Boston University

Financial Statements
June 30, 2009 and 2008

Report of Independent Auditors

To the Board of Trustees of Boston University:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Boston University (the "University") at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, the University adopted Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," as of July 1, 2008. In accordance with the transition provisions of SFAS No. 159, the 2009 consolidated financial statements include the cumulative effect of adopting this accounting principle as of July 1, 2008.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 22, 2009

June 30, 2009 and 2008
($000)

	2009	2008
ASSETS		
Cash and cash equivalents (Notes 1 and 2)	$ 404,647	$ 219,848
Cash and cash equivalents — restricted (Notes 1 and 2)	115,847	215,173
Short-term investments (Notes 1 and 2)	7,173	10,735
Accounts receivable, net of allowance (Notes 1 and 3)	169,672	157,522
Pledges receivable, net of allowance (Note 3)	50,291	31,702
Prepaid expenses and other assets (Note 4)	79,455	80,109
Investment in residual asset note (Note 2)	34,535	
Long-term investments (Notes 1 and 2)	1,054,685	1,135,031
Property, plant, and equipment, net (Notes 1 and 4)	1,849,617	1,956,963
Total assets	$ 3,765,922	$ 3,807,083
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 117,862	$ 128,749
Accounts payable and accrued expenses (Notes 4, 5, and 6)	347,981	310,477
Minority interest (Note 7)	94,008	72,087
Short-term lines of credit (Note 5)	42,500	
Deferred income and student deposits	98,177	98,485
Annuities payable (Note 1)	16,281	15,951
Capital lease obligation (Note 7)	84,800	84,800
Discounted note obligation (Note 2)	34,535	31,123
Bonds, notes, and mortgages payable, net of unamortized bond premium/discount (Note 5)	1,227,545	1,267,123
Total liabilities	2,063,689	2,008,795
Commitments and contingencies (Note 7)		
Net assets (Note 1):		
Unrestricted:		
Allocated for designated purposes	1,005,721	959,844
Available for general purposes	15,978	15,753
Total unrestricted	1,021,699	975,597
Temporarily restricted	366,066	523,344
Permanently restricted	314,468	299,347
Total net assets	1,702,233	1,798,288
Total liabilities and net assets	$ 3,765,922	$ 3,807,083

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

For the years ended June 30, 2009 and 2008
($000)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues (Note 1)				
Student tuition and fees	$ 968,636	$	$	$ 968,636
Student aid	(244,169)			(244,169)
Sponsored programs	203,668			203,668
Gifts	24,821	547		25,368
Sales and services	111,661			111,661
Spending formula amount and other investment income (Notes 1 and 2)	10,030	23,445		33,475
Recovery of facilities and administrative costs	146,713			146,713
Sponsored program income for student aid	14,063			14,063
Other income	18,265			18,265
Auxiliary enterprises	248,946			248,946
Student aid	(2,638)			(2,638)
Net assets released from restrictions	29,567	(29,567)		
Contributions used for operations		5,347		5,347
Total operating revenues	1,529,563	(228)		1,529,335
Operating expenses (Note 1)				
Instruction and departmental research	707,519			707,519
Educational support activities	112,528			112,528
Sponsored programs	203,668			203,668
Libraries	24,065			24,065
General and administrative	168,965			168,965
Student aid	12,338			12,338
Auxiliary enterprises	214,394			214,394
Total operating expenses	1,443,477			1,443,477
Net operating gain (loss)	86,086	(228)		85,858
Nonoperating revenues and (expenses)				
Contribution revenue (Note 1)	7,394	16,220	16,115	39,729
Contributions used for operations		(5,347)		(5,347)
Spending formula amount and other investment income (Notes 1 and 2)	4,791	2,773	154	7,718
Excess (deficit) of investment return over spending formula amount (Note 2)	(113,700)	(180,320)	(1,224)	(295,244)
Net realized and unrealized losses on interest rate exchange agreements (Note 5)	(59,942)			(59,942)
Amortization of discounted note obligation (Note 2)				
Post-retirement related changes other than net periodic pension cost (Note 6)	17,488			17,488
Other additions (deductions), net (Note 8)	22,206	9,624	76	31,906
Change in value of designated non-core institutional real estate (Note 2)	50,656			50,656
Cumulative effect of initial application of SFAS 159 (Note 2)	31,123			31,123
Net nonoperating income (loss)	(39,984)	(157,050)	15,121	(181,913)
Change in net assets	46,102	(157,278)	15,121	(96,055)
Beginning net assets	975,597	523,344	299,347	1,798,288
Ending net assets	$ 1,021,699	$ 366,066	$ 314,468	$ 1,702,233

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

2008 Unrestricted	2008 Temporarily Restricted	2008 Permanently Restricted	2008 Total	
				Operating revenues (Note 1)
$ 933,279	$	$	$ 933,279	Student tuition and fees
(235,175)			(235,175)	Student aid
189,642			189,642	Sponsored programs
24,881	530		25,411	Gifts
105,440			105,440	Sales and services
13,967	20,300		34,267	Spending formula amount and other investment income (Notes 1 and 2)
136,767			136,767	Recovery of facilities and administrative costs
15,095			15,095	Sponsored program income for student aid
13,862			13,862	Other income
238,851			238,851	Auxiliary enterprises
(2,816)			(2,816)	Student aid
27,957	(27,957)			Net assets released from restrictions
	6,557		6,557	Contributions used for operations
1,461,750	(570)		1,461,180	**Total operating revenues**
				Operating expenses (Note 1)
688,363			688,363	Instruction and departmental research
109,833			109,833	Educational support activities
189,642			189,642	Sponsored programs
24,394			24,394	Libraries
160,120			160,120	General and administrative
12,510			12,510	Student aid
213,859			213,859	Auxiliary enterprises
1,398,721			1,398,721	**Total operating expenses**
63,029	(570)		62,459	**Net operating gain (loss)**
				Nonoperating revenues and (expenses)
6,617	11,575	6,672	24,864	Contribution revenue (Note 1)
	(6,557)		(6,557)	Contributions used for operations
5,077	2,689	305	8,071	Spending formula amount and other investment income (Notes 1 and 2)
(458)	2,983	(730)	1,795	Excess (deficit) of investment return over spending formula amount (Note 2)
(68,913)			(68,913)	Net realized and unrealized losses on interest rate exchange agreements (Note 5)
(3,057)			(3,057)	Amortization of discounted note obligation (Note 2)
3,513			3,513	Post-retirement related changes other than net periodic pension cost (Note 6)
(7,391)	21,004	1,910	15,523	Other additions (deductions), net (Note 8)
				Change in value of designed non-core institutional real estate (Note 2)
				Cumulative effect of initial application of SFAS 159 (Note 2)
(64,612)	31,694	8,157	(24,761)	**Net nonoperating income (loss)**
(1,583)	31,124	8,157	37,698	**Change in net assets**
977,180	492,220	291,190	1,760,590	Beginning net assets
$ 975,597	$ 523,344	$ 299,347	$ 1,798,288	**Ending net assets**

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

For the years ended June 30, 2009 and 2008
($000)

	2009	2008
Cash flows from operating activities:		
Change in net assets	$ (96,055)	$ 37,698
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	77,985	80,217
Loss on debt extinguishment	186	9,642
Cumulative effect of initial application of SFAS 159	(31,123)	
Change in value of designated non-core institutional real estate	(50,656)	
Loss on sale of property and equipment		1,164
Loss on disposal of property and equipment	559	1,426
Unrealized losses on interest rate exchange agreements	40,622	65,626
Amortization of bond premium/discount	(198)	3,497
Net realized and unrealized losses (gains) on investments	272,967	(17,402)
Provision for bad debts	(4,727)	2,974
Restricted contributions	(6,074)	(8,397)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(5,737)	(5,157)
(Increase) decrease in pledges receivable	(18,458)	3,171
Decrease in prepaid expenses and other assets	468	747
Increase in accounts payable, accrued expenses and minority interest	8,874	50,118
(Decrease) increase in accrued payroll and related expenses	(10,887)	4,012
(Decrease) increase in deferred income and student deposits	(308)	8,908
Net cash provided by operating activities before swap termination	177,438	238,244
Payment on swap termination (Note 8)	(54,876)	
Net cash provided by operating activities	122,562	238,244
Cash flows from investing activities:		
Purchases of investments	(247,779)	(534,654)
Proceeds from sales and maturities of investments	299,290	534,403
Increase in receivables for investments sold	(1,817)	(11,053)
Proceeds from sale of property and equipment		6,769
Purchases of property and equipment	(154,877)	(271,560)
(Increase) decrease in cash equivalents-restricted	99,326	(166,566)
Net cash used in investing activities	(5,857)	(442,661)
Cash flows from financing activities:		
Payment of bonds, notes, and mortgages	(79,042)	(480,847)
Increase in annuity obligations	330	1,201
Proceeds from short-term borrowings	42,500	
Proceeds from bonds and notes payable	50,000	670,565
Restricted contributions	6,074	8,397
Net cash provided by financing activities before swap replacement transactions	19,862	199,316
Proceeds from replacement swap transactions (Note 8)	58,570	
Net cash provided by financing activities	78,432	199,316
Unrealized gains on currency exchange	(10,338)	(490)
Net increase (decrease) in cash and cash equivalents	184,799	(5,591)
Cash and cash equivalents beginning of year	219,848	225,439
Cash and cash equivalents end of year	$404,647	$219,848
Supplemental disclosure of non-cash information:		
Property and equipment included in accounts payable	$ 9,464	$ 15,699

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

1. Accounting Policies

The following is a summary of the significant accounting policies of the University.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the reporting principles of not-for-profit accounting.

Unrestricted net assets are free of donor-imposed restrictions. Activities reported within unrestricted net assets include education and general, sponsored and departmental research, unexpended plant and debt service, investments in plant, long-term investments, and student loans. Contributions, gains, and investment income whose restrictions are met in the same reporting period are reported as unrestricted support.

Temporarily restricted net assets include gifts for which donor-imposed restrictions as to time or purpose have not been met (primarily future capital projects) and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

The composition of the temporarily restricted net assets as of June 30, 2009 and 2008, in thousands of dollars, is as follows:

	2009	2008
Net realized and unrealized gain on endowment	$ 246,080	$ 414,477
Life income and annuity funds	11,021	21,106
Contributions receivable, net	35,422	26,873
Contributions restricted for plant	72,864	60,157
Other contributions	679	731
	$ 366,066	$ 523,344

Permanently restricted net assets include gifts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income or a portion thereof be made available for spending in accordance with donor restrictions.

The composition of the permanently restricted net assets as of June 30, 2009 and 2008, in thousands of dollars, is as follows:

	2009	2008
Endowment funds	$ 276,538	$ 271,651
Contributions receivable, net	14,869	4,829
Donor funds restricted for student loans	23,061	22,867
	$ 314,468	$ 299,347

Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, gains and losses on interest rate exchange agreements, the excess (deficit) of investment returns over the spending formula amount, the cumulative effect of change in accounting principle (see Note 2), post-retirement related changes other than net periodic pension cost, and certain other nonrecurring activities.

Sponsored Programs:

Revenues associated with contracts and grants are recognized as the related costs or capital expenditures are incurred. Grant revenue used for the construction or acquisition of plant is recorded within nonoperating activities. The University records reimbursement of facilities and administrative costs relating to government contracts and grants at authorized rates each year.

Principles of Consolidation:

The consolidated financial statements include the University and its wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Property, Plant, and Equipment:
Maintenance and repairs are expensed as incurred and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon is removed from the accounts, and gains and losses are included in operations in the statement of activities.

Long-lived assets and certain intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, an impairment loss is required to be recognized in an amount by which the asset's net book value exceeds its estimated fair value.

Gifts:
Gifts, including unconditional promises to give, are recorded upon receipt. Gifts other than cash are recorded at fair market value at the date of contribution. The University records gifts of patents that are accepted solely for future use in educational or scientific research at a nominal value. Gifts with donor-imposed restrictions, which are reported as temporarily restricted revenues, are reclassified to unrestricted net assets when an expense is incurred that satisfies the restriction (see Note 3).

Investment Income:
The major portion of long-term investments are maintained on a pooled basis. Units in the pool are assigned on the basis of market value at the time net assets to be invested are received, and income is distributed quarterly thereafter on a per-unit basis.

Valuation of Investments:
Investments in marketable securities are stated at fair value as determined by the quoted market prices of publicly traded securities. Alternative investments for which fair value quotations are not readily available, are valued by the general partnership or fund manager and are reviewed by management for reasonableness and approved by an advisory committee of the Board of Trustees. Estimated values are subject to uncertainty and, therefore, may differ significantly from the value that would have been used had the investments been traded on a public market. The average cost method is used for calculating realized gains. The investment portfolio is reflected on a trade-date basis.

Net gains and losses are classified as unrestricted net assets unless they are restricted by a donor or the law. Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the University in accordance with donor restrictions and Massachusetts law.

Real Estate Partnerships:
The University owns shares in certain University business-related real estate partnerships ranging from 20 to 50%, which have been accounted for using the equity method within the statement of financial position. The University's ownership interest in these partnerships has been recorded within long-term investments on the statement of financial position.

Cash and Cash Equivalents:
The University considers cash on hand, cash in banks, certificates of deposit, time deposits, and U.S. Government and other short-term securities with maturities of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents-restricted represent funds held by the trustees associated with the Massachusetts Development Finance Agency Bond Issue Series U1, U2, U3, and U4 and Massachusetts Health and Educational Facilities Authority Series N, and will be drawn down to fund various construction projects and costs of issuance. In addition, the University was required to post collateral with counterparties in the form of cash and cash equivalents under the terms of certain interest rate exchange agreements (see Note 5).

Loans Receivable:
Notes and loans receivable are principally amounts due from students under federally sponsored programs which are subject to certain requirements. Accordingly, it is not practical to determine the fair value of such amounts.

Student Aid:
Student aid, of $244,169,000 and $235,175,000 for the years ended June 30, 2009 and 2008, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $2,638,000 and $2,816,000 for the years ended June 30, 2009 and 2008, respectively, has been classified as a reduction of auxiliary enterprises (room and board) revenue.

Student aid in addition to tuition, fees, room and board in the amount of $12,338,000 and $12,510,000 for the years ended June 30, 2009 and 2008, respectively, has been classified as an operating expense.

Depreciation Policy:
All capital expenditures for, and gifts of, land, buildings, equipment, and library books are recorded as additions to unrestricted net assets when the assets are placed in service, and carried at cost at the date of the acquisition or fair value at the date of donation. Depreciation is computed on a straight-line basis over the remaining useful lives of assets as follows: buildings, 50 years; renovations and improvements, 20 years or lease term, if shorter; library books, 10 years; and equipment, 2 to 15 years. University buildings used in sponsored research activities are depreciated from 12 to 50 years, by using the distinct useful lives for each major building component.

Depreciation for the years ended June 30, 2009 and 2008 was $77,985,000 and $80,217,000, respectively.

Allocation of Expenses:
Certain expenses have been allocated to functional expenses in the statement of activities. These expenses are comprised of, in thousands of dollars:

	2009	2008
Operation and maintenance of plant	$ 96,612	$ 91,146
Interest on indebtedness	36,392	52,534
Depreciation expense	77,985	80,217

Collections:
The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as releases from temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The University's collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed regularly. The collections are subject to a policy that requires proceeds from dispositions to be used to acquire other items for collections.

Split-Interest Agreements:
The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held and administered by others. For annuity contracts, the contributed assets are included as part of investments at fair value. Contribution revenue, net of the accompanying obligation is recognized as of the date the donated assets are transferred to the University, and liabilities are recorded for the present value of the estimated future payments to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the annuities consistent with changes in the value of the assets and actuarial assumptions.

The present values of the estimated future cash receipts from charitable remainder trusts are recognized as assets and contribution revenues as of the dates the trusts are established. Distributions from these trusts are recorded as contributions, and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Related Party Transactions:
Under the University's conflict of interest policy, all business and financial relationships between the University and entities affiliated with trustees and officers are subject to the review and approval of the Audit Committee of the Board of Trustees.

Income Taxes:
The University is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective for the University on July 1, 2007 and did not have a material impact on the University's financial statements as of June 30, 2009 and 2008.

Use of Estimates:
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates are made in the areas of accounts receivable, pledges receivable, investments, investment in residual asset note, discounted note obligation, and accrued expenses.

Conditional Asset Retirement Obligations:
The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and Financial Accounting Standards Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations." When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

Fair Value Measurements:
In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" (SFAS 157). This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. In addition, SFAS 157 expands the disclosures regarding the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs, and the effect of the measurement on changes in net assets for the period. SFAS 157 was adopted by the University as of July 1, 2008, as discussed in Note 2.

Fair Value Option:
In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS No. 115 and SFAS No. 124" (SFAS 159). SFAS 159 permits organizations to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Once elected, this option is irrevocable. The University elected the fair value option as of July 1, 2008, for certain investments pursuant to SFAS 159 as discussed in Note 2.

Reclassifications:
Certain June 30, 2008 balances previously reported have been reclassified to conform to the June 30, 2009 presentation.

2. Investments

Total investments by type as of June 30, 2009 and 2008, in thousands of dollars, were as follows:

Summary by Type of Investment	2009 Cost	2009 Fair Value	2008 Cost	2008 Fair Value
Money Market	$ 520,494	$ 520,494	$ 435,021	$ 435,021
Fixed Income	71,189	69,932	68,699	70,107
Global Equities	267,787	287,672	337,441	512,683
Marketable Alternatives	137,456	134,477	151,290	184,259
Non-Marketable Alternatives	253,674	216,967	223,352	228,840
Real Assets	384,997	352,810	136,271	149,877
Investment in residual asset note.	34,535	34,535		
Total	$ 1,670,132	$ 1,616,887	$ 1,352,074	$ 1,580,787

Money market investments totaling $520,494,000 and $435,021,000 as of June 30, 2009 and 2008, respectively, shown in the table above, represent cash and cash equivalents and cash and cash equivalents-restricted as reported on the consolidated statements of financial position. These totals include $4,835,000 and $3,427,000 of cash on hand and cash in banks as of June 30, 2009 and 2008, respectively.

The following summarizes, in thousands of dollars, the investment return, as reflected in the statement of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Dividend and interest income	$ 6,937	$ 11,825	$ 154	$ 18,916	$ 26,731
Net realized and unrealized gains (losses)	(105,816)	(165,927)	(1,224)	(272,967)	17,402
Total return on investments	(98,879)	(154,102)	(1,070)	(254,051)	44,133
Less: Spending formula amount	(7,456)	(26,218)		(33,674)	(30,020)
Less: Other non-endowment income	(7,365)		(154)	(7,519)	(12,318)
	(14,821)	(26,218)	(154)	(41,193)	(42,338)
Excess (deficit) of investment return over spending formula amount	$ (113,700)	$ (180,320)	$ (1,224)	$ (295,244)	$ 1,795

A pooled endowment fund is included as part of the University's investments. Total endowment assets at June 30, 2009 and 2008 are $919,441,000 and $1,182,053,000, respectively. The amounts distributed from the investment yield of pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution is based on fixed quarterly amounts per unit and is calculated as 4% of a twenty-quarter moving average of pooled endowment fund market values. The return distributed is equivalent to an annual investment yield, using the average market value of pooled endowment funds for the five preceding quarters for the fiscal years ended June 30, 2009 and 2008, respectively. During the fiscal years ended June 30, 2009 and 2008, 3.6% and 2.5%, respectively, represented the distribution as a percentage of the ending market value of the pooled endowment fund.

At June 30, 2009 and 2008, respectively, approximately $5,188,000 and $185,000 of unrealized losses on permanently restricted endowment funds were classified as a reduction in unrestricted net assets as the market value of these funds was less than their book value. Unrestricted net assets will be replenished when the market value equals or exceeds the book value.

As of June 30, 2009, investment commitments to venture capital limited partnerships and private equity funds total $90,544,000 and are expected to be drawn down by the general partners over the next six years in accordance with the individual investment periods of the underlying partnerships.

Fair Value Measurements:

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University, and unobservable inputs reflect the University's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

The following table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the statement of financial position by the SFAS 157 valuation hierarchy defined above, in thousands of dollars:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Money Market	$ 520,494	$	$	$ 520,494
Fixed Income	38,355	31,577		69,932
Global Equities & Convertibles	140,901	119,974	26,797	287,672
Marketable Alternatives		13,417	121,060	134,477
Non-Marketable Alternatives			216,967	216,967
Real Assets		134,085	218,725	352,810
Investment in residual asset note		34,535		34,535
Total Investments:	$ 699,750	$ 333,588	$ 583,549	$ 1,616,887
Split interest agreements held by third parties			3,692	3,692
Total assets at fair value	$ 699,750	$ 333,588	$ 587,241	$ 1,620,579
Liabilities				
Interest rate exchange liabilities		152,714		152,714
Total liabilities at fair value	$	$ 152,714	$	$ 152,714

The following is a description of the University's valuation methodologies for assets and liabilities measured at fair value.

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

The fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as they trade infrequently or not at all.

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). The fair value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. Partnerships in Level 3 consist of both marketable securities as well as securities that do not have a readily determinable value. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed ongoing due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate exchange liabilities are valued using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate exchange liability depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs. Interest rate exchange arrangements have inputs which can generally be corroborated by market data and are therefore generally classified within Level 2.

Split interest agreements held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above, in thousands of dollars:

	Fixed Income	Global Equities & Convertibles	Marketable Alternatives	Non-Marketable Alternatives	Real Assets	Total Investments
Fair value July 1, 2008	$ 11,670	$210,451	$165,532	$232,501	$134,878	$755,032
Realized gains (losses)	482	9,561	14,342	7,575	2,644	34,604
Unrealized gains (losses)	(1,670)	(98,386)	(33,638)	(41,234)	(36,494)	(211,422)
Net purchases & sales	(10,482)	(94,829)	(25,176)	18,125	(9,488)	(121,850)
Transfers					127,185	127,185
Fair value June 30, 2009	$	$ 26,797	$121,060	$216,967	$218,725	$583,549

	Split interest agreements held by third parties
Fair value July 1, 2008	$ 2,755
Realized gains (losses)	
Unrealized gains (losses)	(325)
Additions	1,262
Transfers	
Fair value June 30, 2009	$ 3,692

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying statement of activities. Net unrealized gains (losses) relate to those financial instruments held by the University at June 30, 2009.

Endowment Funds:
In August 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). FAS 117-1 also improves disclosure about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The Commonwealth of Massachusetts adopted UPMIFA effective for institutional funds existing on or established after June 30, 2009. The University has adopted FAS 117-1 for the year ended June 30, 2009.

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization.

The University has adopted investment and spending policies for its endowment and similar funds that emphasize long-term capital appreciation as a primary source of return while balancing the dual objectives of growth in capital and principal preservation. Investments are expected to earn long-term returns sufficient to maintain or grow the purchasing power of assets, net of spending and investment expenses, within acceptable risk parameters. To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The University targets a diversified asset allocation of fixed income, global equities, marketable and non-marketable alternative and real assets. The portfolio is expected to produce returns that exceed a policy benchmark constructed as a blended rate of indices.

In accordance with the University's spending policy, 4% of a twenty-quarter moving average of endowment investments is available each year for expenditure. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year accumulated earnings.

The following table represents endowment net asset composition by type of fund as of June 30, 2009, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$	$ 257,100	$ 276,538	$ 533,638
Institution Designated	336,131			336,131
Total Endowment Net Assets	$ 336,131	$ 257,100	$ 276,538	$ 869,769

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 378,203	$ 435,583	$ 271,651	$ 1,085,437
Reclassification of net assets	(5,003)	5,003		
Endowment net assets after reclassification	373,200	440,586	271,651	1,085,437
Investment income	1,819	1,523		3,342
Net depreciation (realized and unrealized)	(73,190)	(185,323)	(1,224)	(259,737)
Total investment return	(71,371)	(183,800)	(1,224)	(256,395)
Gifts	2,940	684	5,813	9,437
Other changes	3,452	(370)	298	3,380
Institutional transfers from other funds	27,910			27,910
Endowment net assets at end of year	$ 336,131	$ 257,100	$ 276,538	$ 869,769

Non-Core Institutional Real Estate:
Consistent with other large, private urban universities, in fiscal year 2009 based on an ongoing strategic review of the use of the University's property, the University elected to record its investments in designated non-core institutional real estate at fair value. Accordingly, the University has changed the valuation methodology related to these investments in designated non-core institutional real estate from cost less accumulated depreciation to fair value. The University has recorded unrealized gains which increased unrestricted net assets by $50,656,000 and has recorded the assets at fair value on the statement of financial position. As of June 30, 2009, the investments in designated non-core institutional real estate have been recorded at a value of $240,570,000 within the real assets category of long-term investments.

Residual Asset Note:
In June 2006, the University securitized its interest in an investment banking partnership which owned rights to residual future cash flows. To effect the securitization, the rights to receive the future cash flows were transferred from the University to a 100% owned, bankruptcy remote,

special purpose, limited liability corporation called BU Funding, LLC ("LLC"). To finance the transaction, the LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust ("DBLF"), collateralized by the LLC's rights to the future cash flow stream. The note has a face value of $88.2 million, which is the aggregate amount of scheduled cash flows to be received between 2007 and 2021. The purchase price of the note was $25.2 million and it is non-recourse to the University. As of June 30, 2009 and 2008, the carrying values of the discounted note obligation were $34.5 million and $31.1 million, respectively.

Through June 30, 2008, the LLC had recorded its investment in the partnership at a nominal value. In fiscal year 2009, the University adopted the fair value option pursuant to SFAS 159 for certain financial assets and liabilities. As a result of adopting SFAS 159 and changing the carrying basis of the investment in the partnership from cost to fair value, the University has recorded a cumulative effect adjustment which increased unrestricted net assets by $31.1 million and has also recorded the asset at its fair value of $34.5 million on the statement of financial position at June 30, 2009.

The LLC is consolidated in the financial statements of the University. The LLC's discounted note obligation is recorded as a liability, and its investment has been recorded as an asset on the statement of financial position. The valuation of this investment is based on a present value analysis using readily available observable market discount factors applied to contractually committed cash inflows and outflows. The discount on the note will be amortized over its scheduled maturity using the effective interest method, and the note obligation will also decrease as future residual cash flows are received. Future unrealized gains and losses associated with the investment will be recorded as an offset to the amortization. As a result, the note and the related asset are expected to accrete to a maximum value of $54.3 million in 2014, declining thereafter to a balance of zero in 2021. The risk of any disruption of future cash flows is considered remote, as the principal risks that could cause a disruption have been assumed by DBLF. Upon expected extinguishment of the note in 2021, the University remains the beneficiary of $39.7 million of cash flows scheduled for 2022–2035. Due to the uncertainty of the timing and ultimate amount of the additional cash flows, the University has recorded a nominal value for these flows.

3. Receivables and Pledges

Accounts and loans receivable at June 30, 2009 and 2008, in thousands of dollars, consist of the following:

	2009	2008
Accounts receivable, net:		
Students	$ 15,144	$ 13,953
Less allowances	(5,894)	(5,870)
	9,250	8,083
Grants and contracts	53,004	44,310
Departmental sales, services, and other	30,303	36,839
Less allowances	(5,804)	(10,976)
	77,503	70,173
Student loans	71,685	69,297
Less allowances	(3,108)	(2,556)
	68,577	66,741
Receivables for investments sold	14,342	12,525
Total	$ 169,672	$ 157,522

Total allowances for doubtful accounts as of June 30, 2009 and 2008 are $14,806,000 and $19,402,000, respectively.

Included in accounts receivable at June 30, 2009 and 2008 is $1,324,000 and $1,175,000, respectively, related to split dollar life insurance policies. These assets have been recorded at the lower of cash surrender value or the present value of cumulative premiums paid, discounted using credit adjusted risk-free rates over the actuarially determined life expectancies of the related beneficiaries.

The University has outstanding notes, mortgages, and advances bearing interest at rates up to 5.21% at June 30, 2009 and 2008, to certain employees. The aggregated amount as of June 30, 2009 and 2008 is $3,927,000 and $3,765,000, respectively.

Pledges, net of discounts and allowances, in the amount of $50,291,000 and $31,702,000, are recorded as receivables with the revenue assigned to the appropriate net asset category for fiscal years 2009 and 2008, respectively. Pledges consist of unconditional written promises to contribute to the University in the future. At June 30, 2009 and 2008, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2009	2008
In one year or less	$ 20,667	$ 14,100
Between one year and five years	27,502	15,316
More than five years	12,534	12,345
	60,703	41,761
Discount to present value	(7,516)	(7,032)
Less allowance for unfulfilled pledges	(2,896)	(3,027)
Pledges receivable	$ 50,291	$ 31,702

4. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2009 and 2008, in thousands of dollars, consist of the following:

	2009	2008
Land	$ 69,060	$ 99,383
Buildings and improvements	1,847,738	2,017,438
Construction in progress	439,243	339,578
Equipment	200,140	179,159
Library books	134,563	125,304
	2,690,744	2,760,862
Less accumulated depreciation	(841,127)	(803,899)
Property, plant, and equipment, net	$1,849,617	$1,956,963

As of June 30, 2009 and 2008, buildings and improvements include $84,642,000 associated with office and research space under capital lease.

During fiscal year 2009, the University incurred capital expenditures of $25,102,000 and $41,470,000 for construction of the National Emerging Infectious Diseases Laboratory (NEIDL) and the Student Village Phase II, respectively. These expenditures are included within construction in progress at June 30, 2009, and will be placed in service when the construction is complete and the projects are ready for their intended use. Refer to Note 7, Commitments and Contingencies, for additional disclosures regarding the NEIDL. In addition, the University reclassified its designated non-core institutional real estate with a net book value totaling $189,914,000 from property, plant, and equipment into long-term investments (see Note 2).

Certain fully depreciated equipment amounting to approximately $3,079,000 and $8,706,000 was removed from the statement of financial position in 2009 and 2008, respectively.

Certain disposed property with a net book value of approximately $559,000 was removed from the statement of financial position in 2009.

On June 30, 1998, the University entered into a lease/lease back arrangement with a private investor relating to four properties. The lease terms range from 41 to 52 years, and the total value of these properties was approximately $222,000,000. The lease payments were prepaid to the University at the closing. The University's sublease terms range from 33 to 42 years, and the University has an option to purchase the investor's leasehold interest in the properties on dates specific to each property between years 15 and 24. The University has prefunded both the required annual sublease payment obligations and the amounts necessary to exercise each specific lease buyout option. Accordingly, $45,823,000 has been included in the University's consolidated statement of financial position within prepaid expenses and other assets and accounts payable and accrued expenses at June 30, 2009.

5. Indebtedness

Notes and bonds payable at June 30, 2009 and 2008, in thousands of dollars, are as shown below:

	Outstanding Principal 2009	2008
Tax-Exempt Bonds, Notes, and Mortgages Payable:		
Variable-rate bonds and notes:		
Massachusetts Health and Educational Facilities Authority		
Series E, Capital Asset Program, 1.00% at June 30, 2009 due 2011	$ 18,000	$ 18,000
Series H, 0.17% at June 30, 2009, due 2026–2029	69,000	69,000
Massachusetts Development Finance Agency		
Series U-1 to U-3, 0.15% blended variable rate at June 30, 2009, due 2030–2040	150,000	150,000
Series U-5A to U-5B, 0.45% blended variable rate at June 30, 2009, due 2009–2031	83,800	85,300
Series U-6A to U-6E, 0.21% blended variable rate at June 30, 2009, due 2019–2042	251,065	251,065
Fixed-rate bonds and notes:		
Massachusetts Health and Educational Facilities Authority		
Series S, 4.71% blended fixed rate, due 2035–2039	35,000	35,000
Massachusetts Development Finance Agency		
Series P, 5.63% blended fixed rate, due 2025–2059	100,000	100,000
Series T-1, 5%, due 2030–2039	162,740	162,740
Series U-4, 5.65%, blended fixed rate, due 2030–2040	50,000	50,000
Total Tax-Exempt Bonds, Notes, and Mortgages Payable:	919,605	921,105
Taxable Bonds, Notes, and Mortgages Payable:		
Variable-rate bonds and notes:		
Massachusetts Health and Educational Facilities Authority		
Series N, 0.25% at June 30, 2009, due 2009–2034	134,200	134,200
Boston University:		
Series 1999 SAVRS		21,950
Royal Bank of Scotland, 1.85% at June 30, 2009, due 2009–2029	47,648	59,172
Fixed-rate bonds, notes, and mortgages:		
Massachusetts Development Finance Agency		
Series T-2, 5.27%, due 2030	4,260	4,260
Boston University:		
Century Notes, 7.63%, due 2097	100,000	100,000
Aetna Loan, 10.20%, due 2009–2018	6,475	10,298
Various notes payable, 0%–7%, due 2010–2022	4,808	5,391
Total Taxable Bonds, Notes, and Mortgages Payable:	297,391	335,271
Total Bonds, Notes, and Mortgages Payable:	$1,216,996	$1,256,376
Net Unamortized Bond Premium and Discount	10,549	10,747
Total Bonds, Notes, and Mortgages Payable:	$1,227,545	$1,267,123

At June 30, 2009, the University had outstanding variable rate debt of $753,713,000 and outstanding fixed rate debt, including capital lease obligations, of $548,083,000. Plant property with a book value before depreciation of $61,570,000 as of June 30, 2009, as well as tuition revenues, are pledged as collateral for certain obligations.

The University is also required to comply with certain financial covenants including minimum levels of debt service coverage and expendable resources.

The fair market value of the University's bonds at June 30, 2009 approximates $1,122,493,000. The fair market value is estimated based on discounted cash flow with interest at current rates based on similar issues.

Scheduled principal payments on notes, bonds, and capital lease obligations, in thousands of dollars, are:

Year	Principal
2010	$ 5,132
2011	23,266
2012	5,461
2013	5,724
2014	6,145
Thereafter	1,256,068
Total	$1,301,796

The scheduled principal maturities represent annual payments as required under long-term debt repayment schedules.

Included in the University's debt is $688,065,000 of variable rate demand bonds (VRDBs) which include the Massachusetts Development Finance Agency Bond Issue Series U-1 to U-3, U-5A to U-5B, U-6A to U-6E, and Massachusetts Health and Educational Facilities Authority Bond Issue Series H and N. The University has entered into irrevocable letters of credit (LOCs) with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In the event a bond cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to fund redemption of the bond. If it is assumed that all outstanding variable rate bonds are put as of July 1, 2009, aggregate scheduled repayments under the VRDB related LOCs would be as follows: $291,923,000 in 2010, $158,457,000 in 2011, $158,457,000 in 2012, and $79,228,000 in 2013. As of June 30, 2009, the University has used variable rate demand bonds backed by bank LOCs for over 25 years during which time there have been no instances where a variable rate demand bond failed to be remarketed and was put back to the University.

In May 2008, the University issued $486,365,000 of Series U-1, Series U-2, Series U-3, Series U-5A, Series U-5B, Series U-6A, Series U-6B, Series U-6C, Series U-6D, and Series U-6E tax-exempt Massachusetts Development Finance Agency Variable Rate Demand Revenue Bonds (collectively, Series U Bonds). The proceeds from the sale of Series U-5A and U-5B bonds were used, together with other available funds, to refund $85,300,000 of Massachusetts Health and Educational Facilities Authority Series Q-1 and Series Q-2 bonds. The proceeds from the sale of Series U-6A through U-6E bonds were used, together with other available funds, to refund $250,200,000 of Massachusetts Development Finance Agency Series R-1 through R-4 bonds. The remaining proceeds from the Series U-1 through U-3 bonds in the amount of $150,000,000 are being used to finance all or a portion of certain capital projects as well as the acquisition of certain property and buildings. The Series U bonds are structured as multi mode obligations and are currently being remarketed in a combination of weekly and daily variable rate resets and collateralized by irrevocable direct pay letters of credit. The Series U bonds mature in annual installments ranging from $1,700,000 to $101,290,000 in 2009 through 2042. An amount of $9,354,000 consisting of the remaining unamortized bond issue costs relative to the refunded Series Q and Series R bonds is reflected as a deduction in the "Other additions (deductions)" line of the consolidated statements of activities.

In May 2008, the University converted $134,200,000 of Series N taxable Massachusetts Health and Educational Facilities Authority Select Auction Variable Rate Securities (SAVRS) to Variable Rate Demand Revenue Bonds. The Series N bonds are structured as multi mode obligations and are currently remarketed in a weekly variable rate reset and collateralized by an irrevocable direct pay Letter of Credit. The Series N bonds mature in annual installments ranging from $800,000 to $13,850,000 in 2009 through 2034. An amount of $288,000 consisting of the remaining unamortized bond issue costs relative to the refunded Series N bonds is reflected as a deduction in the "Other additions (deductions)" line of the consolidated statements of activities.

In September 2008, the University effected an early redemption of $21,950,000 of the outstanding Series 1999 taxable Select Auction Variable Rate Securities (SAVRS).

In June 2009, the University converted $50,000,000 of Series U-4 Tax Exempt Massachusetts Development Finance Agency Variable Rate Revenue Bonds to a fixed rate with maturity dates in 2035 and 2040 at a blended fixed interest rate of 5.65%. The Series U-4 bonds were initially issued in May 2008. An amount of $186,000 consisting of the remaining unamortized bond issue costs relative to the refunded Series U-4 bonds is reflected as a deduction in the "Other additions (deductions)" line of the consolidated statement of activities.

During the year ended June 30, 2009, the University arranged $135,000,000 of 364-day committed lines of credit with four financial institutions. Outstanding loans against the lines were $42,500,000 at June 30, 2009. These loans were outstanding for six days and were paid in full on July 3, 2009.

In August 2009, the University's Series U-5A and U-5B irrevocable direct pay letters of credit with RBS Citizens, NA were confirmed by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Boston. This transaction was completed to address the impact of the March 2009 downgrade of RBS Citizens public debt ratings.

The University has entered into various long-term interest rate exchange agreements in order to partially hedge variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. At June 30, 2009, the University had interest rate exchange agreements with total notional principal of $581,138,000 with expiration dates through 2042. These instruments require the University to make fixed rate payments in exchange for variable rate payments on the respective notional principal amounts. The notional amounts of each interest rate exchange agreement decrease as payments on the underlying obligations are made. The University receives variable rate payments that are expected to approximate interest on the underlying variable rate debt.

Below is a summary of the terms of the University's outstanding interest rate exchange agreements as of June 30, 2009, in thousands of dollars:

Interest Rate Exchange Agreement	Notional Amount	Effective Date	Termination Date	University Pays	University Receives
Royal Bank of Scotland	$ 47,648	8/15/2006	8/15/2029	5.65%	3-Mo. GBP LIBOR +45 basis points
Series H	25,000	10/30/1997	12/1/2027	5.28%	SIFMA*
Series N	24,490	10/30/1997	10/1/2027	6.79%	LIBOR*
Series U5	83,800	10/30/2001	10/1/2031	4.10%	67% of 1-Mo. USD LIBOR*
Series U6	10,700	10/1/2002	10/1/2022	4.16%	67% of 1-Mo. USD LIBOR*
Series U6	239,500	7/1/2008	10/1/2042	5.42%**	SIFMA*
Series U1–3	150,000	10/1/2007	10/1/2040	3.97%**	69% of 1-Mo. USD LIBOR*

*SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index
GBP—Great Britain Pound
LIBOR—London Interbank Offered Rate
**Represents a Blended Interest Rate

During the year ended June 30, 2007, the University entered into a fixed rate swaption agreement on the Series S bonds with a notional amount of $35,000,000. Under the swaption, the University received $2,304,000 from the counterparty in exchange for a one-time option to enter into a fixed rate swap on October 1, 2014, the call date of the Series S bonds. The option, if exercised provides that the University pay a fixed rate of 4.70% in exchange for a variable rate equal to the monthly SIFMA municipal swap index rate on an amortizing notional amount consistent with the existing principal amortization schedule for the Series S bonds. The fixed rate for Series S is 4.71%.

During the year ended June 30, 2008, the University entered into a fixed rate swaption agreement relating to the Series T bonds with a notional amount of $162,740,000. Under terms of this swaption agreement the University received $10,000,000 from the counterparty in exchange for a one-time option to enter into a fixed rate swap on October 1, 2015, the call date of the Series T bonds. The option, if exercised provides that the University pay a fixed rate of 4.95% in exchange for a variable rate equal to the monthly SIFMA municipal swap index rate on an amortizing notional amount consistent with the existing principal amortization schedule for the Series T bonds. The fixed rate for Series T is 5%.

Interest rate exchange agreements, including the Series S and T swaption agreements, are recorded at an estimated market value of $(152,714,000) and $(112,092,000) at June 30, 2009 and 2008, respectively, are included in accounts payable and accrued expenses, and the decrease in estimated market value of $(40,622,000) and $(65,626,000) in 2009 and 2008, respectively, is included in nonoperating losses on interest rate exchange agreements. The estimated market value of the interest rate exchange agreements at June 30, 2009, was computed by the counterparties and validated by the University using the net present value of fixed and floating future cash flows, with floating future flows estimated through the use of forward interest rate yield curves and is adjusted to reflect the risk of non-performance as required per SFAS 157. The total adjustment for non-performance risk reduced the liability by $11,068,000 in fiscal 2009. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these interest rate exchange transactions are a diversified group of major financial institutions that meet the University's criteria for financial stability and creditworthiness. Interest rate exchange agreements include two-way collateral posting requirements intended to mitigate credit risk. At June 30, 2009 and 2008, the University was required to post collateral in the amount of $32,262,000 and $14,245,000, respectively. In fiscal years 2009 and 2008, the University paid net settlement costs on interest rate exchange agreements of $19,320,000 and $3,287,000, respectively. These net settlement costs have been recorded as nonoperating activities within the consolidated statements of activities.

Interest expense of approximately $36,392,000 and $52,534,000 incurred in fiscal years 2009 and 2008, respectively, is net of $3,633,000 and $3,139,000 respectively, in interest capitalized as a cost of construction.

6. Pension and Other Employee Benefits

403(b) Plan:
The University makes retirement plan contributions to Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF), and Fidelity Investments for faculty and staff. This 403(b) plan is a defined contribution plan available to all employees who work at least 50% of a full-time schedule, and have an appointment or an expected assignment duration of at least nine months. The expenses for this program amounted to $51,475,000 in fiscal year 2009 and $48,311,000 in fiscal year 2008.

Pension and Other Postretirement Benefit Plans:
The University maintained a qualified defined benefit pension plan that covered certain retirees and eligible employees who elected to participate before December 31, 1986. As of December 31, 1986, the plan was closed to any new participants as well as to additional employee contributions.

During fiscal year 2008, the University initiated the process to terminate the Boston University Retirement Income Plan. The Plan assets were used to purchase guaranteed annuities on behalf of the participants in order to settle the pension liability. The selected insurance carrier met the "Safest Available Annuity" guidelines set by the Department of Labor regulations under the Employee Retirement Income Security Act. Required annuity purchases totaling $16,177,000 were made during the fiscal year. The remaining $3,723,000 of plan assets were used to purchase additional benefits for the participants. The University is awaiting a final determination from the Internal Revenue Service on the plan termination filing. Once the final determination has been received, the University will complete the termination of the Plan.

During fiscal year 2009, the University initiated the process to discontinue a plan option that offers subsidized health care coverage to employees who retire from the University after age 55 until age 65, provided they have at least ten consecutive years of participation in the plan at the time they retire. This change applies to any employee who terminates from the University on or after September 1, 2009. The program change resulted in a reduction of the benefit liability from $34,797,000 in fiscal year 2008 to $14,740,000 in fiscal year 2009. The University will continue to provide minimal life insurance benefits to retirees.

Pension and other Postretirement Benefit Plans at June 30, 2009 and 2008, in thousands of dollars:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 3,723	$ 16,326	$ 34,797	$ 33,795
Service cost			1,693	2,054
Interest cost		915	1,820	2,079
Plan amendments		3,994	(23,223)	(26)
Actuarial (gain) loss		563	2,067	(669)
Benefits paid		(1,898)	(2,414)	(2,436)
Settlements	(3,723)	(16,177)		
Benefit obligation at end of year		3,723	14,740	34,797
Change in Plan Assets				
Fair value of plan assets at beginning of year	3,723	20,629		
Actual return on plan assets		1,169		
Benefits paid		(1,898)		
Settlements	(3,723)	(16,177)		
Fair value of plan assets at end of year		3,723		
Funded status			(14,740)	(34,797)
Net amount recognized	$	$	$ (14,740)	$ (34,797)
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities:				
Curtailment effects			3,299	
Settlements		(2,105)		
Current year actuarial gain		1,057	2,067	(669)
Amortization of actuarial gain (loss)		(234)	(1,340)	(1,342)
Current year prior service (credit)/cost		3,994	(23,223)	(26)
Amortization of prior service (credit)/cost		(6,225)	1,709	1,095
Total recognized in Statement of Activities	$	$ (3,513)	$ (17,488)	$ (942)
Amounts recognized in Statement of Financial Position consist of:				
Accrued postretirement benefit obligation	$	$	$ (14,740)	$ (34,797)
	$	$	$ (14,740)	$ (34,797)
Amounts recognized in Unrestricted Net Assets consist of:				
Net actuarial loss	$	$	$ 14,510	$ 13,783
Prior service cost/(credit)			(22,339)	(4,124)
	$	$	$ (7,829)	$ 9,659

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Weighted-average Assumptions as of June 30 used to determine benefit obligation				
Discount rate	N/A	6.25%	5.25%	6.00%
Initial health care trend	N/A	N/A	8.50%	9.00%
Ultimate health care trend	N/A	N/A	5.00%	5.00%
Years to reach ultimate	N/A	N/A	7	8

For measurement purposes, a 8.5% and 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and 2008, respectively, decreasing at 1% per year thereafter until an ultimate rate of 5% in 2017.

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Components of Net Periodic Benefit Cost, in thousands of dollars				
Service cost	$	$	$ 1,693	$ 2,054
Interest cost		915	1,820	2,079
Expected return on plan assets		(1,663)		
Amortization of prior service cost		6,225	(1,709)	(1,095)
Curtailment gain			(3,299)	
Settlement loss		2,105		
Amortization of actuarial loss		234	1,340	1,342
Net periodic benefit cost	$	$ 7,816	$ (155)	$ 4,380

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

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 315	$ (283)
Effect on postretirement benefit obligation	512	(479)

The accumulated benefit obligation at the end of the fiscal year 2009 and 2008 was $0 and $3,723,000, respectively.

Plan Assets

The pension plan weighted average asset allocations as of June 30, 2008 was as follows:

Asset Category	Plan Assets Fiscal Year Ending 2008
Equity securities	78%
Fixed income	22%

The expected long-term rate of return assumption represents the expected average rate of earnings on the fund invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

Expected Cash Flows

Information about the expected cash flows for the U.S. pension and other postretirement benefit plans are in thousands of dollars, as follows:

	Pension Benefits	Other Benefits
Employer contributions		
2010 (Expected)		$2,414
Expected benefit		
2010		2,347
2011		2,365
2012		2,195
2013		1,814
2014		1,635
2015–2018		5,367

7. Commitments and Contingencies

As of June 30, 2009, approximately $140,640,000 is committed principally on open construction contracts and capital acquisitions. This amount will be financed from operations, federal government grants, private donations, and borrowings.

The University has also formally agreed to support the Huntington Theatre, Inc., a nonprofit theatre production company, during the next year in the amount of $510,000.

The University is committed to minimum annual rent payments under several long-term noncancelable operating and capital leases through the year 2038, for the use of educational facilities and office space, in thousands of dollars, as follows:

	Operating	Capital
2010	$ 20,904	$ 3,738
2011	19,619	3,738
2012	18,896	3,868
2013	18,317	3,868
2014	17,140	3,956
Thereafter	149,460	208,832
	$ 244,336	$ 228,000
Less: Amounts representing interest		143,200
Capital lease obligation		$ 84,800

Rent expense for educational facilities and office space amounted to $22,174,000 and $23,268,000 during the years ended 2009 and 2008, respectively. Certain of these leases provide for an option to purchase these properties at fair value.

In fiscal 1993, the University commenced leasing a 180,000-square-foot biomedical research facility under a 25-year noncancelable lease requiring minimum annual lease payments of approximately $3,276,000, which are included in the table above. The building was constructed at a cost of $41,500,000 by a trust of which the University is a 50% beneficiary. The trust had outstanding debt of $17,503,000 at June 30, 2009.

In fiscal 2000, the University commenced leasing a portion of a 171,000-square-foot biomedical research facility. The 30-year noncancelable lease of 69,000 square feet of space requires minimum annual lease payments of approximately $2,043,000, which are included in the table above. The building was constructed at a cost of $52,132,000 by a trust of which the University is a 50% beneficiary. As of June 30, 2009, the trust had outstanding debt of approximately $19,405,000.

In fiscal 2000, the University commenced leasing 50% of a 1,000-space parking garage under a 20-year noncancelable lease requiring minimum annual lease payments of $758,000, which are included in the table above. The garage was constructed at a cost of $18,187,000 by a nonprofit corporation of which the University has a 50% interest. As of June 30, 2009, the corporation had outstanding debt of approximately $12,100,000.

The University has leased a property under a 10-year noncanceable lease requiring minimum annual lease payments of $715,000, which are included in the table above. The building was constructed at a cost of approximately $9,105,000 by a real estate partnership of which the University owns 45%. As of June 30, 2009, the real estate partnership had outstanding debt of approximately $9,200,000.

On July 1, 1996, the University entered into a Support Agreement with the Boston Medical Center Corporation which was formed from the merger of Boston City Hospital and Boston University Medical Center Hospital. The commitment for fiscal year 2010 approximates $8,000,000.

During fiscal 2004, the University entered into a lease agreement for approximately 52,000 square feet of newly constructed office and research space in a 161,000-square-foot biomedical research facility at 670 Albany Street. During fiscal 2006, the University took occupancy and recorded a capital lease asset and obligation associated with this agreement. Future minimum lease payments under this agreement amount to approximately $58,345,000, to be paid over the 60-year term.

During fiscal 2006, the University entered into a lease agreement to occupy an additional 22,000 square feet of office and research space at 670 Albany Street. During fiscal 2007, the University took occupancy and recorded a capital lease asset and obligation associated with this agreement. Future minimum lease payments under this agreement amount to approximately $26,455,000, to be paid over the 60-year term.

In September 2003, the University received an award from the National Institutes of Health ("NIH") for the construction of a Level-4 National Emerging Infectious Diseases Laboratory ("NEIDL") to be located on the University's Medical Campus. This laboratory will be used by the University, Boston Medical Center, as well as other organizations to support the federal government's bio-defense effort. As part of this award, NIH will provide $141 million of the construction costs of the NEIDL. Boston University and Boston Medical Center will each provide $28.3 million toward construction, and will each receive a 50% equity interest in the NEIDL. As such, both parties have the right to share equally in the future operating activities of the laboratory. Whereas the University controls the activity associated with the award, the costs of construction have been recorded on the accompanying consolidated financial statements, and Boston Medical Center's 50% equity interest has been recorded as a minority interest liability. As of June 30, 2009, the University incurred expenditures of approximately $191,653,000 toward construction of the laboratory, of which $134,468,000 and $26,774,000 have been reimbursed to the University by NIH and Boston Medical Center, respectively. Based on the construction costs incurred and reimbursement received through June 30, 2009, $94,008,000 has been recorded as a minority interest liability on the University's financial statements, and $67,234,000 of the NIH reimbursement has been recorded as an increase to temporarily restricted net assets and will be released from restriction when the NEIDL is placed in service.

Audits of specific contracts and grants by the Department of Health and Human Services have been conducted on a periodic basis. The University believes that adverse determinations, if any, from audits by the Department of Health and Human Services or other agencies will not be material to the financial statements.

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

8. Statement of Cash Flows

Due to the September 2008 bankruptcy of Lehman Brothers Holdings Inc. (parent/guarantor of the University's swap counterparty Lehman Brothers Commercial Bank, LBCB), in October 2008 the University elected to simultaneously terminate all its LBCB swaps and enter into replacement swaps with a diverse group of new counterparties.

Included in the line item "Payment on swap termination," the $54.9 million termination amount paid to LBCB is reported on the consolidated statement of cash flows within Cash Flows from Operating Activities in accordance with the requirements of SFAS 95, "Statement of Cash Flows."

Included in the line item "Proceeds from replacement swap transactions," the $58.6 million offsetting amount received from the new counterparties is reported on the consolidated statement of cash flows within Cash Flows from Financing Activities in accordance with the requirements of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

On the consolidated statement of activities, the net gain of $3.7 million realized by the University as a result of the above transactions is recorded in the Nonoperating Revenues section in the line item "Other additions (deductions), net."

9. Subsequent Events

In September 2009, the University announced the receipt of two pledges totaling $20,000,000 of which $2,500,000 has been paid through September 2009. Subsequent events have been evaluated through October 22, 2009, which is the date the financial statements were available to be issued.

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