institution disposes of that interest. As a result, recognition of value related to such equity interests is recorded only upon notification to HHMI by the host institution that its equity interest has been sold, and the Institute's share of the proceeds has been determined. No value for such equity interests is carried on the balance sheet.

The Institute may in the future directly hold equity or other interests in some startup companies formed to commercialize inventions created by its researchers at the Janelia Research Campus. In this event, the equity or other interests would be managed by the Institute's Investment Department, and appropriately recorded in the consolidated financial statements.

Investments - The Institute's investments are its principal source of support. A majority of the Institute's spending is on programs that involve long-term commitments: the Institute's medical research program, in which it makes multi-year employment, budget, and other spending commitments to its investigators and the Janelia Research Campus; and a grants program in which the Institute makes multi-year grant commitments for science education. These attributes of the Institute's mode of operation present the need to balance longer-term investment fund growth, stability of investment returns, and liquidity for a significant part of the fund. The Institute's long-range investment goal is to manage the fund in a prudent manner that will support the Institute's programs in perpetuity.

Significant accounting policies related to investments are as follows:

1. Investment transactions are accounted for on a trade-date basis. Net realized and change in unrealized gains and losses are calculated using the average cost of investments and are recognized in the Consolidated Statements of Operations and Changes in Net Assets. Investment income, including interest, is accrued as earned. Dividend income is recorded on the ex-dividend date.

2. Investments are valued based on quoted market prices whenever available.

   For alternative investments such as private equity, hedge, and commingled funds, management uses the practical expedient to determine the fair value of these alternative investments, which permits the use of Net Asset Value ("NAV") without adjustment under certain circumstances. Management reviews the valuation policies of managers, reviews financial reporting, and performs other due diligence as applicable and needed to obtain an understanding of the valuation processes used by the third party.

   For level 3 investments, management may involve use of estimates, appraisals, assumptions, and other methods approved for use by the Valuation Committee. The Valuation Committee determines the appropriate method for estimating the fair value of each of these investments. The Valuation Committee is comprised of the Chief Investment Officer, the Investments Chief Operating Officer, the Manager, Business Due Diligence and Compliance, and the Manager, Investment Fund Services. They meet monthly to review and assess the methods employed above and to recommend changes as appropriate.

3. Derivatives, such as futures, options, swap contracts, and foreign currency forward contracts are recorded at fair value with the resulting gain or loss recognized in the *Realized Gains on Investment Sales, net* or *Change in Unrealized (Losses)/Gains of Investments.*

Laboratory Space, Equipment, Buildings and Other Property - Costs of constructing and renovating laboratory space occupied by investigators or other HHMI laboratory heads, and improvements in excess of the Institute's capitalization threshold, are currently capitalized and amortized over the lesser of 5 years or the remaining appointment term of the investigator or other HHMI laboratory head for whom renovations are being made. Buildings, building improvements, and equipment having a useful life of more than one year and a unit cost that exceeds the Institute's capitalization threshold are capitalized. Interest paid on construction debt is capitalized as a component of the building cost. There is no interest cost associated with any renovations. Repair and maintenance costs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Classification	Estimated Useful Life
Equipment and furniture	5
Leasehold Improvements	5-10
Buildings	35

Grant Commitments - The Institute awards domestic and international grants for periods generally ranging from one to five years. Awards may be deferred by the Institute in its discretion, if the awardee requests deferral. Deferred awards continue to be unconditional commitments for which there are no additional contingencies, and are included in the grant commitment liability at August 31, 2015. For multi-year awards, grant commitments are recorded as expenses in the Consolidated Statements of Operations and Changes in Net Assets in the year the grant commitment is made, and the present value of the grant commitment liability is reflected in the Consolidated Statements of Financial Position. The discount rate used to arrive at the present value of future payments is based on the rates for U.S. Treasury Notes with maturities in the years in which the payments will be made.

Leases – Lease agreements, which for financial statement purposes include the space arrangements reflected in collaboration agreements with host institutions, are evaluated to determine whether they are capital or operating leases in accordance with Accounting Standards Codification ("ASC") 840, *Leases* ("ASC 840"). If substantially all of the risks and benefits of property ownership have been transferred to the Institute, as determined by the criteria in ASC 840, the lease then qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis over a period consistent with the Institute's depreciation policy for equipment. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Insurance - The Institute generally self-insures for property and casualty risks. Third party insurance is purchased to cover certain risks to individuals under Directors' and Officers' liability that HHMI is not able to cover directly. The Institute also purchases workers' compensation insurance, commercial automobile liability coverage, media liability, and coverage for risks related to international operations. Other insurance policies are purchased from time to time in response to specific needs.

Reclassifications – Certain prior year amounts have been reclassified in order to conform to the current year's presentation. Prior year disclosures have been updated accordingly where investments' quantitative inputs, valuation techniques and assumptions have changed.

Recent Accounting Pronouncements

Standard adopted in current year

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share* (or its Equivalent), ("ASU 2015-07"). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820"). Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. The Institute elected to adopt ASU 2015-07 early, and the Institute's disclosures in Note 2 are presented accordingly.

Standards effective in future years
In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. This new standard requires that management, in connection with preparing financial statements for each annual and interim reporting period, evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The standard is effective for annual and interim periods beginning after December 16, 2016. The Institute does not expect this new guidance to have a material impact on its financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This new guidance requires that capitalized debt issuance costs be presented on the balance sheet as a reduction to debt, rather than recorded as a separate asset. The standard is effective for annual and interim periods beginning after December 15, 2015 and should be applied on a retrospective basis for the periods presented. The Institute does not expect this new guidance to have a material impact on its financial statements.

2. INVESTMENTS

The Institute's valuation process is subject to review and oversight by the Valuation Committee. The Institute's Valuation Committee has been established to periodically assess the valuation techniques. The Valuation Committee may also consider new methodologies and recommend changes as appropriate. Valuation techniques have been selected and applied as considered appropriate in the circumstances. Once selected, they have been consistently applied. A change in a valuation technique or its application will be made only if the change results in a measurement that management believes is more representative of fair value in the circumstances. There have been no changes in the valuation methodology for the fiscal years ending August 31, 2015 and 2014. Although the Valuation Committee believes its valuation methods are appropriate and consistent, these methods may produce a fair value estimate that may not be indicative of the ultimate net realizable value, or reflective of future fair values.

The fair value hierarchy, as required by ASC 820 prioritizes the use of market-based information over entity-specific information, and establishes a three-level hierarchy for fair value measurement based on the transparency of information, such as the pricing source used in the valuation of an asset or liability, as of the measurement date. It consists of observable and unobservable inputs at three levels. Observable inputs are based on market data obtained from sources independent of the reporting entity; unobservable inputs are based on the best information available in the circumstances.

- Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities.

- Level 2 inputs are from sources other than quoted prices that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, default rates, and market corroborated inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 inputs are unobservable inputs for the asset or liability. They are used to measure fair value when observable inputs are not available, including situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The availability of inputs relevant to the asset or liability and the reliability of the inputs determine the selection of appropriate valuation techniques. Valuation techniques applied to HHMI's investments can include a combination of both observable and unobservable inputs. When there is little, if any, market activity for the asset or liability at the measurement date, models or other valuation methodologies that require varying degrees of judgment are used, including management estimates, where appropriate.

The following tables present the financial instruments carried at fair value as of August 31, 2015 and 2014 according to the valuation hierarchy defined above, which reflects the updated accounting guidance outlined in ASU 2015-07.

August 31, 2015
(In thousands)

	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Deferred compensation plan assets	$ 29,790	$ -	$ 4,073	$ 33,863
Investments:				
Equity	4,009,129	5,789	83,259	4,098,177
Fixed income securities	-	2,129,049	104,128	2,233,177
Preferred securities	1,411	52,218	29,673	83,302
Convertible securities	-	527	-	527
Private equity	-	-	64,807	64,807
Derivatives	4,381	29,954	-	34,335
Total	4,014,921	2,217,537	281,867	6,514,325
Alternative investments measured under the NAV-practical expedient	-	-	-	13,277,864
Total investments	4,014,921	2,217,537	281,867	19,792,189
Total assets at fair value	$ 4,044,711	$ 2,217,537	$ 285,940	$ 19,826,052
Liabilities				
Investments and derivatives:				
Equity short positions	$ 375,724	$ -	$ -	$ 375,724
Derivatives	4,233	160,310	-	164,543
Total investments and derivatives	$ 379,957	$ 160,310	$ -	$ 540,267

August 31, 2014
(In thousands)

	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Deferred compensation plan assets	$ 27,668	$ 471	$ 3,717	$ 31,856
Investments:				
Equity	5,004,543	1,338	62,271	5,068,152
Fixed income securities	-	2,544,799	160,207	2,705,006
Preferred securities	24,804	65,784	44,020	134,608
Convertible securities	2,830	5,044	-	7,874
Private equity	-	-	43,592	43,592
Derivatives	5,038	24,942	-	29,980
Total	5,037,215	2,641,907	310,090	7,989,212
Alternative investments measured under the NAV-practical expedient	-	-	-	12,474,998
Total investments	5,037,215	2,641,907	310,090	20,464,210
Total assets at fair value	$ 5,064,883	$ 2,642,378	$ 313,807	$ 20,496,066
Liabilities				
Investments and derivatives:				
Equity short positions	$ 434,282	$ -	$ -	$ 434,282
Derivatives	4,215	133,182	-	137,397
Total investments and derivatives	$ 438,497	$ 133,182	$ -	$ 571,679

The following table is a rollforward of instruments classified within Level 3 of the fair value hierarchy defined above:

For the year ending August 31, 2015
(In thousands)

	Fair Value Beginning Balance	Realized / Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Deferred compensation funds	$ 3,717	$ 79	$ 277	$ -	$ -	$ -	$ 4,073
Investments:							
Equity	62,271	7,194	104,271	(90,477)	-	-	83,259
Fixed income securities	160,207	(7,060)	19,222	(68,241)	-	-	104,128
Preferred securities	44,020	(16,944)	2,597	-	-	-	29,673
Private equity	43,592	(1,699)	30,057	(143)	-	(7,000)	64,807
Total investments	310,090	(18,509)	156,147	(158,861)	-	(7,000)	281,867
Totals	$ 313,807	$ (18,430)	$ 156,424	$ (158,861)	$ -	$ (7,000)	$ 285,940

For the year ending August 31, 2014
(In thousands)

	Fair Value Beginning Balance	Realized / Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Deferred compensation funds	$ 3,282	$ 85	$ 350	$ -	$ -	$ -	$ 3,717
Investments:							
Equity	51,200	7,876	3,195	-	-	-	62,271
Fixed income securities	198,892	1	11,662	(50,348)	-	-	160,207
Preferred securities	33,410	9,886	724	-	-	-	44,020
Private Equity	15,556	7,654	22,000	(1,618)	-	-	43,592
Total investments	299,058	25,417	37,581	(51,966)	-	-	310,090
Totals	$ 302,340	$ 25,502	$ 37,931	$ (51,966)	$ -	$ -	$ 313,807

The Level 3 rollforward excludes those investments valued using NAV-practical expedient as outlined in ASU 2015-07. The prior year schedule has been revised to conform to the current year presentation. In addition, certain investments originally classified as having used NAV-practical expedient are included in the Level 3 rollforward based on evaluation of the investments' quantitative inputs and assumptions used for valuation. For Level 3 holdings, net change in unrealized (losses)/gains relating to assets held at August 31, 2015 and 2014 totaled approximately $(5.5) million and $23.1 million, respectively. These gains and losses are included in *Change in Unrealized (Losses)/Gains of Investments.*

Management continuously reviews and evaluates financial reporting investment levels and modifies them as necessary. Several investments were re-classified in the fiscal years ending August 31, 2015 and 2014, to appropriately reflect the Institute's policy regarding observable and unobservable inputs. Any transfers between categories are measured at the beginning of the period. The transfer out of the Level 3 classification for private equity resulted from a change in valuation inputs received from the external investment manager, thus changing the classification of the investment to being held at NAV during the fiscal year ended August 31, 2015.

Fair value for alternative investments, which primarily consist of investments in distressed and credit sensitive, hedged equity, market neutral, private equity, real assets, and other commingled funds, is based on valuation techniques that use significant inputs that are unobservable. The fair values of securities that do not have readily determinable fair values held by these alternative investment

entities are determined by the entity's management. They are based on historical cost, appraisals, pricing models, discounted cash flows or other estimates that require varying degrees of professional judgment. If no public market exists for the securities, the fair value is determined by the entity's management taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, risk inherent in the valuation techniques, risk inherent in the inputs to the valuation models, and subsequent developments concerning the issuer. These fair value estimates are then subject to the review and approval of the Institute's management.

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level 3 of the fair value hierarchy as of August 31, 2015 and 2014, respectively:

August 31, 2015
(In thousands)

Asset Class	Valuation Techniques	Fair Value 2015	Unobservable Inputs	Range of Inputs
Private equity	Value at acquisition	$ 30,057	n/a	n/a
	Market/Income approach derived from fund statement	34,750	Cost multiple	0.0x - 2.3x
Equity	Market/Income approach derived from fund statement	76,858	Price per share	$0 - $2,109
			Cost multiple	0.0x - .6x
	Value at acquisition	6,401	n/a	n/a
Fixed income	Cost plus accrued interest	94,979	n/a	n/a
	Value at acquisition	9,149	n/a	n/a
Preferred securities	Market/Income approach derived from fund statement	29,673	Cost multiple	0.7x - 2.2x
Total		$ 281,867		

August 31, 2014
(In thousands)

Asset Class	Valuation Techniques	Fair Value 2014	Unobservable Inputs	Range of Inputs
Private equity	Value at acquisition	$ 22,000	n/a	n/a
	Market/Income approach derived from fund statement	21,592	Cost multiple	0.4x - 1.3x
			Discount of public price	10.0%
Equity	Market/Income approach derived from fund statement	61,275	Price per share	$0 - $2,389
			Cost multiple	0.2x - 4.2x
	Value at acquisition	996	n/a	n/a
Fixed income	Cost plus accrued interest	160,207	n/a	n/a
Preferred securities	Market/Income approach derived from fund statement	44,020	Cost multiple	0.7x - 2.2x
Total		$ 310,090		

The inputs for the valuation techniques used in the fair value measurement of Level 3 investments are provided by external investment managers. Inputs for derived valuations include cost multiples and price per share information from investment schedules of fund financial statements. Fund financial statements that include a detailed schedule of investments are received on a quarterly basis. A price per share is determined and applied to the Institute's outstanding shares to derive fair value at August 31, 2015 and 2014, respectively. Cost multiples are included in fund financial statements and applied to the cost basis to derive fair value at August 31, 2015 and 2014, respectively. All valuation techniques described above are evaluated and approved by the Institute's Valuation Committee. Since August 31, 2015, there have been no changes in valuation techniques within Level 3 that have had a material impact on the valuation of financial instruments.

NAV is used as fair value for investments which (a) have the attributes of an investment company or (b) the entity either prepares its financial statements consistent with the measurement principles of an investment company. Investments that can be redeemed at NAV by the Institute on the measurement date or in the near term may be classified as Level 2. Investments that cannot be redeemed at the measurement date or in the near term are classified as Level 3.

The following table summarizes the Level 3 investments held at NAV and the respective unfunded commitments as of August 31, 2015 and 2014, respectively:

(In thousands)

	Fair Value		Unfunded Commitment	
	2015	2014	2015	2014
Private equity	$ 3,804,704	$ 3,944,713	$ 1,787,884	$ 1,765,726
Hedged equity	2,710,191	2,586,004	-	-
Distressed & credit sensitive	2,404,168	2,397,142	1,133,189	1,155,952
Equity commingled	1,928,366	1,242,401	-	-
Real assets	1,483,100	1,699,922	592,401	593,371
Market neutral	947,335	604,816	-	-
Total alternative investments	$ 13,277,864	$ 12,474,998	$ 3,513,474	$ 3,515,049

At August 31, 2015, approximately 51% of the investments are not redeemable and are generally held for the life of the investment. The remaining 49% of the investments may be redeemed on a daily, monthly, quarterly, semi-annual, or annual basis with advance notice of 30 to 180 days. At August 31, 2014, approximately 57% of the investments were not redeemable, with 43% redeemable on a daily, monthly, quarterly, semi-annual, or annual basis with advance notice of 30 to 180 days. A small number of funds also contain one time or revolving lock-up provisions that limit the frequency a redemption may be initiated or require a payment of a haircut to redeem prior to the expiration of a lockup.

As noted above, the Institute has made contractual commitments to fund various investments. The Institute expects these commitments to be called over the next 1 to 7 years. Investment returns are expected to be received over the next 1 to 12 years.

Derivatives

The Institute invests in derivative financial instruments to control market risks, manage its portfolio exposure, reduce investment implementation costs, and enhance returns. Derivatives in which the Institute invests are principally foreign currency forward contracts, futures contracts, and swaps. Derivatives are recorded at fair value with the resulting gain or loss recognized in the Consolidated Statements of Operations and Changes in Net Assets. Most derivative trades are transacted with counterparties that are operating under master netting agreements. These agreements allow the Institute to offset amounts owed by the counterparty with amounts payable to the same counterparty. This agreement permits net settlement of multiple transactions with that counterparty. As a result of investing in derivative financial instruments, the Institute is exposed to potential credit-related losses in the event of nonperformance by counterparties. The Institute limits its exposure by evaluating the creditworthiness of potential counterparties before investing.

Generally, derivatives contracts are subject to various risks similar to non-derivative instruments. For non-exchange traded derivatives under standard derivatives agreements, the Institute may be required to post collateral if the Institute is in a net liability position with the counterparty exceeding certain amounts. Additionally, the counterparty may, upon providing notice and allowing for any applicable cure period, terminate derivatives contracts if the Institute fails to maintain sufficient asset coverage for its contracts or its net assets decline by stated percentages. The Institute has posted collateral as of August 31, 2015 and 2014 of approximately $40.5 million and $23.3 million, respectively, in the normal course of business. The Institute received no collateral as of August 31, 2015. The Institute received collateral of approximately $4.1 million as of August 31, 2014.

The following tables present the value of derivatives held as of August 31, 2015 and 2014, respectively, by their primary underlying risk exposure and respective location on the Consolidated Statements of Financial Position. These derivatives are not designated as hedging instruments under ASC 815 *Derivatives and Hedging.*

August 31, 2015
(In thousands)

Underlying Risk	Futures Contracts	Foreign Exchange Contracts	Swaps	Contracts for Difference	Participation Notes	Total Fair Value
Assets						
Interest rate	$ 1,041	$ -	$ -	$ -	$ -	$ 1,041
Foreign currency	2,600	8,269	-	-	-	10,869
Equity	273	-	-	4,557	17,153	21,983
Commodities	442	-	-	-	-	442
Totals	$ 4,356	$ 8,269	$ -	$ 4,557	$ 17,153	$ 34,335
Liabilities						
Interest rate	$ 2,082	$ -	$ 142,453	$ -	$ -	$ 144,535
Foreign currency	607	16,024	-	-	-	16,631
Equity	1,398	-	-	1,833	-	3,231
Commodities	146	-	-	-	-	146
Credit	-	-	-	-	-	-
Totals	$ 4,233	$ 16,024	$ 142,453	$ 1,833	$ -	$ 164,543

The above derivative assets are included in *Investments* and the above derivative liabilities are included in *Investment and Derivative Liabilities.*

August 31, 2014
(In thousands)

Underlying Risk	Futures Contracts	Foreign Exchange Contracts	Swaps	Contracts for Difference	Participation Notes	Total Fair Value
Assets						
Interest rate	$ 2,639	$ -	$ 3,967	$ -	$ -	$ 6,606
Foreign currency	1,728	2,869	-	-	-	4,597
Equity	426	-	-	1,900	16,206	18,532
Commodities	245	-	-	-	-	245
Totals	$ 5,038	$ 2,869	$ 3,967	$ 1,900	$ 16,206	$ 29,980
Liabilities						
Interest rate	$ 1,152	$ -	$ 116,325	$ -	$ -	$ 117,477
Foreign currency	1,194	14,838	-	-	-	16,032
Equity	881	-	985	631	-	2,497
Commodities	988	-	-	-	-	988
Credit	-	-	403	-	-	403
Totals	$ 4,215	$ 14,838	$ 117,713	$ 631	$ -	$ 137,397

The above derivative assets are included in *Investments* and the above derivative liabilities are included in *Investment and Derivative Liabilities* .

The following tables present the effect of derivatives on the Consolidated Statements of Operations and Changes in Net Assets as of August 31, 2015 and 2014, respectively. Realized gain or (loss) on derivatives is included in *Realized Gains on Investment Sales, net.* Change in unrealized appreciation or (depreciation) on derivatives is included in *Change in Unrealized (Losses)/Gains of Investments.*

August 31, 2015
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Participation Notes	Total
Realized Gains/(Losses) on Derivatives Recognized in Revenue								
Interest rate	$ -	$ 9,687	$ -	$ -	$ -	$ -	$ -	$ 9,687
Foreign currency	-	15,349	(64,810)	-	-	-	-	(49,461)
Equity	(223)	2,619	-	(4,903)	-	6,071	-	3,564
Commodities	-	(7,144)	-	-	-	-	-	(7,144)
Credit	-	-	-	(105)	-	-	-	(105)
Totals	$ (223)	$ 20,511	$ (64,810)	$ (5,008)	$ -	$ 6,071	$ -	$ (43,459)
Change in Unrealized Gains/(Losses) on Derivatives Recognized in Revenue								
Interest rate	$ -	$ (2,444)	$ -	$ (30,096)	$ -	$ -	$ -	$ (32,540)
Foreign currency	-	1,458	4,213	-	-	-	-	5,671
Equity	-	(669)	-	2,739	-	1,455	(471)	3,054
Commodities	-	1,039	-	-	-	-	-	1,039
Credit	-	-	-	(4)	-	-	-	(4)
Totals	$ -	$ (616)	$ 4,213	$ (27,361)	$ -	$ 1,455	$ (471)	$ (22,780)

August 31, 2014
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Participation Notes	Total
Realized Gains/(Losses) on Derivatives Recognized in Revenue								
Interest rate	$ -	$ 6,616	$ -	$ -	$ (293)	$ -	$ -	$ 6,323
Foreign currency	-	2,632	22,653	-	-	-	-	25,285
Equity	(868)	5,864	-	-	-	1,158	-	6,154
Commodities	-	589	-	-	-	-	-	589
Credit	-	-	-	(668)	-	-	-	(668)
Totals	$ (868)	$ 15,701	$ 22,653	$ (668)	$ (293)	$ 1,158	$ -	$ 37,683
Change in Unrealized Gains/(Losses) on Derivatives Recognized in Revenue								
Interest rate	$ -	$ 2,794	$ -	$ (51,247)	$ 293	$ -	$ -	$ (48,160)
Foreign currency	-	529	(19,299)	-	-	-	-	(18,770)
Equity	-	(326)	-	(494)	-	968	284	432
Commodities	-	(1,922)	-	-	-	-	-	(1,922)
Credit	-	-	-	149	-	-	-	149
Totals	$ -	$ 1,075	$ (19,299)	$ (51,592)	$ 293	$ 968	$ 284	$ (68,271)

Management has revised the change in unrealized gains/(losses) in the derivatives table for the period ended August 31, 2014 as reported in the prior year financial statements due to an omission identified relating to interest rate swaps. Management determined that the error in the table was not material to the financial statements previously issued.

Certain currency contracts described below are entered into by single-member limited liability companies of the Institute. The Institute has issued a guarantee and commitment for one limited liability company with a face value of $25 million for the net settlement of trades by them.

Foreign exchange forward contracts are over-the-counter contractual agreements primarily used to sell or buy certain amounts of foreign currencies as a means to hedge foreign currency risk or for the purpose of speculating for investment returns in the foreign currency market. The notional value of open forward contract purchases and sales totaled approximately $757.9 million and $461.2 million, respectively, at August 31, 2015 and $727.2 million and $201.9 million, respectively, at August 31, 2014.

Derivative notional amounts and values as of August 31, 2015 and 2014 are indicative of the Institute's exposure to derivatives for the years then ended.

Futures contracts are commitments to purchase or sell a financial instrument at a stated time and price in the future. They are generally used to increase or decrease exposure to a specific market or investment product. These contracts are settled daily to reflect the changes in their market values.

As of August 31, 2015 and 2014, the Institute had entered into various futures contracts with notional exposures at fair values as follows:

(In thousands)

	2015		2014	
	Buy	Sell	Buy	Sell
Equity indexes	$ 41,392	$ 13,282	$ 38,279	$ 12,021
Commodities	292	9,810	35,327	349
Fixed income	681,212	188,830	600,316	172,245
Total	$ 722,896	$ 211,922	$ 673,922	$ 184,615

Contracts for difference are agreements between a buyer and a seller to exchange the difference between the opening value of a share, currency, commodity, index or other tradable financial instrument and its closing value at the end of the contract. Contracts for difference are used by the Institute for the purpose of gaining financial exposure to an underlying security or index without the need to own the underlying shares. As of August 31, 2015 and 2014, the Institute had entered into various contracts for difference with notional exposures at fair values as follows:

(In thousands)

	2015		2014	
	Buy	Sell	Buy	Sell
Equity indexes	$ 49,594	$ (103,825)	$ 35,041	$ (29,738)

An interest rate swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows. Interest rate swaps are used to manage the Institute's fixed or floating assets and liabilities. Interest rate swaps related to the Institute's bonds and notes payable are discussed in Notes 4 and 6.

Equity swaps are exchanges of cash flows in which at least one of the sides is an equity instrument. An equity index is a measure of the performance of an individual stock or a basket of stocks. The notional amount of the equity swaps was $21.7 million and $31.2 million as of August 31, 2015 and 2014, respectively.

Credit default swap contracts are used as a means to transfer credit risk of fixed income securities. The Institute did not have exposure to credit default swaps as of August 31, 2015. Credit default swaps notional amount was $20.2 million at August 31, 2014.

Receivables and Payables

The Institute's investment receivables and payables as of August 31, 2015 and 2014 consist of the following:

(In thousands)

	2015		2014	
	Receivable	Payable	Receivable	Payable
Securities pending settlement	$ 217,133	$ 102,179	$ 66,122	$ 72,853
Interest and dividend receivable	18,935	-	20,391	-
Management fees	-	8,991	-	16,514
Other	342	29	5	216
Total	$ 236,410	$ 111,199	$ 86,518	$ 89,583

Commitments, Obligations and Other

The Institute has unfunded commitments of approximately $3.6 billion and $3.6 billion to fund investments in non-public entities as of August 31, 2015 and 2014, respectively. The Institute had loaned securities to third parties with a market value of approximately $23.0 million and $209.0 million at August 31, 2015 and 2014, respectively, and are included in the Consolidated Statements of Financial Position in *Investments*. In connection with the securities lending program, collateral must be maintained at 102% and 105% of the market value of domestic and foreign loaned securities, respectively. During the period securities are on loan, all dividends and interest accrue and are paid to the third party, but amounts due to the Institute are forwarded by the lending agent to the Institute shortly after receipt. Collateral designated for the Institute's benefit by third parties is held at the Institute's custodian bank and is not included in the Consolidated Statements of Financial Position. Loaned securities and collateral, which may consist of cash or U.S. Treasuries, are marked to market daily. The value of collateral posted was $23.5 million and $214.9 million at August 31, 2015 and 2014, respectively. Income from securities lending activities totaled approximately $1.4 million and $1.4 million for August 31, 2015 and 2014, respectively, and is included in *Interest, Dividends, and Other Income from Investments*.

The Institute has entered into repurchase obligations as part of its overall investment strategy to leverage its operational needs and changes in interest rates. These repurchase agreements and related collateral, which consists of U.S. Treasury notes and bonds with maturity dates that range up to eighteen years, are reflected in the Consolidated Statements of Financial Position as *Repurchase Obligations* and *Securities Pledged as Collateral*, respectively. The Institute has the obligation to repurchase $269.6 million of marketable securities for which the Institute had provided collateral of $269.3 million to its counterparties as of August 31, 2015. The Institute transacted approximately $400 million of repurchase obligations that settled in September 2015.

The Institute incurred expenses in the production of investment income, which include routine internal operating expenditures, external management and incentive fees, custodial fees and interest expense related to repurchase obligations. These expenses totaled $97.2 million and $113.7 million for the fiscal years ended August 31, 2015 and 2014, respectively. The Institute transacted approximately $400 million of repurchase obligations that settled in September of 2015.

3. LABORATORY SPACE, EQUIPMENT, BUILDINGS AND OTHER PROPERTY

The cost and accumulated amortization and depreciation of the Institute's investment in laboratory space, equipment, buildings, and other property at August 31, 2015 and 2014 are as follows:

(In thousands)	2015	2014
Laboratory space and leasehold improvements	$ 418,466	$ 430,614
Equipment, furniture and fixtures	596,230	588,816
Buildings	749,834	708,721
Land	87,869	89,763
	1,852,399	1,817,914
Construction in progress	6,522	30,773
Less: accumulated depreciation and amortization	(1,097,698)	(1,052,707)
Total	$ 761,223	$ 795,980

Approximately $1.8 million and $1.0 million of costs related to construction at headquarters and Janelia Research Campus and equipment was included in *Accounts Payable and Accrued Liabilities* at August 31, 2015 and 2014, respectively.

4. ECONOMIC DEVELOPMENT BONDS PAYABLE

On February 27, 2003, the Institute issued $500.0 million in tax-exempt bonds through The Industrial Development Authority of Loudoun County, Virginia ("IDA") to finance construction of the Janelia Research Campus. The bonds carry a variable interest rate determined on a weekly basis and mature on February 15, 2038. Concurrently, the Institute entered into receive-variable, pay-fixed interest rate swaps with a total notional amount of $450.0 million. The interest rate swaps were entered into with several counterparties and had terms of 10 and 30 years. During the fiscal year ended August 31, 2010, the Institute entered into a receive-variable pay-fixed 30-year interest rate swap with a single counterparty for the remaining $50 million of bonds. The net composite interest rate on the bonds and interest rate swaps for the fiscal years ended August 31, 2015 and 2014 was 2.68% and 2.70%, respectively. The interest expense for the fiscal years ended August 31, 2015 and 2014 was $13.4 million and $13.5 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $87.8 million and $68.2 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities*. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2015 and 2014.

On February 15, 2008, the Institute issued $83.5 million in tax-exempt bonds through the Maryland Economic Development Corporation ("MEDCO") to finance the expansion of the Institute's existing headquarters and conference facilities. The bonds carry a variable interest rate determined on a weekly basis and mature on February 15, 2043. The Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $83.5 million. The interest rate swap was entered into with a single counterparty with a term of 30 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2015 and 2014 was 3.21% and 3.23%, respectively. The interest expense for the fiscal years ended August 31, 2015 and 2014 was $2.7 million and $2.7 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $24.1million and $20.0 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities*. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2015 and 2014.

On May 15, 2008, the Institute issued $76.5 million of bonds through MEDCO to refund $76.5 million of outstanding bonds issued on November 8, 1990 to finance the construction of the Institute's headquarters and conference center complex. The bonds carry a variable interest rate determined on a weekly basis, and mature on May 15, 2043. The Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $76.5 million. The swap is with a single counterparty. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2015 and 2014 was 3.38% and 3.41%, respectively. The interest expense for the fiscal years ended August 31, 2015 and 2014 was $2.6 million and $2.6 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $23.0 million and $19.7 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities*. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2015 and 2014.

On October 2, 2009, the Institute issued $23.0 million of tax-exempt bonds through the IDA to finance the construction of a 60-unit apartment building at the Janelia Research Campus, to be used by scientists and others engaged in research and administration at the Campus. The bonds

carry a variable interest rate determined on a weekly basis and mature on October 1, 2039. For these bonds and the remaining balance of the $50.0 million of Loudoun County IDA bonds described above, the Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $73.0 million. The interest rate swap was executed with one counterparty and has a term of 30 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2015 and 2014 was 2.68% and 2.68%, respectively. Interest expense for the fiscal years ended August 31, 2015 and 2014 was $0.6 million and $0.6 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $4.6 million and $3.3 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities*. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2015 and 2014.

On May 15, 2013, the Institute issued $33.1 million of tax-exempt bonds through the IDA to finance the construction of an 86-unit apartment building at the Janelia Research Campus, to be used by scientists and others engaged in research and administration at the Campus. The bonds carry a variable interest rate determined on a weekly basis and mature on June 1, 2043. Effective June 1, 2013 the Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $33.1 million. The interest rate swap was executed with a single counterparty and has a term of 30 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2015 and 2014 was 2.01% and 2.02%, respectively. Interest expense for the fiscal years ended August 31, 2015 and 2014 was $0.7 million and $0.7 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $2.6 million and $0.8 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities*. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2015 and 2014.

Prior to the maturity of each of these tax-exempt bond issues, the Institute is obligated upon seven-day notice from a holder to redeem any or all bonds unless the remarketing agent is able to place the bonds with another party. To date, no remarketing agents have failed to fulfill their obligations under their respective remarketing agreements. The Institute maintains sufficient cash and marketable securities to pay any bondholder redemption of part or all of the $716.1 million outstanding as of August 31, 2015.

5. BONDS PAYABLE

On July 22, 2013, the Institute issued $1.2 billion of taxable fixed rate bonds to establish a program spending reserve. The bonds carry a fixed interest rate of 3.5%, a yield to maturity of 3.52%, and a maturity date of September 1, 2023. Interest is payable semi-annually in March and September. Accrued interest at August 31, 2015 and 2014 was $21 million and $21 million, respectively, and is included in *Accounts Payable and Accrued Liabilities*. The Institute's taxable bonds payable are stated at face value as of August 31, 2015. The total estimated fair value of Institute's taxable bonds as of August 31, 2015 and 2014 was $1.2 billion and $1.2 billion, respectively. Interest expense for the fiscal years ended August 31, 2015 and 2014 was $42.0 million and $42.0 million, respectively.

6. NOTES PAYABLE

In June 2003, the Institute entered into a 1-year renewable promissory note to finance the commercially-used land and buildings at the Janelia Research Campus that could not be financed with tax-exempt debt. Each year, the Institute has renewed the note. In May 2015, the Institute renewed the current note, which has a balance of $40.4 million and carries monthly interest payments based on the one-month LIBOR rate plus 0.10%. In May 2012 the Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $40.4 million. The interest rate swap is with a single counterparty and has a term of 5 years. The net composite interest rate on the note and interest rate swap was 1.24% and 1.28% for the fiscal years ended August 31, 2015 and 2014, respectively. The unrealized loss reflecting the market value of the swap was $0.3 million and $0.3 million at August 31, 2015 and 2014, respectively, which is included in *Investment and Derivative Liabilities.* Interest expense for the fiscal years ended August 31, 2015 and 2014 was $0.5 million and $0.5 million, respectively, which approximates the net cash paid.

Net bond and note interest paid in cash was approximately $62.5 million and $62.6 million for the years ended August 31, 2015 and 2014, respectively.

The annual principal payments required for bond and notes payable are as follows:

(In thousands) Year	
2016	$ 40,376
2017	-
2018	-
2019	-
2020	-
Thereafter	1,916,130
Total	$ 1,956,506

7. COMMITMENTS AND CONTINGENCIES

Lease obligations - The Institute occupies space that it uses for medical research at each of its host institutions, under agreements that may be considered leases for financial statement purposes. The Institute's agreements with its host institutions include provisions for the payment by the Institute of occupancy fees, including utilities and other space-related charges. These agreements are typically for an indefinite term that runs for as long as the Institute has one or more investigators at the host institution. Minimum annual occupancy fees under these agreements are not fixed and vary from year to year depending on the number of investigators at the host institution and the amount of space each investigator occupies, up to per-investigator limits set by the Institute.

Laboratory and other space charges, excluding amortization of leasehold improvements, totaled $59.5 million and $86.3 million for the years ended August 31, 2015 and 2014, respectively.

Estimated minimum annual occupancy fees and other payments due under these agreements as of August 31, 2015 are summarized below:

(In thousands) Year		
2016	$	57,756
2017		57,899
2018		57,899
2019		57,899
2020		57,899
Total	$	289,352

As of August 31, 2015, the Institute had 18 capital leases totaling $13.8 million to cover scientific and information technology equipment. Interest paid on these obligations for the years ended August 31, 2015 and 2014 was $0.2 million and $0.3 million, respectively. The Institute's unamortized capital lease obligation at August 31, 2015 and 2014 was $5.0 million and $10.4 million, respectively. Assets held under capital leases of $13.8 million and $32.4 million, net of accumulated amortization of $7.1 million and $16.0 million, are included in *Laboratory Space, Equipment, Buildings and Other Property, net* at August 31, 2015 and 2014, respectively. Amortization of assets under capital leases is included in either *Medical Research* or *General and Administrative expenses*, depending upon the use of the asset. The following table presents future annual lease payments for the year ending August 31, 2015:

(In thousands) Year		
2016	$	3,558
2017		1,499
2018		296
Total	$	5,353

Grant commitments - The timing of the Institute's grant payments and the associated discount is presented below:

(In thousands) Year		
2016	$	52,122
2017		30,437
2018		20,558
2019		17,397
Discount		(2,135)
Net Liability	$	118,379

Letter of Credit – The Institute holds an irrevocable standby letter of credit with a bank in the amount not to exceed $10 million, with an original expiration date of November 29, 2012. The letter of credit includes an automatic renewal provision for one year unless notification is received

sixty days prior to the expiration date. The letter of credit was cancelled effective October 28, 2014.

8. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan – In December 2013, the Institute merged its two defined contribution retirement plans under Section 403(b) of the Internal Revenue Code into a single Section 403(b) defined contribution retirement plan. The Institute's plan contributions on behalf of its employees were $23.8 million and $24.7 million for the years ended August 31, 2015 and 2014, respectively.

Deferred Compensation Plan - The Institute has an unfunded deferred compensation plan in accordance with Section 457(b) of the Internal Revenue Code. The fair value of the assets and related liability to employees as of August 31, 2015 and 2014 was approximately $33.9 million and $31.9 million, respectively, and is reflected in the Consolidated Statements of Financial Position within *Other Assets* and *Accounts Payable and Accrued Liabilities.*

9. POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Institute maintains unfunded defined postretirement and postemployment benefit plans that provide eligible retirees with medical, prescription drug, vision, dental, life insurance, and disability programs. The total obligation for these benefits reflected in the Consolidated Statements of Financial Position was $406.1 million and $380.5 million at August 31, 2015 and 2014, respectively.

The following tables summarize the postretirement plan's unfunded status and the amount of the accumulated postretirement benefit plan costs for the years ended August 31, 2015 and 2014:

(In thousands) Accrued Benefit Liability:	2015	2014
Accumulated postretirement benefit obligation, beginning of year	$ 377,224	$ 309,627
Service cost	21,779	17,172
Interest cost	15,720	15,032
Employee contributions	141	115
Direct benefit payments	(5,878)	(6,508)
Net actuarial (gain) loss	(6,941)	41,579
Medicare subsidies received	192	207
Accumulated benefit obligation, end of year	$ 402,237	$ 377,224
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Medicare subsidies received	192	207
Employer direct benefit payments	5,545	6,186
Employee contributions	141	115
Direct benefit payments	(5,878)	(6,508)
Fair value of plan assets, end of year	$ -	$ -

Reconciliation of funded status:		
Funded status	$ (402,237)	$ (377,224)
Unrecognized actuarial (gain) loss	n/a	n/a
Unrecognized transition (asset) obligation	n/a	n/a
Unrecognized prior term cost	n/a	n/a
Accumulated postretirement benefit liability included in the Consolidated Statements of Financial Position	$ (402,237)	$ (377,224)

The Institute's policy is to fund postretirement benefits as payments are made.

Components of net periodic benefit cost:		
Service cost	$ 21,779	$ 17,172
Interest cost	15,720	15,032
Immediate recognition of net actuarial (gain) loss	(6,941)	41,579
Net periodic benefit cost	$ 30,558	$ 73,783

The Institute's policy is to immediately recognize all actuarial gains and losses; consequently there are no amounts not recognized in net periodic benefit cost. Because all gains and losses are recorded in the current period there are no amounts currently to be amortized from net assets into net periodic benefit cost for the year ended August 31, 2015.

The net periodic benefit cost for the postretirement benefit plan was $30.6 million and $73.8 million for the years ended August 31, 2015 and 2014, respectively. The discount rate assumed in determining the actuarial present value of accumulated postretirement benefit obligations was 4.5% and 4.2% as of August 31, 2015 and 2014, respectively. The average health care cost trend rate assumption used to determine the accumulated postretirement benefit obligation at August 31, 2015 was 7.2% for fiscal year 2015 and decreases each successive year until it reaches 4.5% in fiscal year 2029. A 1% increase in each year of this annual trend rate would increase the accumulated postretirement benefit obligation at August 31, 2015 by approximately $81.7 million. A 1% decrease in the trend rate would decrease the accumulated postretirement benefit obligation at August 31, 2015 by approximately $64.0 million.

Health coverage is provided to employees who qualify for the Institute's long-term disability benefit until the age of 65. This postemployment benefit cost was $1.7 million and $2.3 million for the years ended August 31, 2015 and 2014, respectively.

Under the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act, the Institute is eligible for a 28% subsidy from Medicare on its prescription drug benefits for Medicare-eligible retirees. The Medicare subsidy was offset against the obligation as of August 31, 2015.

The postretirement benefit contributions equate to the benefit claims paid out under the plan. The postretirement benefits that are expected to be paid in each of the next five fiscal years, which reflects expected future service, and in the aggregate for the five fiscal years thereafter, together with the related Medicare subsidy, are as follows:

(In thousands)

Year	Expected Benefit Payments	Expected Medicare Subsidy
2016	$ 7,170	$ 469
2017	8,529	553
2018	10,015	639
2019	11,396	744
2020	13,003	855
2021 - 2025	93,409	6,327

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and receivables approximate fair value due to the short maturities of these financial instruments. Investments are reported at fair value as of the date of the consolidated financial statements. The carrying amounts of accounts payable, accrued payroll, and related accruals approximate fair value due to their short maturities. The carrying amounts of notes and bonds payable with variable interest rates approximate fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality.

11. TAXES

Net tax refunds due or received on income totaled approximately $0.6 million and $0.6 million for the years ended August 31, 2015 and 2014, respectively. Taxes paid on income totaled approximately $0.7 million and $1.7 million for the years ended August 31, 2015 and 2014, respectively.

12. MEDICAL RESEARCH ORGANIZATION

The Institute is classified as a medical research organization for federal income tax purposes under Section 170(b)(1)(A)(iii) of the Internal Revenue Code of 1986, as amended (the "Code"). The Institute is not a private foundation under Chapter 42 of the Code.

13. SUBSEQUENT EVENTS

Management has performed an evaluation of subsequent events through November 23, 2015 which is the date that the financial statements were available to be issued, noting no events which materially affect the financial statements as of August 31, 2015.