Howard Hughes Medical Institute

Consolidated Financial Statements
for the years ended August 31, 2014 and 2013
and Report of Independent Auditors Thereon

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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, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and of cash flows for the years 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, 2014 and 2013, 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.

PricewaterhouseCoopers LLP

November 24, 2014

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HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Financial Position
August 31, 2014 and 2013

(In thousands)

Assets	2014	2013
Cash and Cash Equivalents	$ 456,996	$ 606,675
Escrowed Bond Proceeds	10,951	30,552
Investment Receivables	86,518	132,892
Investments	20,464,210	18,059,225
Laboratory Space, Equipment, Buildings and Other Property, net	795,980	814,432
Other Assets	45,675	36,513
Total Assets	$ 21,860,330	$ 19,680,289
Liabilities		
Accounts Payable and Accrued Liabilities	$ 111,804	$ 90,803
Investment Payables	89,583	77,189
Investment and Derivative Liabilities	571,679	220,818
Grant Commitments	148,458	106,250
Post-Retirement/Employment Obligations	380,501	311,157
Capital Financing		
Note Payable	40,376	40,376
Capital Lease Obligation	10,409	19,023
Bonds Payable	1,913,913	1,913,667
Total Liabilities	3,266,723	2,779,283
Net Assets	18,593,607	16,901,006
Total Liabilities and Net Assets	$ 21,860,330	$ 19,680,289

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, 2014 and 2013

(In thousands)

Revenue	2014	2013
Investment Earnings		
Interest, Dividends, and Other Income from Investments	$ 282,551	$ 237,825
Realized Gain on Investment Sales, net	1,705,844	1,094,850
Change in Unrealized Gains of Investments	852,161	820,937
Less - Expenses Incurred in the Production of Income:		
Investment management expenses	(113,745)	(96,851)
Interest expense	(6)	(141)
Net Investment Earnings	2,726,805	2,056,620
Intellectual Property and Other Income	15,110	20,271
Total Revenue	2,741,915	2,076,891
Expenses		
Program Activities		
Medical Research	787,415	747,740
Science Education	129,678	77,870
General Administration	68,459	63,138
Interest Expense	63,762	47,518
Loss on Extinguishment of Debt	-	20,728
Total Expenses	1,049,314	956,994
Increase in Net Assets	1,692,601	1,119,897
Net Assets, beginning of year	16,901,006	15,781,109
Net Assets, end of year	$ 18,593,607	$ 16,901,006

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

Consolidated Statements of Cash Flows
For the Years Ended August 31, 2014 and 2013

(In thousands)	2014	2013
Increase in Net Assets	$ 1,692,601	$ 1,119,897
<u>To Reconcile Change in Net Assets to Net Cash Used in Operating Activities</u>		
Depreciation and Amortization	96,561	101,874
Loss on Disposal of Assets	6,633	5,802
Decrease/(Increase) in Receivables	36,657	(8,469)
Decrease in Securities Pledged as Collateral	-	103,294
Increase in Accounts Payable, Accrued Liabilities, Commitments and Obligations	146,138	3,856
Realized Gains on Investment Sales, net	(1,705,844)	(1,094,850)
Change in Unrealized Gains of Investments	(852,161)	(820,937)
Net Cash Used in Operating Activities	(579,415)	(589,533)
<u>Cash Flows From Investing Activities</u>		
Receipt/(Use) of Escrowed Bond Proceeds	19,598	(30,552)
Purchases of Facilities, Leasehold Improvements, and Equipment	(85,360)	(98,661)
Sale of Equipment	2,315	8,867
Proceeds from Sales of Investments	11,507,677	7,019,137
Purchases of Investments	(11,003,564)	(7,207,411)
Net Cash Provided by/(Used in) Investing Activities	440,666	(308,620)
<u>Cash Flows from Financing Activities</u>		
Issuance of Bonds Payable	-	1,230,646
Debt Issue Costs	-	(4,572)
Redemption of Bonds Payable	-	(600,000)
Repayment on Capital Lease Obligations	(10,930)	(9,746)
Repayment of Repurchase Obligations	-	(103,199)
Net Cash (Used in)/Provided by Financing Activities	(10,930)	513,129
Net Decrease in Cash	(149,679)	(385,024)
Cash and Cash Equivalents, beginning of year	606,675	991,699
Cash and Cash Equivalents, end of year	$ 456,996	$ 606,675

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 (formerly called the Janelia Farm 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.

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 US and non-US 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 US Treasury Bills and other short-term, highly liquid investments that are carried at cost, which approximates fair value. Cash equivalents may also include US Treasury Notes/Bonds, sovereign debt and corporate debt that are carried at fair value if they were initially purchased within 90 days of maturity.

During fiscal year 2013, the Institute changed its accounting policy for the presentation of cash and cash equivalents. As such, prior year balances were reclassified to reflect this change. In prior years, the cash and cash equivalents held at custodians, prime brokers, clearing agents, and banking institutions that was presented in *Investments* is now included in *Cash and Cash Equivalents* in the Consolidated Statements of Financial Position. The accounting policy was changed as it better reflects the Institute's actual cash positions.

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.

<u>Escrowed Bond Proceeds</u> - 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.

<u>Restricted Funds</u> - The Institute does not currently have funds from contributions that entail restrictions on how the funds may be used. As a result, there are no restrictions on net assets.

<u>Intellectual Property</u> - 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.

<u>Investments</u> - 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 level 3 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 other 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, and the Manager, Business Due Diligence and Compliance. 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 forwards are recorded at fair value with the resulting gain or loss recognized in the *Realized Gain on Investment Sales* or *Change in Unrealized Gains of Investments.*

Laboratory Space, Equipment 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 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, 2014. 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 US 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"). When 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.

Self-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 with the current year's presentation.

2. INVESTMENTS

The fair value hierarchy, as required in ASC 820 *Fair Value Measurements and Disclosures*, 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, and 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 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 as described above and in Note 1. 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, 2014 and 2013. 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 following tables present the financial instruments carried at fair value as of August 31, 2014 and 2013 according to the valuation hierarchy defined above.

August 31, 2014
(In thousands)

	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Equity	$ 5,004,543	$ 1,338	$ 62,271	$ 5,068,152
Fixed income securities	-	2,544,799	107,378	2,652,177
Preferred securities	24,804	65,784	44,020	134,608
Convertible securities	2,830	5,044	-	7,874
Alternative Investments	-	-	12,571,419	12,571,419
Derivatives	5,038	24,942	-	29,980
Total investments	5,037,215	2,641,907	12,785,088	20,464,210
Deferred compensation plan assets	27,668	471	3,717	31,856
Total Assets	$ 5,064,883	$ 2,642,378	$ 12,788,805	$ 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

August 31, 2013
(In thousands)

	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Equity	$ 4,003,462	$ 18	$ 95,774	$ 4,099,254
Fixed income securities	-	2,847,168	115,456	2,962,624
Preferred securities	37,035	36,237	33,410	106,682
Convertible securities	7,291	3,499	-	10,790
Alternative Investments	-	-	10,854,441	10,854,441
Derivatives	2,567	22,867	-	25,434
Total investments	4,050,355	2,909,789	11,099,081	18,059,225
Deferred compensation plan assets	15,179	7,578	3,282	26,039
Total Assets	$ 4,065,534	$ 2,917,367	$ 11,102,363	$ 18,085,264
Liabilities				
Investments and derivatives:				
Equity Short Positions	$ 142,253	$ -	$ -	$ 142,253
Derivatives	2,818	75,747	-	78,565
Total investments and derivatives	$ 145,071	$ 75,747	$ -	$ 220,818

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

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

	Fair Value Beginning Balance	Realized / Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Equity	$ 95,774	$ 7,959	$ 4,054	$ (1,139)	$ -	$ (44,377)	$ 62,271
Fixed income securities	115,456	10	6,375	(14,463)	-	-	107,378
Preferred securities	33,410	9,886	724	-	-	-	44,020
Convertible securities	-	330	-	(330)	-	-	-
Alternative investments	10,854,441	1,608,994	4,078,692	(3,970,708)	-	-	12,571,419
Deferred compensation funds	3,282	85	350	-	-	-	3,717
Totals	$ 11,102,363	$ 1,627,264	$ 4,090,195	$ (3,986,640)	$ -	$ (44,377)	$ 12,788,805

(In thousands)
For the year ending August 31, 2013

	Fair Value Beginning Balance	Realized / Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Equity	$ 374,519	$ (243,052)	$ 408,583	$ (463,217)	$ 19,046	$ (105)	$ 95,774
Fixed income securities	154,292	(828)	30,032	(29,790)	695	(38,945)	115,456
Preferred securities	54,818	4,010	190	-	843	(26,451)	33,410
Convertible securities	2,335	-	-	(2,335)	-	-	-
Alternative investments	9,282,798	1,521,443	3,324,228	(3,278,700)	6,687	(2,015)	10,854,441
Deferred compensation funds	2,890	91	301	-	-	-	3,282
Totals	$ 9,871,652	$ 1,281,664	$ 3,763,334	$ (3,774,042)	$ 27,271	$ (67,516)	$ 11,102,363

For Level 3 holdings, net change in unrealized gains/(losses) relating to assets held during the year ended August 31, 2014 and 2013 totaled approximately $470 million and $625 million, respectively. These gains and losses are included in *Change in Unrealized Gains of Investments.*

Management reviews and re-evaluates, if necessary, the investment levels for reporting purposes. Several investments were re-classified in fiscal year August 31, 2014 and 2013, 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 equity resulted from an initial public offering that occurred during the fiscal year ended August 31, 2014. Fair value transfers between level 1 and level 2 for positions that existed as of August 31, 2014 and 2013 were insignificant.

Fair value for Level 3 holdings, 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, 2014 and 2013, respectively:

August 31, 2014
(In thousands)

Asset Class	Valuation Techniques	Fair Value 2014	Unobservable Inputs	Range of Inputs
Alternative investments	Value at acquisition	$ 22,000	n/a	n/a
	Derived from fund statement	21,592	Cost multiple	0.4x - 1.28x
			Discount of public price	10.0%
Equity	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	107,378	n/a	n/a
Preferred securities	Derived from fund statement	44,020	Cost multiple	0.7x - 2.2x
Total		$ 257,261		

August 31, 2013
(In thousands)

Asset Class	Valuation Techniques	Fair Value 2013	Unobservable Inputs	Range of Inputs
Equity	Derived from fund statement	$ 85,774	Price per share	$0 - $2,035
			Cost multiple	0.2x - 3.2x
	Value at acquisition	10,000	n/a	n/a
Fixed income	Cost plus accrued interest	115,456	n/a	n/a
Preferred securities	Derived from fund statement	33,410	Cost multiple	0.4x - 2.0x
Total		$ 244,640		

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, 2014 and 2013, respectively. Cost multiples are included in fund financial statements and applied to the cost basis to derive fair value at August 31, 2014 and 2013, respectively. All valuation techniques described above are evaluated and approved by the Institute's Valuation Committee. Since August 31, 2014, there have been no changes in valuation techniques within Level 2 and 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, 2014 and 2013, respectively:

(In thousands)

	Fair Value		Unfunded Commitment	
	2014	2013	2014	2013
Alternative investments	$ 12,527,827	$ 10,854,441	$ 3,520,496	$ 2,972,013

Alternative investments include investments primarily held in fund structures across multiple strategies including distressed and credit sensitive, hedged equity, market neutral, private equity, real assets, and other commingled funds. At August 31, 2014, approximately 58% of the investments are not redeemable and are generally held for the life of the investment. The remaining 41% 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, 2013, approximately 63% of the investments were not redeemable, with 35% redeemable on a 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 forwards, 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. A master netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights. 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, 2014 and 2013 of approximately $23.3 million and $5.4 million, respectively, in the normal course of business. The Institute received collateral of approximately $4.1 million and $18.9 million as of August 31, 2014 and 2013, respectively.

The following tables present the value of derivatives held as of August 31, 2014 and 2013, 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, 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 *Investments and Derivative Liabilities.*

August 31, 2013
(In thousands)

Underlying Risk	Futures Contracts	Foreign Exchange Contracts	Swaps	Contracts for Difference	Participation Notes	Total Fair Value
Assets						
Interest rate	$ 471	$ -	$ -	$ -	$ -	$ 471
Foreign currency	166	19,743	-	-	-	19,909
Equity	479	-	31	301	2,792	3,603
Commodities	1,451	-	-	-	-	1,451
Totals	$ 2,567	$ 19,743	$ 31	$ 301	$ 2,792	$ 25,434
Liabilities						
Interest rate	$ 1,777	$ -	$ 61,111	$ -	$ -	$ 62,888
Foreign currency	161	13,325	-	-	-	13,486
Equity	608	-	523	-	-	1,131
Commodities	272	-	-	-	-	272
Credit	-	-	788	-	-	788
Totals	$ 2,818	$ 13,325	$ 62,422	$ -	$ -	$ 78,565

The above derivative assets are included in *Investments* and the above derivative liabilities are included in *Investments 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, 2014 and 2013, respectively. Realized gain or (loss) on derivatives is included in *Realized Gain on Investment Sales, net.* Change in unrealized appreciation or (depreciation) on derivatives is included in *Change in Unrealized Gains of Investments.*

August 31, 2014
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Participation Notes	Total
Realized Gain/(Loss) 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 on Derivatives Recognized in Revenue								
Interest rate	$ -	$ 2,794	$ -	$ -	$ 293	$ -	$ -	$ 3,087
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)	$ (345)	$ 293	$ 968	$ 284	$ (17,024)

August 31, 2013
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Participation Notes	Total
Realized Gain/(Loss) on Derivatives Recognized in Revenue								
Interest rate	$ -	$ 734	$ -	$ -	$ (7,408)	$ -	$ -	$ (6,674)
Foreign currency	(188)	3,395	(20,390)	-	(718)	-	-	(17,901)
Equity	(6,698)	3,601	-	(1)	-	15,738	-	12,640
Commodities	-	(2,264)	-	-	-	-	-	(2,264)
Credit	-	-	-	1,801	-	-	-	1,801
Totals	$ (6,886)	$ 5,466	$ (20,390)	$ 1,800	$ (8,126)	$ 15,738	$ -	$ (12,398)
Change in Unrealized Gains on Derivatives Recognized in Revenue								
Interest rate	$ -	$ (1,140)	$ -	$ -	$ 7,101	$ -	$ -	$ 5,961
Foreign currency	188	56	1,401	-	717	-	-	2,362
Equity	(7,259)	(1,284)	-	(551)	-	(13,074)	(462)	(22,630)
Commodities	-	(292)	-	-	-	-	-	(292)
Credit	-	-	-	(2,905)	-	-	-	(2,905)
Totals	$ (7,071)	$ (2,660)	$ 1,401	$ (3,456)	$ 7,818	$ (13,074)	$ (462)	$ (17,504)

Derivative notional amounts and values as of August 31, 2014 and 2013 discussed below are indicative of the Institute's exposure to derivatives for the years then ended.

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 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 $727.2 million and $201.9 million, respectively, at August 31, 2014 and $772.0 million and $435.4 million, respectively, at August 31, 2013.

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, 2014 and 2013, the Institute had entered into various futures contracts with notional exposures at fair values as follows:

(In thousands)

	2014		2013	
	Buy	Sell	Buy	Sell
Equity Indexes	$ 38,279	$ 12,021	$ 49,599	$ 10,405
Commodities	35,327	349	29,169	7,906
Fixed Income	600,316	172,245	322,237	695,200
Total	$ 673,922	$ 184,615	$ 401,005	$ 713,511

A swaption is an option to enter into an interest rate swap. The notional amount of open purchased swaptions as of August 31, 2014 and 2013 was $0 million and $30.0 million, respectively. There were no open written swaption contracts as of August 31, 2014 and 2013.

Contracts for differences 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 differences 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. The notional amount of open contract for differences was $5.3 million and $1.2 million as of August 31, 2014 and 2013, respectively.

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 $31.2 million and $6.3 million as of August 31, 2014 and 2013, respectively.

Credit default swap contracts are used as a means to transfer credit risk of fixed income securities. Credit default swaps notional amounts were $20.2 million and $11.2 million at August 31, 2014 and 2013, respectively.

Receivables and Payables

The Institute's investment receivables and payables as of August 31, 2014 and 2013 consist of the following:

(In thousands)

	2014		2013	
	Receivable	Payable	Receivable	Payable
Securities Pending Settlement	$ 66,122	$ 72,853	$ 111,016	$ 66,100
Interest and Dividend Receivable	20,391	-	21,826	-
Management Fees	-	16,514	-	11,065
Other	5	216	50	24
Total	$ 86,518	$ 89,583	$ 132,892	$ 77,189

Commitments, Obligations and Other

The Institute has unfunded commitments of approximately $3.6 billion and $3.0 billion to fund investments in non-public entities as of August 31, 2014 and 2013, respectively. The Institute had loaned securities to third parties with a market value of approximately $209 million and $49.0 million at August 31, 2014 and 2013, 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 US Treasuries, are marked to market daily. The value of collateral posted was $214.9 million and $50.9 million at August 31, 2014 and 2013, respectively. Income from securities lending activities totaled approximately $1.4 million and $1.2 million for August 31, 2014 and 2013, respectively, and is included in *Interest, Dividends, and Other Income from Investments.*

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 $113.7 million and $96.9 million for the fiscal years ended August 31, 2014 and 2013, respectively.

3. LABORATORY SPACE, EQUIPMENT AND OTHER PROPERTY

The cost and accumulated amortization and depreciation of the Institute's investment in laboratory space, equipment and other property at August 31, 2014 and 2013 are as follows:

(In thousands)	2014	2013
Laboratory space and leasehold improvements	$ 430,614	$ 428,924
Equipment, furniture and fixtures	588,816	575,945
Buildings	708,721	699,986
Land	89,763	89,763
	1,817,914	1,794,618
Construction in progress	30,773	6,034
Less: accumulated depreciation and amortization	(1,052,707)	(986,220)
Total	$ 795,980	$ 814,432

Approximately $1.0 million and $2.4 million of cost related to construction at the headquarters and Janelia campuses and equipment was included in *Accounts Payable and Accrued Liabilities* at August 31, 2014 and 2013, respectively.

4. ECONOMIC DEVELOPMENT BONDS PAYABLE

On February 27, 2003, the Institute issued $500 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 million. 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 interest rate swaps were entered into with several counterparties and had terms of 10 and 30 years. In March 2013, the Institute replaced the expiring 10-year $150 million swap with a 20-year swap in the same notional amount with a different counterparty. The net composite interest rate on the bonds and interest rate swaps for the fiscal years ended August 31, 2014 and 2013 was 2.70% and 2.91%, respectively. The interest expense for the fiscal years ended August 31, 2014 and 2013 was $13.5 million and $14.5 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $68.2 million and $34.5 million at August 31, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013 was 3.23% and 3.27%, respectively. The interest expense for the fiscal years ended August 31, 2014 and

2013 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 $20 million and $13.2 million at August 31, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013 was 3.41% and 3.45%, respectively. The interest expense for the fiscal years ended August 31, 2014 and 2013 was $2.6 million and $2.6 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $19.7 million and $13.9 million at August 31, 2014 and 2013, 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, 2014 and 2013.

On October 2, 2009, the Institute issued $23 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 million of Loudoun County Industrial Development Authority bonds described above, the Institute entered into receive-variable, pay-fixed interest rate swap with a total notional amount of $73 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, 2014 and 2013 was 2.68% and 2.75%, respectively. Interest expense for the fiscal years ended August 31, 2014 and 2013 was $0.6 million and $0.6 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $3.3 million and $1.5 million at August 31, 2014 and 2013, 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, 2014 and 2013.

On May 15, 2013, the Institute issued $33.13 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 $33.13 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, 2014 and 2013 was 2.02% and 1.77%, respectively. Interest expense for the fiscal years ended August 31, 2014 and 2013 was $0.7 million and $0.2 million, respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $0.8 million at August 31, 2014 and an unrealized gain of $2.0 million at August 31, 2013, 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, 2014 and 2013.

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 agent has 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.

5. BONDS PAYABLE

On August 12, 2009, the Institute issued $600 million of taxable fixed rate bonds to establish a program spending reserve. The bonds carried an interest rate of 3.45% with interest payable semi-annually in March and September. The effective interest rate on the bonds for the fiscal year ended August 31, 2013 was 3.62%. On August 16, 2013, the Institute redeemed its $600 million of taxable fixed rate bonds prior to the September 1, 2014 maturity date. The $20.7 million loss on extinguishment of debt in the Consolidated Statements of Operations and Changes in Net Assets for 2013 represents the difference between the $619.8 million redemption price and the $599.1 million net carrying amount of the bonds repurchased. The Institute had been amortizing the loan origination costs and original issue discount, of which $0.9 million had not yet been recognized at the time of the redemption. The funds used to retire the bonds were obtained from the existing program spending reserve. Interest expense for the fiscal years ended August 31, 2014 and 2013 was $0 and $20.8 million, respectively.

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. In connection with the issuance of the $1.2 billion of taxable fixed rate bonds, the Institute entered into several forward contracts realizing a hedge gain of $49.3 million, which is included in *Realized Gain on Investment Sales* as of August 31, 2013. Accrued interest at August 31, 2014 and 2013 was $21 million and $4.6 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, 2014. The total estimated fair value of Institute's taxable bonds as of August 31, 2014 and 2013 was $1.25 billion and $1.19 billion, respectively. Interest expense for the fiscal years ended August 31, 2014 and 2013 was $42.0 million and $4.6 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 2014, 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 1.28% and 1.32% for the fiscal years ended August 31, 2014 and 2013, respectively. The unrealized loss reflecting the market value of the swap was $0.3 million and $0 at August 31, 2014 and 2013, respectively, which is included in *Investments and Derivative Liabilities*. Interest expense for the fiscal years ended August 31, 2014 and 2013 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 $62.6 million and $61.0 million for the years ended August 31, 2014 and 2013, respectively.

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

(In thousands)

Year		
2015	$	40,376
2016		-
2017		-
2018		-
2019		-
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 $86.3 million and $84.6 million for the years ended August 31, 2014 and 2013, respectively.

Estimated minimum annual occupancy fees and other payments due under these agreements as of August 31, 2014 are summarized below:

(In thousands)

Year		
2015	$	59,697
2016		60,201
2017		60,252
2018		60,304
2019		60,357
2020 - 2029		61,175
Total	$	361,986

As of August 31, 2014, the Institute had 28 capital leases totaling $32.4 million to cover scientific and information technology equipment. Interest paid on these obligations for the years ended August 31, 2014 and 2013 was $0.3 million and $0.4 million, respectively. The Institute's unamortized capital lease obligation at August 31, 2014 and 2013 was $10.4 million and $19.0 million, respectively. Assets held under capital leases of $32.4 million and $35.6 million, net of accumulated amortization of $16 million and $12.6 million, are included in *Laboratory Space, Equipment, Buildings and Other Property, net* at August 31, 2014 and 2013, respectively. Amortization of assets under capital leases is included in either *Medical Research* or *General Administration* Expenses, depending upon the use of the asset. The following table presents future annual lease payments for the year ending August 31, 2014:

(In thousands) Year	
2015	$ 8,404
2016	3,148
2017	1,089
Total	$ 12,641

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

(In thousands) Year	
2015 - 2019	$151,653
Discount	(3,195)
Net Liability	$148,458

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 consolidated its two previous 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 contributions to its defined contribution retirement plans on behalf of its employees were $24.7 million and $24.1 million for the years ended August 31, 2014 and 2013, 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, 2014 and 2013 was approximately $31.9 million and $26.0 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 $380.5 million and $311.2 million at August 31, 2014 and 2013, respectively.

The following tables summarize the postretirement plan's funded status and the amount of the accumulated postretirement benefit plan costs for the years ended August 31, 2014 and 2013:

(In thousands)		
Accrued Benefit Liability:	2014	2013
Accumulated postretirement benefit obligation, beginning of year	$ 309,627	$ 283,252
Service cost	17,172	15,698
Interest cost	15,032	13,015
Employee contributions	115	107
Benefits paid net of contributions	(6,508)	(4,110)
Net actuarial loss	41,579	1,528
Medicare subsidies received	207	137
Accumulated benefit obligation, end of year	$ 377,224	$ 309,627
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	6,393	4,003
Employee contributions	115	107
Employer contributions less subsidy received	-	-
Benefits paid	(6,508)	(4,110)
Fair value of plan assets, end of year	$ -	$ -
Reconciliation of funded status:		
Funded status	$ (377,224)	$ (309,627)
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	$ (377,224)	$ (309,627)

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

Components of net periodic benefit cost:		
Term/service cost	$ 17,172	$ 15,698
Interest cost	15,032	13,015
Immediate recognition of net actuarial loss	41,579	1,528
Net periodic benefit cost	$ 73,783	$ 30,241

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, 2014.

The net periodic benefit cost for the postretirement benefit plan was $73.8 million and $30.2 million for the years ended August 31, 2014 and 2013, respectively. The discount rate assumed in determining the actuarial present value of accumulated postretirement benefit obligations was 4.2% and 4.9% as of August 31, 2014 and 2013, respectively. The average health care cost trend rate assumption used to determine the accumulated postretirement benefit obligation at August 31, 2014 was 7.2% for fiscal year 2014 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, 2014 by approximately $77.1 million. A 1% decrease in the trend rate would decrease the accumulated postretirement benefit obligation at August 31, 2014 by approximately $60.6 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/(income) was $2.3 million and $(1.9) million for the years ended August 31, 2014 and 2013, 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, 2014.

The postretirement benefits that are expected to be paid out under the plan 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
2015	$ 6,251	$ 371
2016	7,315	447
2017	8,437	523
2018	9,686	603
2019	10,977	699
2020 - 2024	80,688	5,253

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and receivables approximate fair value due to the short maturity 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 approximates fair value due to their short maturity. The carrying amounts of notes and bonds payables with variable interest rates approximates their 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 $0.1 million for the years ended August 31, 2014 and 2013, respectively. Taxes paid on income totaled approximately $1.7 million and $0.6 million for the years ended August 31, 2014 and 2013, 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 24, 2014 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, 2014.