Boston University

Financial Statements
June 30, 2011 and 2010

BOSTON
UNIVERSITY

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") and its subsidiaries at June 30, 2011 and 2010, and the results of its changes in 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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 18, 2011

June 30, 2011 and 2010
($000)

	2011	2010
ASSETS		
Cash and cash equivalents (Note 2)	$ 549,949	$ 448,345
Cash and cash equivalents—restricted (Note 2)	75,936	127,815
Short-term investments (Note 2)	3,750	5,840
Accounts receivable, net of allowance (Note 4)	153,334	153,569
Pledges receivable, net of allowance (Note 4)	96,965	84,292
Prepaid expenses and other assets	86,707	83,230
Investment in residual asset note (Note 2)	42,789	38,457
Long-term investments (Note 2)	1,318,583	1,150,614
Property, plant, and equipment, net (Note 5)	1,912,833	1,851,596
Total assets	$ 4,240,846	$ 3,943,758
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 130,878	$ 125,763
Accounts payable and accrued expenses (Notes 5, 6, 7, and 8)	390,494	380,455
Deferred income and student deposits	115,852	102,149
Annuities payable	16,636	16,187
Minority interest (Note 8)		97,171
Capital lease obligation (Note 8)	84,579	84,692
Discounted note obligation (Note 2)	42,789	38,457
Bonds, notes, and mortgages payable, net of unamortized bond premium/discount (Note 6)	1,218,285	1,219,043
Total liabilities	1,999,513	2,063,917
Net assets:		
Unrestricted:		
Allocated for designated purposes	1,245,766	1,077,251
Available for general purposes	16,278	16,204
Total unrestricted	1,262,044	1,093,455
Temporarily restricted	590,651	422,002
Permanently restricted	388,638	364,384
Total net assets	2,241,333	1,879,841
Total liabilities and net assets	$ 4,240,846	$ 3,943,758

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

For the years ended June 30, 2011 and 2010
($000)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	$ 1,068,068	$	$	$ 1,068,068
Student aid	(278,565)			(278,565)
Sponsored programs	223,597			223,597
Recovery of facilities and administrative costs	159,261			159,261
Gifts	32,103	676		32,779
Sales and services	111,323			111,323
Spending formula amount and other investment income (Note 2)	8,279	26,997		35,276
Sponsored program income for student aid	16,456			16,456
Other income	12,319			12,319
Auxiliary enterprises	272,843			272,843
Student aid	(3,662)			(3,662)
Net assets released from restrictions	32,440	(32,440)		
Contributions used for operations		4,619		4,619
Total operating revenues	1,654,462	(148)		1,654,314
OPERATING EXPENSES				
Instruction and departmental research	753,828			753,828
Educational support activities	121,980			121,980
Sponsored programs	223,597			223,597
Libraries	25,723			25,723
General and administrative	168,614			168,614
Student aid	14,761			14,761
Auxiliary enterprises	243,247			243,247
Total operating expenses	1,551,750			1,551,750
Net operating gain (loss)	102,712	(148)		102,564
NONOPERATING REVENUES AND (EXPENSES)				
Contribution revenue		22,853	21,482	44,335
Contributions used for operations		(4,619)		(4,619)
Spending formula amount and other investment income (Note 2)	2,535	2,913	28	5,476
Excess of investment return over spending formula amount (Note 2)	63,305	78,251	1,936	143,492
Net realized and unrealized losses on interest rate exchange agreements (Note 6)	(438)			(438)
Transfer of minority interest (Note 8)		70,013		70,013
Change in value of designated non-core institutional real estate (Note 2)	(2,552)			(2,552)
Post-retirement related changes other than net periodic pension cost (Note 7)	(2,127)			(2,127)
Other additions (deductions), net	5,154	(614)	808	5,348
Net nonoperating income (loss)	65,877	168,797	24,254	258,928
Change in net assets	168,589	168,649	24,254	361,492
Beginning net assets	1,093,455	422,002	364,384	1,879,841
Ending net assets	$ 1,262,044	$ 590,651	$ 388,638	$ 2,241,333

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

2010 Unrestricted	2010 Temporarily Restricted	2010 Permanently Restricted	2010 Total	
				OPERATING REVENUES
$ 1,004,002	$	$	$ 1,004,002	Student tuition and fees
(260,793)			(260,793)	Student aid
224,011			224,011	Sponsored programs
155,405			155,405	Recovery of facilities and administrative costs
32,134	619		32,753	Gifts
109,098			109,098	Sales and services
6,963	25,059		32,022	Spending formula amount and other investment income (Note 2)
15,510			15,510	Sponsored program income for student aid
23,518			23,518	Other income
260,232			260,232	Auxiliary enterprises
(3,402)			(3,402)	Student aid
30,116	(30,116)			Net assets released from restrictions
	4,133		4,133	Contributions used for operations
1,596,794	(305)		1,596,489	**Total operating revenues**
				OPERATING EXPENSES
735,460			735,460	Instruction and departmental research
107,578			107,578	Educational support activities
224,011			224,011	Sponsored programs
23,673			23,673	Libraries
164,103			164,103	General and administrative
13,223			13,223	Student aid
220,587			220,587	Auxiliary enterprises
1,488,635			1,488,635	**Total operating expenses**
108,159	(305)		107,854	**Net operating gain (loss)**
				NONOPERATING REVENUES AND (EXPENSES)
	13,790	48,051	61,841	Contribution revenue
	(4,133)		(4,133)	Contributions used for operations
1,644	3,001	18	4,663	Spending formula amount and other investment income (Note 2)
29,754	41,504	513	71,771	Excess of investment return over spending formula amount (Note 2)
(67,000)			(67,000)	Net realized and unrealized losses on interest rate exchange agreements (Note 6)
				Transfer of minority interest (Note 8)
(5,358)			(5,358)	Change in value of designated non-core institutional real estate (Note 2)
(4,215)			(4,215)	Post-retirement related changes other than net periodic pension cost (Note 7)
8,772	2,079	1,334	12,185	Other additions (deductions), net
(36,403)	56,241	49,916	69,754	**Net nonoperating income (loss)**
71,756	55,936	49,916	177,608	**Change in net assets**
1,021,699	366,066	314,468	1,702,233	Beginning net assets
$ 1,093,455	$ 422,002	$ 364,384	$ 1,879,841	**Ending net assets**

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

For the years ended June 30, 2011 and 2010 ($000)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$361,492	$177,608
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	82,758	88,426
Gain on disposal of property and equipment	(1,841)	
Loss on debt extinguishment		541
Change in value of designated non-core institutional real estate.	2,552	3,629
Transfer of minority interest (Note 8)	(70,013)	
Unrealized (gains) losses on interest rate exchange agreements	(24,811)	41,229
Settlement on swap replacement transactions, net	15,781	17,083
Amortization of bond premium/discount	(213)	(205)
Amortization of capital lease obligation	(113)	(109)
Net realized and unrealized gains on investments	(164,617)	(96,526)
Provision for bad debts	1,760	3,495
Restricted and temporarily restricted contributions	(19,623)	(19,545)
Gifts of securities and property	(5,673)	(8,149)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(2,388)	502
Increase in pledges receivable	(13,110)	(36,212)
Increase in prepaid expenses and other assets	(3,477)	(4,315)
Increase (decrease) in accounts payable, accrued expenses, and minority interest (Note 8)	6,722	(1,971)
Increase in accrued payroll and related expenses	5,115	7,900
Increase in deferred income and student deposits	13,703	3,971
Net cash provided by operating activities	184,004	177,352
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(284,069)	(381,066)
Proceeds from sales and maturities of investments	283,991	396,788
Purchases of property and equipment	(139,425)	(96,741)
Proceeds from sale of gifts of securities	3,184	8,149
Decrease (increase) in cash equivalents-restricted	51,879	(11,968)
Net cash used in investing activities	(84,440)	(84,838)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of bonds, notes, and mortgages	(5,385)	(120,957)
Increase (decrease) in annuity obligations	449	(95)
Bond issuance costs		(782)
Payments from short-term borrowings		(42,500)
Proceeds from bonds and notes payable		117,370
Restricted contributions	19,623	19,545
Payment on swap replacement transactions, net	(15,781)	(17,083)
Net cash used in financing activities	(1,094)	(44,502)
Unrealized loss (gain) on currency exchange	3,134	(4,314)
Net increase in cash and cash equivalents	101,604	43,698
Cash and cash equivalents beginning of year	448,345	404,647
Cash and cash equivalents end of year	$549,949	$448,345
Supplemental disclosure of non-cash information:		
Property and equipment included in accounts payable	$ 10,353	$ 9,382

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

1. Organization and Summary of Significant Accounting Policies

Organization:
Boston University ("the University") is an independent, nonprofit, coeducational, nonsectarian institute of higher education, founded in 1839 and chartered under the laws of the Commonwealth of Massachusetts on May 26, 1869. The University has two principal campuses, its Charles River Campus located in Boston's Back Bay and its Medical Campus located in the South End of Boston, offering students more than 250 areas of study in 16 schools and colleges.

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

Summary of Significant Accounting Policies:

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

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

Certain June 30, 2010 balances previously reported have been reclassified to conform to the June 30, 2011 presentation.

Net Asset Classification:
Net assets, revenues, and realized and unrealized gains and losses are classified based on the existence or absence of donor-imposed restrictions and legal restrictions under Massachusetts General Law. Accordingly, net assets and changes to net assets are classified as follows:

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 temporarily restricted net assets as of June 30, 2011 and 2010, in thousands of dollars, is as follows:

	2011	2010
Net realized and unrealized gain on endowment	$ 365,351	$ 288,521
Life income and annuity funds	17,944	13,934
Contributions receivable, net	54,792	40,918
Contributions restricted for plant	152,225	78,197
Other contributions	339	432
	$ 590,651	$ 422,002

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 permanently restricted net assets as of June 30, 2011 and 2010, in thousands of dollars, is as follows:

	2011	2010
Endowment funds	$ 323,226	$ 297,377
Contributions receivable, net	42,173	43,374
Donor funds restricted for student loans	23,239	23,633
	$ 388,638	$ 364,384

Collections:
The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the Consolidated 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. Proceeds from dispositions 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.

Use of Estimates:
The preparation of consolidated 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 consolidated 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.

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

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 bond trustees that will be drawn down to fund various capital projects and costs of issuance. Collateral posted with counterparties under the terms of certain interest rate exchange agreements is also included in cash and cash equivalents-restricted.

Accounts Receivable:
Notes and loans receivable included in accounts receivable are principally amounts due from students under federally sponsored programs that are subject to significant restrictions. Accordingly, it is not practical to determine the fair value of such amounts.

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. 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.

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. The University's ownership interest in these partnerships has been recorded within long-term investments on the Consolidated Statement of Financial Position.

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

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 at the present value of estimated future payments to the donors and beneficiaries under these agreements. The liabilities are adjusted during the term of the annuities to reflect actuarial gains and losses.

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.

Property, Plant, and Equipment:
Maintenance and repairs are expensed as incurred and improvements that increase the useful life of the asset are capitalized. When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and gains and losses are included in non-operating activity in the Consolidated 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 recognized in an amount by which the asset's net book value exceeds its estimated fair value.

Land, buildings, equipment, and library book acquisitions are shown at cost or fair value at the date a gift was received. Costs associated with the construction of new facilities are shown as additions to construction in progress when expended, until such projects are completed. Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University acquired equipment or other assets of approximately \$5,627,000 in 2011 and \$8,685,000 in 2010 through the use of federal funds. In most cases, the University continues to maintain the assets after the granting agreement expires.

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; University buildings used in sponsored research activities, 12 to 50 years, by using the distinct useful lives for each major building component; equipment, 2 to 20 years; and library books, 10 years.

Depreciation for the years ended June 30, 2011 and 2010 was \$82,758,000 and \$88,426,000, respectively.

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

The asset retirement obligation at June 30, 2011 and 2010 was \$12,762,000 and \$12,238,000, respectively, and is included in accounts payable and accrued expenses in the Consolidated Statements of Financial Position.

Student Aid:
Student aid in the amount of $278,565,000 and $260,793,000 for the years ended June 30, 2011 and 2010, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $3,662,000 and $3,402,000 for the years ended June 30, 2011 and 2010, 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 $14,761,000 and $13,223,000 for the years ended June 30, 2011 and 2010, respectively, has been classified as an operating expense.

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.

Gifts:
Gifts, including unconditional promises to give, are recorded upon receipt. Gifts other than cash are recorded at fair value at the date of contribution. 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.

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

	2011	2010
Operation and maintenance of plant	$ 94,315	$ 96,795
Interest on indebtedness	36,338	34,727
Depreciation expense	82,758	88,426

Nonoperating Activities:
Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be received in the future, gains and losses on interest rate exchange agreements, the excess of investment returns over the spending formula amount, post-retirement related changes other than net periodic pension cost, and certain other nonrecurring activities.

2. Investments

Total investments by type as of June 30, 2011 and 2010, in thousands of dollars, were as follows:

Summary by Investment Type	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Money Market	$ 625,885	$ 625,885	$ 576,160	$ 576,160
Fixed Income	70,522	70,870	73,770	79,583
Global Equities	274,672	359,410	251,813	275,267
Marketable Alternatives	223,483	275,458	176,022	195,428
Non-Marketable Alternatives	230,972	211,350	254,148	224,107
Real Assets	416,250	405,245	393,618	382,069
Other	42,789	42,789	38,457	38,457
Total	$1,884,573	$ 1,991,007	$1,763,988	$ 1,771,071

Money market investments totaling $625,885,000 and $576,160,000 as of June 30, 2011 and 2010, respectively, included in the table above represent cash and cash equivalents and cash and cash equivalents-restricted as reported on the Consolidated Statement of Financial Position.

As of June 30, 2011, investment commitments to venture capital limited partnerships and private equity funds are approximately $94,698,000 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.

Non-Core Institutional Real Estate:
The University records its investments in designated non-core institutional real estate at fair value. Designated non-core institutional real estate was $243,959,000 and $241,414,000 as of June 30, 2011 and 2010, respectively, and is reflected in the real assets category of long-term investments. Designated non-core institutional real estate is valued by management based on information from commercial and residential brokers, appraisers, and published industry data.

Residual Asset Note:
In June 2006, the University securitized its interest in an investment banking partnership that 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 $88,227,000, the aggregate amount of scheduled cash flows to be received between 2007 and 2021. The purchase price of the note was $25,244,000 and is non-recourse to the University. As of June 30, 2011 and 2010, the carrying value of the discounted note obligation was $42,789,000 and $38,457,000, respectively.

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 Consolidated 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 is amortized over its scheduled maturity using the effective interest method and the note obligation decreases as future residual cash flows are received. Future unrealized gains and losses associated with the investment are 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 $54,300,000 in 2014, declining thereafter to a balance of zero in 2021. Upon expected extinguishment of the note in 2021, the University remains the beneficiary of $39,700,000 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. Management considers the risk is remote for any disruption of future cash flows, as the two principal risks that could cause a disruption have been assumed by DBLF.

Investment Return:
The following summarizes, in thousands of dollars, the investment return, as reflected in the Consolidated Statement of Activities:

As of June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 1,423	$ 18,176	$ 28	$ 19,627
Net realized and unrealized gains	72,696	89,985	1,936	164,617
Total return on investments	74,119	108,161	1,964	184,244
Less: Spending formula amount	(7,697)	(29,910)		(37,607)
Less: Other non-endowment income	(3,117)		(28)	(3,145)
	(10,814)	(29,910)	(28)	(40,752)
Excess of investment return over spending formula amount	$ 63,305	$ 78,251	$ 1,936	$ 143,492

As of June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 7	$ 11,904	$ 18	$ 11,929
Net realized and unrealized gains	38,354	57,660	513	96,527
Total return on investments	38,361	69,564	531	108,456
Less: Spending formula amount	(7,425)	(28,060)		(35,485)
Less: Other non-endowment income	(1,182)		(18)	(1,200)
	(8,607)	(28,060)	(18)	(36,685)
Excess of investment return over spending formula amount	$ 29,754	$ 41,504	$ 513	$ 71,771

Fair Value Measurements:

The University has valued its investments using a hierarchy of inputs based on the extent to which 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy used to value investments is 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 University's criteria for classifying assets and liabilities measured at fair value are as follows:

- Level 1—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.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as 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. In evaluating the level at which the University's externally managed investments have been classified within this hierarchy, management has assessed factors including, but not limited to price transparency, the ability to redeem these investments at net asset value at the measurement date, and the existence or absence of certain restrictions at the measurement date.
- Level 3—Valuation techniques that use 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.

Investments included in Level 3 primarily are the University's ownership in alternative investments (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 significant due diligence around these investments to verify NAV is an appropriate measure of fair value as recorded on 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 to validate extended quotations, 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 be corroborated by market data and are therefore 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 tables present the financial instruments carried at fair value as of June 30, 2011 and 2010 categorized by the valuation hierarchy defined above, in thousands of dollars:

As of June 30, 2011	Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value				
Money Market	$ 625,885	$	$	$ 625,885
Fixed Income	70,870			70,870
Global Equities & Convertibles	98,060	244,499	16,851	359,410
Marketable Alternatives	14,886	216,084	44,488	275,458
Non-Marketable Alternatives			211,350	211,350
Real Assets	38,219	158,083	208,943	405,245
Other		42,789		42,789
Total Investments:	$ 847,920	$ 661,455	$ 481,632	$ 1,991,007
Split-interest agreements held by third parties			4,276	4,276
Total assets at fair value	$ 847,920	$ 661,455	$ 485,908	$ 1,995,283
Liabilities at fair value				
Interest rate exchange liabilities	$	$ 169,132	$	$ 169,132
Total liabilities at fair value	$	$ 169,132	$	$ 169,132

As of June 30, 2010	Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value				
Money Market	$ 576,160	$	$	$ 576,160
Fixed Income	79,583			79,583
Global Equities & Convertibles	92,147	173,651	9,469	275,267
Marketable Alternatives		95,266	100,162	195,428
Non-Marketable Alternatives			224,107	224,107
Real Assets	41,061	152,674	188,334	382,069
Other		38,457		38,457
Total Investments:	$ 788,951	$ 460,048	$ 522,072	$ 1,771,071
Split-interest agreements held by third parties			3,980	3,980
Total assets at fair value	$ 788,951	$ 460,048	$ 526,052	$ 1,775,051
Liabilities at fair value				
Interest rate exchange liabilities	$	$ 193,943	$	$ 193,943
Total liabilities at fair value	$	$ 193,943	$	$ 193,943

The following tables are a rollforward of the Consolidated Statement of Financial Position amounts for financial instruments as of June 30, 2011 and June 30, 2010 classified by the University within Level 3 of the fair value hierarchy defined above, in thousands of dollars:

	Fair value July 1, 2010	Realized Gains/(losses)	Unrealized Gains/(losses)	Net purchases and sales	Reclassification (to) from Level 2	Fair value June 30, 2011
Global Equities & Convertibles	$ 9,469	$ 8,439	$ (1,153)	$ (7,063)	$ 7,159	$ 16,851
Marketable Alternatives	100,162	(930)	27,358	31,278	(113,380)	44,488
Non-Marketable Alternatives	224,107	13,839	11,786	(38,382)		211,350
Real Assets	188,334	3,187	7,988	9,434		208,943
Total Investments	$522,072	$24,535	$ 45,979	$ (4,733)	$(106,221)	$ 481,632
Split-interest agreements held by third parties	$ 3,980	$	$ 296	$	$	$ 4,276

	Fair value July 1, 2009	Realized Gains/(losses)	Unrealized Gains/(losses)	Net purchases and sales	Reclassifications to Level 2	Fair value June 30, 2010
Global Equities & Convertibles	$ 26,797	$ 13	$ 557	$ 2,731	$ (20,629)	$ 9,469
Marketable Alternatives	121,060	(1,640)	15,022	19,915	(54,195)	100,162
Non-Marketable Alternatives	216,967	24,911	8,454	(26,225)		224,107
Real Assets	218,725	(9,053)	4,382	8,491	(34,211)	188,334
Total Investments	$583,549	$14,231	$ 28,415	$ 4,912	$(109,035)	$ 522,072
Split-interest agreements held by third parties	$ 3,692	$	$ 288	$	$	$ 3,980

The net realized and unrealized gains (losses) in the table above are reflected in excess of investment return over spending formula amount in the accompanying Consolidated Statement of Activities. Net unrealized gains (losses) relate to those financial instruments held by the University at June 30, 2011 and June 30, 2010. Reclassifications into Level 2 are included as of June 30, 2011 and June 30, 2010. Reclassifications from Level 3 to Level 2 primarily relate to the release of lockup features of marketable alternatives.

As of June 30, 2011, the University recorded a transfer from Level 2 to Level 1 in the amount of $14,886,000 due to receipt of redemption proceeds subsequent to year end.

The University adopted the Fair Value Measurements standard for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with U.S. GAAP. As a practical expedient, the University is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with U.S. GAAP. The University's investments in private equity, real estate, and marketable alternatives are fair valued based on the most current NAV.

The University has adopted a policy that defines near-term liquidity as those investments allowing liquidity within twelve months of the reporting period. Included in Level 2 are assets valued at NAV which are redeemable in the near term. Investments offering periodic transparency with opportunities for liquidity within twelve months of the reporting period generally consist of commingled funds and are reported in Level 2.

The following tables summarize all such investments recorded at NAV categorized based on the risk and return characteristics of the investments at June 30, 2011 and June 30, 2010 in thousands of dollars.

As of June 30, 2011	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equities	$ 261,350	$	Monthly–Annually	7–92 Days
Real Assets	41,309		Daily–Annually	60 Days
Marketable Alternatives	260,572		Quarterly–Tri-Annually	45–180 Days
Non-Marketable Alternatives	181,051	64,311	At Maturity	N/A
Real Assets	81,758	30,387	At Maturity	N/A
	$ 826,040	$ 94,698		

As of June 30, 2010	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equities	$ 183,003	$ 6,000	Monthly–Annually	15–92 Days
Real Assets	52,720		Daily–Annually	4–60 Days
Marketable Alternatives	195,428		Quarterly–Tri-Annually	30–180 Days
Non-Marketable Alternatives	195,433	81,059	At Maturity	N/A
Real Assets	61,056	40,724	At Maturity	N/A
	$ 687,640	$ 127,783		

The University's investments are guided by the asset allocation policies established by the Investment Committee of the Board of Trustees and implemented primarily through external investment managers. These investments may be held in separately managed accounts, Exchange Traded Funds (ETF's), commingled funds, and limited partnerships. Global Equity Funds are investments with managers pursuing strategies focusing on equity securities across global markets. Real Asset Funds invest in public equity and commodity markets. Marketable Alternative managers pursue various strategies, both long and short, that attempt to provide equity-like returns with lower volatility. Private Equity Funds pursue buyout, growth capital, venture capital, and private real asset strategies. Private Real Estate Funds pursue various real estate ownership strategies.

3. Endowment Funds

A pooled endowment fund is included as part of the University's investments. Total endowment assets at June 30, 2011 and 2010 are $1,194,164,000 and $1,022,401,000 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. During the fiscal years ended June 30, 2011 and 2010, the distribution as a percentage of the ending fair value of the pooled endowment fund for the five preceding quarters was 3.5% and 3.8% respectively.

At June 30, 2011 and 2010, respectively, approximately $383,000 and $2,385,000 of unrealized losses on permanently restricted endowment funds were classified as a reduction in unrestricted net assets as the fair value of these funds was less than their book value. Unrestricted net assets will be replenished when the fair value equals or exceeds the book value.

Net asset classification of donor-restricted endowment funds for a not-for-profit organization is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). The Commonwealth of Massachusetts adopted UPMIFA effective for institutional funds existing on or established after 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 University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University 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, 2011, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$ (383)	$ 383,295	$ 323,226	$ 706,138
Institution Designated	437,772			437,772
Endowment Net Assets at end of year	$ 437,389	$ 383,295	$ 323,226	$ 1,143,910

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2011, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at beginning of year	$ 368,059	$ 302,454	$ 297,377	$ 967,890
Reclassification of Net Assets	2,002	(2,002)		
Endowment Net Assets after reclassification	370,061	300,452	297,377	967,890
Investment income	1,440	1,573		3,013
Net appreciation (realized and unrealized)	60,538	80,253	1,936	142,727
Total Investment return	61,978	81,826	1,936	145,740
Gifts	3,107	1,161	22,398	26,666
Other changes	633	(144)	1,515	2,004
Institutional transfers from other funds	1,610			1,610
Endowment Net Assets at end of year	$ 437,389	$ 383,295	$ 323,226	$ 1,143,910

The following table represents endowment net asset composition by type of fund as of June 30, 2010, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$ (2,385)	$ 302,454	$ 297,377	$ 597,446
Institution Designated	370,444			370,444
Endowment Net Assets at end of year	$ 368,059	$ 302,454	$ 297,377	$ 967,890

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2010, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at beginning of year	$ 336,131	$ 257,100	$ 276,538	$ 869,769
Reclassification of Net Assets	2,803	(2,803)		
Endowment Net Assets after reclassification	338,934	254,297	276,538	869,769
Investment income	1,416	1,693		3,109
Net appreciation (realized and unrealized)	25,790	44,307	513	70,610
Total Investment return	27,206	46,000	513	73,719
Gifts	1,785	1,324	19,276	22,385
Other changes	171	833	1,050	2,054
Institutional transfers from other funds	(37)			(37)
Endowment Net Assets at end of year	$ 368,059	$ 302,454	$ 297,377	$ 967,890

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2011 and 2010, in thousands of dollars, consist of the following:

	2011	2010
Accounts receivable, net:		
Students	$ 15,862	$ 15,072
Less allowances	(6,320)	(6,069)
	9,542	9,003
Grants and contracts	47,169	41,588
Departmental sales, services, and other	31,650	39,474
Less allowances	(7,855)	(6,981)
	70,964	74,081
Student loans	76,066	73,525
Less allowances	(3,238)	(3,040)
	72,828	70,485
Total	$ 153,334	$ 153,569

Total allowances for doubtful accounts as of June 30, 2011 and 2010 are $17,413,000 and $16,090,000, respectively.

The University recorded an allowance for doubtful accounts of $3,238,000 and $3,040,000 as of June 30, 2011 and 2010, respectively, related to student loan receivables of $76,066,000 and $73,525,000 as of June 30, 2011 and 2010, respectively. Federally-sponsored student loans receivable represents a significant portion of the loan portfolio, $46,872,000 and $46,157,000 as of June 30, 2011 and 2010, respectively, which consist of amounts due from current and former students under various Federal Government loan programs, including Perkins and other health professional programs offered to graduate and undergraduate students. The University has the right to assign loans disbursed under these programs to the Federal Government upon default by the borrower; and therefore, no allowance has been provided for these loans.

For the remainder of the loan portfolio, the University regularly assesses the adequacy of the allowance for doubtful accounts related to student loans receivable by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan program, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University also performs a detailed review of the aging of the student loan receivables balances and of the default rate by loan program in comparison to prior years. The level of the allowance is adjusted based on the results of this analysis.

The University considered the allowance recorded at June 30, 2011 and 2010 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Included in accounts receivable at June 30, 2011 and 2010 is $768,000 and $2,099,000 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, 2011 and 2010, to certain employees. The aggregated amount as of June 30, 2011 and 2010 is $5,521,000 and $4,464,000, respectively.

Pledges Receivable:

Pledges, net of discounts and allowances, in the amount of $96,965,000 and $84,292,000, are recorded as a receivable with the revenue assigned to the appropriate net asset category for fiscal years 2011 and 2010, respectively. Pledges consist of unconditional written promises to contribute to the University in the future. At June 30, 2011 and 2010, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2011	2010
In one year or less	$ 47,479	$ 32,330
Between one year and five years	52,406	53,432
More than five years	10,996	13,167
	110,881	98,929
Discount to present value	(8,372)	(9,530)
Less allowance for unfulfilled pledges	(5,544)	(5,107)
Pledges receivable	$ 96,965	$ 84,292

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2011 and 2010, in thousands of dollars, consist of the following:

	2011	2010
Land	$ 82,931	$ 69,060
Buildings and improvements	2,029,457	2,006,677
Construction in progress	358,836	319,211
Equipment	267,757	224,723
Library books	162,175	152,400
	2,901,156	2,772,071
Less accumulated depreciation	(988,323)	(920,475)
Property, plant, and equipment, net	$1,912,833	$1,851,596

As of June 30, 2011 and 2010, buildings and improvements include $84,642,000 associated with office and research space under capital lease.

Internally developed software costs related to an Enterprise Resource System implementation project of $26,680,000 and $12,289,000 were capitalized in fiscal year 2011 and 2010, respectively, and are included in construction in progress.

As of June 30, 2011 and 2010, capital expenditures of $198,288,000 and $197,426,000, respectively, were incurred for construction of the National Emerging Infectious Diseases Laboratory (NEIDL). These expenditures are included within construction in progress at June 30, 2011, and will be placed in service when the construction is complete and the project is ready for its intended use.

Certain fully depreciated equipment amounting to approximately $6,829,000 and $9,078,000 was removed from the Consolidated Statement of Financial Position in 2011 and 2010, respectively.

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, $51,295,000 and $48,482,000 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, 2011 and 2010, respectively.

6. Indebtedness

Bonds and Notes Payable:
The principal amounts of bonds and notes payable at June 30, 2011 and June 30, 2010, in thousands of dollars, are summarized in the table below. Tax exempt and certain taxable bonds were issued through the Massachusetts Development Finance Agency ("MDFA") and the Massachusetts Health and Educational Facilities Authority ("HEFA") prior to its merger into MDFA.

	Final Bond Maturity	Interest Rate at June 30, 2011	Outstanding Principal 2011	2010
Fixed Rate Bonds and Notes Payable				
MDFA Series P, blended fixed rate	5/15/59	5.63%	$ 100,000	$ 100,000
HEFA Series S, blended fixed rate	10/1/39	4.71%	35,000	35,000
MDFA Series T-1	10/1/39	5.00%	162,740	162,740
MDFA Series T-2 (Taxable)	10/1/30	5.27%	4,260	4,260
MDFA Series U-4	10/1/40	5.65%	50,000	50,000
MDFA Series V-1	10/1/29	5.00%	44,000	44,000
MDFA Series V-2	10/1/14	2.88%	63,170	63,170
MDFA Series V-3	10/1/14	2.88%	10,200	10,200
Century Notes (Taxable)	7/15/97	7.63%	100,000	100,000
Aetna Loan (Taxable)	9/15/18	10.20%	5,569	6,044
Various notes payable (Taxable)			5,398	4,604
Total Fixed Rate Bonds and Notes Payable			$ 580,337	$ 580,018
Variable Rate Bonds Payable				
HEFA Series E, Capital Asset Program	3/25/13	0.25%	$ 18,000	$ 18,000
HEFA Series H	12/1/29	0.04%	25,000	25,000
HEFA Series N (Taxable)	10/1/34	0.11%	132,450	133,400
MDFA Series U-1	10/1/40	0.05%	50,000	50,000
MDFA Series U-2	10/1/40	0.06%	50,000	50,000
MDFA Series U-3	10/1/40	0.06%	50,000	50,000
MDFA Series U-5A	10/1/31	0.04%	39,300	40,200
MDFA Series U-5B	10/1/31	0.03%	41,100	41,900
MDFA Series U-6A	10/1/42	0.69%	62,850	62,850
MDFA Series U-6C	10/1/42	0.04%	52,545	52,545
MDFA Series U-6E	10/1/42	0.06%	62,695	62,695
Royal Bank of Scotland (Taxable)	8/15/29	1.24%	43,877	42,091
Total Variable Rate Bonds Payable			$ 627,817	$ 628,681
Total Bonds and Notes Payable			$1,208,154	$1,208,699
Net Unamortized Bond Premium and Discount			10,131	10,344
Total Bonds and Notes Payable			$1,218,285	$1,219,043

Certain bond obligations are collateralized by a pledge on tuition revenues, and certain other notes payable are collateralized by plant and property with a book value before depreciation of $61,690,000 as of June 30, 2011. The University is also required to comply with certain annual financial covenants including a minimum level of debt service coverage and a minimum level of expendable resources relative to debt.

The fair value of the University's bonds at June 30, 2011 and 2010 is approximately $1,192,383,000 and $1,213,581,000, respectively. The fair value of debt is estimated by discounting the future scheduled payments using current interest rates for similar debt issues.

Interest payments of approximately $35,632,000 and $33,764,000 were made in fiscal years 2011 and 2010, respectively. These amounts are net of $505,000 and $607,000, in fiscal years 2011 and 2010 respectively, in interest capitalized as a cost of construction.

Scheduled principal payments on notes, bonds, and capital lease obligations, in thousands of dollars, are presented in the table below. Capital lease obligations totaled $84,579,000 at June 30, 2011.

Year	Scheduled Principal Maturities
2012	$ 4,976
2013	23,204
2014	5,473
2015	79,273
2016	5,791
Thereafter	1,174,016
Total	$1,292,733

The scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. The table above, and the variable rate demand bonds below, reflect the impact of the debt issued in August 2011 as described in Note 10.

The University's debt, taking into account the refinancing transaction subsequent to year end described in Note 10, includes variable rate demand bonds ("VRDBs") of $403,090,000 that are supported by irrevocable letters of credit ("LOCs"). The LOCs are provided by a diverse group of financial institutions to secure bond repayment and interest obligations and have various maturity dates between May 2012 and July 2015. In the event that a VRDB cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to the University to fund redemption of the bond. If all outstanding VRDBs were to be put as of July 1, 2011, aggregate scheduled repayments under the VRDB related LOCs would be as follows: $94,223,000, $123,547,000, $123,547,000, and $61,773,000 in 2012, 2013, 2014, and 2015, respectively. As of June 30, 2011, the University has used VRDBs backed by bank LOCs for over 25 years during which time there have been no instances where a bond failed to be remarketed and was put back to the University.

In January 2011, the University closed a private direct purchase of its Series U6-A variable rate demand bonds. The $62,850,000 direct purchase transaction has an initial term of three years.

In September 2010, the University extended the maturity date of the $18,000,000 HEFA Capital Asset Program Loan, Series E variable rate bonds from April 1, 2011 to March 25, 2013.

In December 2009, the University issued its Series V-1, V-2, and V-3 fixed rate MDFA Revenue Bonds in the aggregate amount of $117,370,000. Proceeds from the Series V bonds were used to fund a partial redemption of Series H variable rate bonds in the amount of $44,000,000, a full redemption of Series U-6B and U-6D variable rate bonds, and to pay certain transaction expenses. The Series V refinancings were executed to reduce bank risk associated with LOCs supporting the refunded portion of Series H, Series U-6B, and Series U-6D and to increase the fixed rate component of the University's debt portfolio. An amount of $541,000 consisting of the remaining unamortized bond issuance cost relative to the refunded Series U-6B and U-6D bonds is reflected as a deduction in the "Other additions (deductions)" line of the Consolidated Statement of Activities. The University capitalized $782,000 of bond issuance costs related to the Series V-1, V-2, and V-3 offering, which was capitalized in "Prepaid expenses and other assets" on the Consolidated Statement of Financial Position.

Bank Lines:
The University has $140,000,000 in committed 364-day lines of credit with five financial institutions. There were no outstanding loans under these lines of credit at June 30, 2011 and June 30, 2010, respectively.

Interest Rate Exchange Agreements:
The University has entered into various long-term interest rate exchange agreements to hedge all or a portion of the variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. At June 30, 2011, the University had interest rate exchange agreements in place with total notional amounts of $573,647,000 and with expiration dates through 2042, which require the University to make fixed rate interest payments in exchange for variable rate interest payments on the respective notional principal amounts. The variable rate payments received are expected to approximate the interest payable on the underlying variable rate debt. Scheduled reductions of the notional amounts of the interest rate exchange agreements also match the scheduled amortization of the underlying debt.

In connection with the December 2009 issuance of its Series V-2 and V-3 fixed rate bonds, the University entered into a fixed rate receiver swap with a notional amount of $73,370,000 and with a final maturity and reduction schedule matching the Series V-2 and V-3 bonds. This agreement was effected in order to offset a portion of the cost of the continuing long-term interest rate exchange agreements associated with the refunded bonds.

Below is a summary of the terms of the University's outstanding interest rate exchange agreements as of June 30, 2011, in thousands of dollars:

Interest Rate Exchange Agreement	Notional Amount	Effective Date	Termination Date	University Pays	University Receives
Series H	$ 25,000	10/30/1997	12/01/2027	5.28%	SIFMA*
Series N	24,170	10/30/1997	10/01/2027	6.79%	LIBOR*
Series U1–3	150,000	10/01/2007	10/01/2040	3.97%**	69% of 1-Mo. USD LIBOR*
Series U5	80,400	10/30/2001	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR*
Series U6	10,700	10/01/2002	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR*
Series U6, V	239,500	7/01/2008	10/01/2042	5.42%**	SIFMA*
Series V	73,370	12/04/2009	10/01/2014	SIFMA*	1.94%
Royal Bank of Scotland	43,877	8/15/2006	8/15/2029	5.65%	3-Mo. GBP LIBOR +45 basis points

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

The University is also a party to two fixed rate swaption agreements. A swaption agreement related to the Series S bonds in a notional amount of $35,000,000 gives the counterparty 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, will require the University to 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 amortization schedule of the Series S bonds. A swaption agreement related to the Series T bonds in a notional amount of $162,740,000 gives the counterparty 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, will require the University to 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 amortization schedule of the Series T bonds.

Interest rate exchange agreements, including the Series S and Series T swaption agreements, are recorded at an estimated fair value of $(169,132,000) and $(193,943,000) at June 30, 2011 and 2010, respectively, and are included in accounts payable and accrued expenses. The change in estimated fair value of $24,811,000 and of $(41,229,000) in 2011 and 2010, respectively, is included in nonoperating losses on interest rate exchange agreements. Valuations of the interest rate exchange agreements were provided by the counterparties and independently validated by the University based on a discounted cash flow methodology. The validated amounts were adjusted to reflect the risk of nonperformance. The total dollar adjustment for nonperformance is $11,147,000 and $12,108,000 at June 30, 2011 and 2010, respectively. The fair value of interest rate exchange agreements is included in level 2 within the valuation hierarchy defined in Note 2.

In fiscal years 2011 and 2010, the University paid net settlement costs on interest rate exchange agreements of $25,249,000 and $25,771,000 respectively. These net settlement costs have been recorded in nonoperating activities on the Consolidated Statement of Activities.

The University's interest rate exchange agreements necessarily involve counterparty credit exposure. The counterparties for the University's agreements are a diversified group of major financial institutions that meet the University's criteria for financial stability and creditworthiness. Interest rate exchange agreements provide for two-way collateral posting requirements intended to mitigate credit risk. At June 30, 2011 and 2010, the University was required to post collateral in the amounts of $41,625,000 and $60,502,000, respectively. Contractual bilateral collateral posting levels are based on counterparty public debt ratings; current University posting amounts could increase or decrease should the University's credit ratings change. Additionally, interest rate exchange contracts provide for early termination should either counterparty's credit ratings fall below investment grade.

7. Pension and Other Employee Benefits

Defined Contribution Plan:
The University funds retirement plan contributions to Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF), and Fidelity Investments for employees. 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 $57,936,000 in fiscal year 2011 and $54,667,000 in fiscal year 2010.

Pension and Other Post-retirement 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 fiscal year 2008. The remaining $3,723,000 of Plan assets was 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. During fiscal year 2010, the effective date of this change was adjusted; previously, the change applied to employees terminating from the University on or after July 1, 2009. The 2010 change will apply to any employee who terminates from the University on or after September 1, 2009. The University provides modest life insurance benefits to retirees in the plan as of January 1, 2007. The program change resulted in a decrease of the benefit liability to $14,710,000 in fiscal year 2011 from $15,806,000 in fiscal year 2010.

The Post-retirement Benefit Plan at June 30, 2011 and 2010, in thousands of dollars, consists of the following:

	Post-retirement Benefits	
	2011	**2010**
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 15,806	$ 14,740
Service cost		3
Interest cost	648	732
Plan amendments		384
Actuarial loss	775	2,335
Benefits paid	(2,519)	(2,388)
Settlements		
Benefit obligation at end of year	14,710	15,806
Change in Plan Assets		
Funded status	(14,710)	(15,806)
Net amount recognized	$ (14,710)	$ (15,806)
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities		
Current year actuarial loss	775	2,335
Amortization of actuarial loss	(2,122)	(1,978)
Current year prior service cost		384
Amortization of prior service credit	3,474	3,474
Total recognized in Statement of Activities	$ 2,127	$ 4,215
Amounts recognized in the Statement of Financial Position consist of:		
Accrued post-retirement benefit obligation	$ (14,710)	$ (15,806)
Amounts recognized in Unrestricted Net Assets consist of:		
Net actuarial loss	$ 13,519	$ 14,867
Prior service credit	(15,007)	(18,097)
	$ (1,488)	$ (3,230)
Weighted-average Assumptions as of June 30 used to determine benefit obligation		
Discount rate	4.45%	4.45%
Initial health care trend	9.50%	8.00%
Assumed health care trend in subsequent year	9.00%	7.50%
Ultimate health care trend	5.00%	5.00%
Years to reach ultimate	9	6

For measurement purposes, a 9.5% and 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011 and 2010, respectively, decreasing at .5% per year thereafter until an ultimate rate of 5% in 2020.

	Post-retirement Benefits	
	2011	**2010**
Components of Net Periodic Benefit Cost		
Service cost	$	$ 3
Interest cost	648	732
Amortization of prior service cost	(3,474)	(3,474)
Amortization of actuarial loss	2,122	1,978
Net periodic benefit cost	$ (704)	$ (761)
Weighted-average Assumptions as of June 30 used to determine net periodic cost		
Discount rate	4.45%	5.25%
Initial health care trend	8.00%	8.50%
Ultimate health care trend	5.00%	5.00%
Years to reach ultimate	6	7

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% Increase	1% Decrease
Effect on total of service and interest cost components	$ 26	$ (24)
Effect on post-retirement benefit obligation	575	(526)

There was no accumulated benefit obligation at the end of the fiscal year 2011 and 2010.

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 post-retirement benefit plan is in thousands of dollars, as follows:

	Post-retirement Benefits
Employer contributions	
2012 (expected)	$2,395
Expected benefit payments	
2012	2,395
2013	2,175
2014	2,034
2015	1,768
2016	1,531
2017–2021	4,872

8. Commitments and Contingencies

Leases:

The University is committed to minimum annual rent payments under several long-term non-cancellable operating and capital leases for educational and office space through fiscal year 2033. Amounts scheduled include options to extend capital leases through the year 2066, in thousands of dollars, are summarized below:

	Operating	Capital
2012	$ 23,723	$ 3,868
2013	23,722	3,868
2014	22,908	3,956
2015	21,645	3,956
2016	21,425	4,021
Thereafter	165,340	200,855
	$ 278,763	$ 220,524
Less: Amounts representing interest		135,945
Capital lease obligation		$ 84,579

For the fiscal years 2011 and 2010 rent expense for educational facilities and office space was $24,670,000 and $24,328,000, respectively. Certain of these leases provide an option to purchase the properties at fair value.

The University has two leases recorded as capital lease obligations related to a biomedical research facility at 670 Albany Street. In fiscal year 2006, the University took occupancy of 52,000 square feet of newly constructed office and research space. Future minimum lease payments are approximately $57,811,000 to be paid over the 60-year term of the lease. In fiscal year 2007, the University took occupancy of an additional 22,000 square feet. Future minimum lease payments are approximately $26,768,000 to be paid over the 60-year term of the lease.

Joint Ventures:

The University entered into a 25-year non-cancellable operating lease for a biomedical research facility (Center for Advanced Biomedical Research) in fiscal 1993. Minimum annual lease payments of approximately $3,276,000 are included in the table above. The building was constructed at a cost of $41,500,000 and is owned by a trust of which the University is a 50% beneficiary. The trust had outstanding debt of $12,246,000 at June 30, 2011.

The University entered into a 30-year non-cancellable operating lease for a portion of a biomedical research facility (Evans Biomedical Research Building) in fiscal 2000. Minimum annual lease payments of approximately $2,043,000 are included in the table above. The building was constructed at a cost of $52,132,000 and is owned by a trust of which the University is a 50% beneficiary. The trust had outstanding debt of $18,747,000 at June 30, 2011.

The University entered into a 20-year non-cancellable operating lease of 50% of a parking garage at 710 Albany Street in fiscal 2000. Minimum annual lease payments of $758,000 are included in the table above. The garage was constructed at a cost of $18,187,000 and is owned by a non-profit corporation in which the University has a 50% interest. The corporation had outstanding debt of $10,500,000 at June 30, 2011.

The University entered into a 10-year non-cancellable operating lease of an office property in fiscal 2001. Minimum annual lease payments of approximately $1,277,000 are included in the table above. The building was constructed at a cost of approximately $9,105,000 and is owned by a real estate partnership of which the University owns 45%. The real estate partnership had outstanding debt of $9,200,000 at June 30, 2011.

Minority Interest:
In September 2003 the University received an award from the National Institutes of Health ("NIH") for the construction of a Biosafety Level (BSL) 4 National Emerging Infectious Diseases Laboratory ("NEIDL") on the University's Medical Campus. The NEIDL is to be used by the University, Boston Medical Center, and other organizations to support the federal government's bio-defense effort.

NIH committed $141,000,000 toward the construction cost of the NEIDL. The University and Boston Medical Center each committed $28,300,000 toward construction and each held a 50% equity interest in the project with the right to share equally in the future operating activities of the NEIDL. The University managed the NIH award and recorded the costs of construction on its consolidated financial statements in full, with Boston Medical Center's participation recorded as a minority interest liability. At June 30, 2010, the minority interest related to Boston Medical Center totaled $97,171,000 including its equity commitment and its pro-rata share of NIH funding of $69,789,000.

In May 2010, in accordance with the terms of the agreement between the University and Boston Medical Center, Boston Medical Center notified the University of its intent to withdraw from further participation in the NEIDL as of May 1, 2011. The agreement requires the University to repay Boston Medical Center's equity commitment, $29,063,000 as of June 30, 2011, over a period of between five and ten years, at an interest rate to be negotiated. At June 30, 2011, this repayment obligation is recorded within the University's accounts payable and accrued expenses as of June 30, 2011. As of May 1, 2011, Boston Medical Center's pro rata share of the NIH funding, $70,013,000, was transferred to the University and is included in temporarily restricted net assets.

Total construction costs were approximately $198,288,000 and $197,426,000 as of June 30, 2011 and June 30, 2010, respectively. NIH has reimbursed $140,625,000 and $139,578,000 as of June 30, 2011 and June 30, 2010, respectively. The University's share of costs funded by NIH of $140,625,000 as of June 30, 2011 and $69,789,000 as of June 30, 2010 has been recorded as an increase to temporarily restricted net assets and will be released from restriction when the NEIDL is placed in service.

Construction of the NEIDL was substantially completed in fiscal 2009. The use of the building has been delayed due to pending litigation challenging the environmental review process relating to the planned use of the building for BSL-4 research. The University has announced it is preparing to file a request for a waiver with the Massachusetts Executive Office of Energy and Environmental Affairs which, if granted, would allow BSL-2 and BSL-3 research in the NEIDL pending regulatory and court approval to conduct BSL-4 research.

Other:
As of June 30, 2011, the University has commitments of approximately $155,390,000, primarily related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flow, federal government grants, and borrowings.

The University has entered into a 10-year agreement to purchase $910,000 annually in natural gas for the University's East Campus Central Energy Plant. The agreement commenced in November 2010, upon the University successfully testing the supplier's connection to the East Campus Central Energy Plant.

The University entered into a support agreement with Boston Medical Corporation, which was formed from the merger of Boston City Hospital and Boston Medical Center Hospital, as of July 1, 1996. The University's commitment for fiscal year 2012 is approximately $8,000,000.

The University is a defendant in various legal actions arising in 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.

9. Statement of Cash Flows

Due to the September 2008 bankruptcy of Lehman Brothers Holding 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.

As reported on the Consolidated Statement of Cash Flows within cash flows from financing activities, the University paid net settlement costs of $15,781,000 and $17,083,000 related to the swap replacement transactions in fiscal year 2011 and 2010, respectively.

10. Subsequent Events

The University has assessed the impact of subsequent events through October 18, 2011, the date the Consolidated Financial Statements were issued, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements, other than the events described below.

In August 2011, the University issued $100,470,000 of Series W taxable fixed rate bonds with a final maturity in 2045. The interest rate is 5.2% per annum. Proceeds of the Series W were used to redeem $100,000,000 of Series N taxable variable rate bonds in September 2011.

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