

Boston University

Financial Statements
June 30, 2012 and 2011





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, 2012 and 2011, and its changes in net assets and 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

October 12, 2012

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011
(\$000)

	2012	2011
ASSETS		
Cash and cash equivalents (Note 2)	\$ 424,884	\$ 550,073
Cash and cash equivalents—restricted (Note 2)	208,020	75,936
Short-term investments (Note 2)	1,413	3,750
Accounts receivable, net of allowance (Note 4)	182,451	152,551
Pledges receivable, net of allowance (Note 4)	127,494	96,965
Prepaid expenses and other assets	89,572	82,035
Investment in residual asset note (Note 2)	47,622	42,789
Long-term investments (Note 2)	1,251,227	1,323,028
Property, plant, and equipment, net (Note 5)	2,010,516	1,912,833
Total assets	<u>\$ 4,343,199</u>	<u>\$ 4,239,960</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	\$ 109,249	\$ 130,877
Accounts payable and accrued expenses (Notes 5, 6, 7, and 8)	556,910	380,878
Deferred income and student deposits	120,349	124,583
Annuities payable	17,696	16,636
Capital lease obligation (Notes 6 and 8)	84,330	84,579
Discounted note obligation (Note 2)	47,622	42,789
Bonds, notes, and mortgages payable, net of unamortized bond premium/discount (Note 6)	1,246,633	1,218,285
Total liabilities	<u>2,182,789</u>	<u>1,998,627</u>
Net assets:		
Unrestricted	1,215,251	1,262,044
Temporarily restricted	521,813	590,651
Permanently restricted	423,346	388,638
Total net assets	<u>2,160,410</u>	<u>2,241,333</u>
Total liabilities and net assets	<u>\$ 4,343,199</u>	<u>\$ 4,239,960</u>

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

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2012 and 2011
(\$000)

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	\$ 1,123,800	\$	\$	\$ 1,123,800
Student aid	(280,801)			(280,801)
Sponsored programs	248,221			248,221
Recovery of facilities and administrative costs	125,896			125,896
Gifts	30,072			30,072
Sales and services	107,840			107,840
Spending formula amount and other investment income (Note 2)	11,285	24,444		35,729
Sponsored program income for student aid	14,257			14,257
Auxiliary enterprises	270,306			270,306
Student aid	(3,614)			(3,614)
Net assets released from restrictions	31,296	(31,296)		
Contributions used for operations		6,389		6,389
Total operating revenues	1,678,558	(463)		1,678,095
OPERATING EXPENSES				
Instruction and departmental research	779,046			779,046
Educational support activities	102,526			102,526
Sponsored programs	242,917			242,917
Libraries	28,684			28,684
General and administrative	201,437			201,437
Student support	15,537			15,537
Auxiliary enterprises	226,226			226,226
Total operating expenses	1,596,373			1,596,373
Net operating gain (loss)	82,185	(463)		81,722
NONOPERATING REVENUES AND (EXPENSES)				
Contribution revenue		34,631	24,726	59,357
Contributions used for operations		(6,389)		(6,389)
Spending formula amount and other investment income (Note 2)	1,584	1,227	1,874	4,685
Excess (deficit) of investment return over spending formula amount (Note 2)	(11,363)	(23,719)	(92)	(35,174)
Net realized and unrealized losses on interest rate exchange agreements (Note 6)	(187,452)			(187,452)
Transfer of non-controlling interest (Note 8)				
Change in value of designated non-core institutional real estate (Note 2)	7,970			7,970
Post-retirement related changes other than net periodic pension cost (Note 7)	(991)			(991)
Other additions (deductions) and transfers, net (Note 8)	61,274	(74,125)	8,200	(4,651)
Net nonoperating income (loss)	(128,978)	(68,375)	34,708	(162,645)
Change in net assets	(46,793)	(68,838)	34,708	(80,923)
Beginning net assets	1,262,044	590,651	388,638	2,241,333
Ending net assets	\$ 1,215,251	\$ 521,813	\$ 423,346	\$ 2,160,410

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,068,068	\$	\$	\$ 1,068,068
(278,565)			(278,565)
252,741			252,741
130,117			130,117
32,103	676		32,779
110,702			110,702
8,279	26,997		35,276
16,456			16,456
272,843			272,843
(3,662)			(3,662)
32,440	(32,440)		
	4,619		4,619
1,641,522	(148)		1,641,374
734,360			734,360
105,500			105,500
252,741			252,741
26,552			26,552
174,627			174,627
14,761			14,761
230,269			230,269
1,538,810			1,538,810
102,712	(148)		102,564
	22,853	21,482	44,335
	(4,619)		(4,619)
2,535	2,913	28	5,476
63,305	78,251	1,936	143,492
(438)			(438)
	70,013		70,013
(2,552)			(2,552)
(2,127)			(2,127)
5,154	(614)	808	5,348
65,877	168,797	24,254	258,928
168,589	168,649	24,254	361,492
1,093,455	422,002	364,384	1,879,841
\$ 1,262,044	\$ 590,651	\$ 388,638	\$ 2,241,333

OPERATING REVENUES

Student tuition and fees
Student aid
Sponsored programs
Recovery of facilities and administrative costs
Gifts
Sales and services
Spending formula amount and other investment income (Note 2)
Sponsored program income for student aid
Auxiliary enterprises
Student aid
Net assets released from restrictions
Contributions used for operations
Total operating revenues

OPERATING EXPENSES

Instruction and departmental research
Educational support activities
Sponsored programs
Libraries
General and administrative
Student support
Auxiliary enterprises
Total operating expenses

Net operating gain (loss)

NONOPERATING REVENUES AND (EXPENSES)

Contribution revenue
Contributions used for operations
Spending formula amount and other investment income (Note 2)
Excess (deficit) of investment return over spending formula amount (Note 2)
Net realized and unrealized losses on interest rate exchange agreements (Note 6)
Transfer of non-controlling interest (Note 8)
Change in value of designated non-core institutional real estate (Note 2)
Post-retirement related changes other than net periodic pension cost (Note 7)
Other additions (deductions) and transfers, net (Note 8)

Net nonoperating income (loss)

Change in net assets

Beginning net assets

Ending net assets

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended
June 30, 2012 and 2011
(\$000)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (80,923)	\$ 361,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	85,678	82,758
Loss (gain) on disposal of property and equipment	3,379	(1,841)
Change in value of designated non-core institutional real estate	(7,970)	2,552
Transfer of non-controlling interest (Note 8)		(70,013)
Unrealized losses (gains) on interest rate exchange agreements	162,140	(24,811)
Settlement on swap replacement transactions, net	15,916	15,781
Amortization of bond premium/discount	(215)	(213)
Amortization of capital lease obligation	(249)	(113)
Net realized and unrealized losses (gains) on investments	7,255	(167,448)
Provision for bad debts	1,349	1,760
Restricted and temporarily restricted contributions	(14,152)	(19,623)
Gifts of securities and property	(7,949)	(5,673)
Other non cash adjustments	6,914	
Changes in operating assets and liabilities:		
Increase in accounts receivable	(31,248)	(1,605)
Increase in pledges receivable	(30,529)	(13,110)
(Increase) decrease in prepaid expenses and other assets	(7,537)	1,195
Increase (decrease) in accounts payable, accrued expenses, and non-controlling interest (Note 8)	30,545	(2,895)
(Decrease) increase in accrued payroll and related expenses	(21,628)	5,115
(Decrease) increase in deferred income and student deposits	(4,235)	22,434
Net cash provided by operating activities	<u>106,541</u>	<u>185,742</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(200,173)	(284,069)
Proceeds from sales and maturities of investments	275,029	282,377
Proceeds from sale of property and equipment	699	
Purchases of property and equipment	(167,114)	(139,425)
Proceeds from sale of gifts of securities	5,722	3,184
(Increase) decrease in cash equivalents-restricted	(132,084)	51,879
Net cash used in investing activities	<u>(217,921)</u>	<u>(86,054)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds and notes payable	100,470	
Bond issuance costs	(469)	
Payment of bonds, notes and mortgages	(111,790)	(5,385)
Increase in annuity obligations	666	449
Restricted contributions	14,152	19,623
Payment on swap replacement transactions, net	(15,916)	(15,781)
Net cash used in financing activities	<u>(12,887)</u>	<u>(1,094)</u>
Unrealized loss (gain) on currency exchange	(922)	3,134
Net (decrease) increase in cash and cash equivalents	(125,189)	101,728
Cash and cash equivalents beginning of year	550,073	448,345
Cash and cash equivalents end of year	<u>\$424,884</u>	<u>\$550,073</u>
Supplemental disclosure of non-cash information:		
Property and equipment included in accounts payable	\$ 16,113	\$ 10,353
Acquisition of property and equipment through borrowings	\$ 12,114	\$
Conversion of accounts payable to notes payable	\$ 29,064	\$

For the years ended June 30, 2012 and 2011

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 2011 balances previously reported have been reclassified to conform to the 2012 presentation. During 2012, management identified three transactions incorrectly recorded in the prior year financial statements and corrected them in the 2012 financial statements. These adjustments included two net asset reclassifications and one reduction to temporarily restricted net assets, and have been included within the other additions (deductions) and transfers net line item on the 2012 Consolidated Statement of Activities. The net impact of these adjustments increased (decreased) the change in unrestricted, temporarily restricted, and permanently restricted net assets in 2012 by (\$28,100,000), \$18,100,000, and \$3,200,000, respectively. These adjustments are not considered material to the University's current or prior year financial statements.

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 in 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, 2012 and 2011, in thousands of dollars, is as follows:

	2012	2011
Net realized and unrealized gain on endowment . .	\$ 359,815	\$ 358,500
Life income and annuity funds	17,133	24,795
Contributions receivable, net.	72,612	54,793
Contributions restricted for plant	70,203	152,225
Loan funds and other contributions	2,050	338
	<u>\$ 521,813</u>	<u>\$ 590,651</u>

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.

For the years ended June 30, 2012 and 2011

The composition of permanently restricted net assets as of June 30, 2012 and 2011, in thousands of dollars, is as follows:

	2012	2011
Endowment funds	\$ 342,415	\$ 323,226
Contributions receivable, net	54,882	42,173
Donor funds restricted for student loans	26,049	23,239
	<u>\$ 423,346</u>	<u>\$ 388,638</u>

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 Statements 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.

For the years ended June 30, 2012 and 2011

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 Statements 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 monthly thereafter on a per-unit basis.

In January 2010, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU) No. 2010-6, Fair Value Measurement and Disclosure (Topic 820): Improving Disclosure about Fair Value Measurements. The amended disclosure requirements are effective for annual reporting periods beginning after December 15, 2010 and require a greater level of disaggregation of the Level 3 fair value measurements roll forward, among other requirements. Since the new guidance affects disclosure only, its adoption did not impact the University's Consolidated Statements of Financial Position, Consolidated Statements of Activities, or Consolidated Statements of Cash Flows.

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 activities in the Consolidated Statements 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 \$5,146,000 in 2012 and \$5,627,000 in 2011 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; software, 20 years; and library books, 10 years.

For the years ended June 30, 2012 and 2011

Depreciation for the years ended June 30, 2012 and 2011 was \$85,678,000 and \$82,758,000, 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 Statements of Activities.

The asset retirement obligation at June 30, 2012 and 2011 was \$13,151,000 and \$12,762,000, 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 \$280,801,000 and \$278,565,000 for the years ended June 30, 2012 and 2011, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of \$3,614,000 and \$3,662,000 for the years ended June 30, 2012 and 2011, respectively, has been classified as a reduction of auxiliary enterprises (room and board) revenue.

Student support in addition to tuition, fees, room and board in the amount of \$15,537,000 and \$14,761,000 for the years ended June 30, 2012 and 2011, 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 Statements of Activities. These expenses are comprised of, in thousands of dollars:

	2012	2011
Operation and maintenance of plant	\$ 92,850	\$ 94,315
Interest on indebtedness.	38,942	36,338
Depreciation expense.	85,678	82,758

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.

For the years ended June 30, 2012 and 2011

2. Investments

Total investments by type as of June 30, 2012 and 2011, in thousands of dollars, were as follows:

Summary by Investment Type	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents . .	\$ 632,904	\$ 632,904	\$ 626,009	\$ 626,009
Fixed Income	58,470	69,876	70,522	71,047
Global Equities	223,563	295,015	274,672	359,410
Marketable Alternatives	215,800	276,299	223,483	275,458
Non-Marketable Alternatives .	245,158	224,015	230,972	211,350
Real Assets	414,331	387,435	416,250	409,513
Residual Asset Note	47,622	47,622	42,789	42,789
Total	<u>\$1,837,848</u>	<u>\$ 1,933,166</u>	<u>\$1,884,697</u>	<u>\$ 1,995,576</u>

As of June 30, 2012, investment commitments to venture capital limited partnerships and private equity funds are approximately \$97,848,000 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 \$252,858,000 and \$243,959,000 as of June 30, 2012 and 2011, 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, 2012 and 2011, the carrying value of the discounted note obligation was \$47,622,000 and \$42,789,000, 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 Statements 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 future cash flows. Management considers the risk to be remote for any disruption of future cash flows, as the two principal risks that could cause a disruption have been assumed by DBLF.

For the years ended June 30, 2012 and 2011

Investment Return:

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

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income.	\$ 5,957	\$ 9,236	\$ 259	\$ 15,452
Net realized and unrealized (losses) gains	(4,451)	(7,284)	1,523	(10,212)
Total return on investments.	1,506	1,952	1,782	5,240
Less: Spending formula amount.	(12,710)	(25,671)	(1,874)	(40,255)
Less: Other non-endowment income	(159)			(159)
	<u>(12,869)</u>	<u>(25,671)</u>	<u>(1,874)</u>	<u>(40,414)</u>
Excess (deficit) of investment return over spending formula amount	<u>\$ (11,363)</u>	<u>\$ (23,719)</u>	<u>\$ (92)</u>	<u>\$ (35,174)</u>

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)
	<u>(10,814)</u>	<u>(29,910)</u>	<u>(28)</u>	<u>(40,752)</u>
Excess (deficit) of investment return over spending formula amount	<u>\$ 63,305</u>	<u>\$ 78,251</u>	<u>\$ 1,936</u>	<u>\$ 143,492</u>

Fair Value Measurements:

The University uses 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 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

For the years ended June 30, 2012 and 2011

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. 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.

- 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 Marketable Alternatives, Non-Marketable Alternatives, and Real Assets. Marketable Alternatives consist of hedge funds. Non-Marketable Alternatives consist of 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.

For the years ended June 30, 2012 and 2011

The following tables present the financial instruments carried at fair value as of June 30, 2012 and 2011 categorized by the valuation hierarchy defined above, in thousands of dollars:

<u>As of June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Assets at fair value				
Cash and				
Cash Equivalents	\$ 632,904	\$	\$	\$ 632,904
Fixed Income.	69,633	243		69,876
Global Equities				
& Convertibles	72,233	220,304	2,478	295,015
Marketable Alternatives. . .		248,109	28,190	276,299
Non-Marketable				
Alternatives.			224,015	224,015
Real Assets	29,044	145,503	212,888	387,435
Residual Asset Note		47,622		47,622
Total Investments:	<u>\$ 803,814</u>	<u>\$ 661,781</u>	<u>\$ 467,571</u>	<u>\$ 1,933,166</u>
Split-interest agreements				
held by third parties			4,392	4,392
Total assets at fair value . . .	<u>\$ 803,814</u>	<u>\$ 661,781</u>	<u>\$ 471,963</u>	<u>\$ 1,937,558</u>
Liabilities at fair value				
Interest rate exchange				
liabilities	\$	\$ 331,272	\$	\$ 331,272
Total liabilities at fair value. .	<u>\$</u>	<u>\$ 331,272</u>	<u>\$</u>	<u>\$ 331,272</u>
<u>As of June 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Assets at fair value				
Cash and				
Cash Equivalents	\$ 626,009	\$	\$	\$ 626,009
Fixed Income.	70,870	177		71,047
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	162,351	208,943	409,513
Residual Asset Note		42,789		42,789
Total Investments:	<u>\$ 848,044</u>	<u>\$ 665,900</u>	<u>\$ 481,632</u>	<u>\$ 1,995,576</u>
Split-interest agreements				
held by third parties			4,276	4,276
Total assets at fair value . . .	<u>\$ 848,044</u>	<u>\$ 665,900</u>	<u>\$ 485,908</u>	<u>\$ 1,999,852</u>
Liabilities at fair value				
Interest rate exchange				
liabilities	\$	\$ 169,132	\$	\$ 169,132
Total liabilities at fair value. .	<u>\$</u>	<u>\$ 169,132</u>	<u>\$</u>	<u>\$ 169,132</u>

For the years ended June 30, 2012 and 2011

The following tables are a rollforward of the Consolidated Statements of Financial Position amounts for financial instruments as of June 30, 2012 and 2011 classified by the University within Level 3 of the fair value hierarchy defined above, in thousands of dollars:

2012

	Global Equities & Convertibles	Marketable Alternatives	Non-Marketable Alternatives	Real Assets	Total Investments	Split-Interest Agreements Held by Third Parties	Total Assets at Fair Value
Fair Value, July 1, 2011.	\$ 16,851	\$ 44,488	\$ 211,350	\$ 208,943	\$ 481,632	\$ 4,276	\$ 485,908
Realized Gains/(Losses)	288	(146)	4,676	1,304	6,122		6,122
Unrealized Gains/(Losses)	(296)	119	466	(1,187)	(898)	116	(782)
Purchases.			34,550	17,267	51,817		51,817
Sales or Redemptions.	(430)	(63)	(27,027)	(13,439)	(40,959)		(40,959)
Transfers to Level 3		14,157			14,157		14,157
Transfers from Level 3	(13,935)	(30,365)			(44,300)		(44,300)
Fair Value, June 30, 2012.	<u>\$ 2,478</u>	<u>\$ 28,190</u>	<u>\$ 224,015</u>	<u>\$ 212,888</u>	<u>\$ 467,571</u>	<u>\$ 4,392</u>	<u>\$ 471,963</u>

2011

	Global Equities & Convertibles	Marketable Alternatives	Non-Marketable Alternatives	Real Assets	Total Investments	Split-Interest Agreements Held by Third Parties	Total Assets at Fair Value
Fair Value, July 1, 2010.	\$ 9,469	\$ 100,162	\$ 224,107	\$ 188,334	\$ 522,072	\$ 3,980	\$ 526,052
Realized Gains/(Losses)	8,439	(930)	13,839	3,187	24,535		24,535
Unrealized Gains/(Losses)	(1,153)	27,358	11,786	7,988	45,979	296	46,275
Purchases.	8,281	39,887	18,988	18,351	85,507		85,507
Sales or Redemptions.	(15,344)	(8,609)	(57,370)	(8,917)	(90,240)		(90,240)
Transfers to Level 3	7,159				7,159		7,159
Transfers from Level 3		(113,380)			(113,380)		(113,380)
Fair Value, June 30, 2011.	<u>\$ 16,851</u>	<u>\$ 44,488</u>	<u>\$ 211,350</u>	<u>\$ 208,943</u>	<u>\$ 481,632</u>	<u>\$ 4,276</u>	<u>\$ 485,908</u>

There have been no significant changes in valuation techniques and related inputs used by the University.

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statements of Activities. During the year ended June 30, 2012, the change in unrealized appreciation on investments classified as Level 3 was \$(898,000).

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 Statements of Activities. Net unrealized gains (losses) relate to those financial instruments held by the University at June 30, 2012 and 2011. Reclassifications into Level 2 are included as of June 30, 2012 and 2011. 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.

Transfers from Level 3 to Level 2 typically involve investments, or portions of investments, in commingled vehicles having redemption terms that provide for liquidity within the 12 months following the reporting period. The University's policy is to recognize transfers as of the end of the year. As of June 30, 2012, the University recorded transfers from Level 3 to Level 2 in the amount of \$44,300,000. The University also recorded a transfer from Level 2 to Level 3 in the amount of \$14,157,000 due to changes in the underlying investments.

For the years ended June 30, 2012 and 2011

The following tables summarize all such investments recorded at NAV categorized based on the risk and return characteristics of the investments at June 30, 2012 and 2011, in thousands of dollars.

As of June 30, 2012	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equities	\$ 222,782	\$	Daily–Annually	3–92 Days
Real Assets	14,556		Quarterly	60 Days
Marketable Alternatives	276,299		Quarterly–Tri-Annually	30–180 Days
Non-Marketable Alternatives	194,322	55,131	At Maturity	N/A
Private Real Assets	86,709	42,717	At Maturity	N/A
	<u>\$ 794,668</u>	<u>\$ 97,848</u>		

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	167,683	64,311	At Maturity	N/A
Private Real Assets	95,126	30,387	At Maturity	N/A
	<u>\$ 826,040</u>	<u>\$ 94,698</u>		

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, 2012 and 2011 are \$1,190,512,000 and \$1,194,164,000, 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 monthly amounts per unit and is calculated as 4% of a twenty-quarter average of pooled endowment fund per unit market values. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year accumulated earnings. Effective July 1, 2011, the spending policy was changed for newly established endowment funds. Income attributable to the new shares from these funds will be reinvested to principal during the initial six months. During the fiscal years ended June 30, 2012 and 2011, the distribution as a percentage of the ending fair value of the pooled endowment fund for the five preceding quarters was 3.7% and 3.5%, respectively.

At June 30, 2012 and 2011, respectively, approximately \$1,590,000 and \$383,000 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

For the years ended June 30, 2012 and 2011

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.

The following table represents endowment net asset composition by type of fund as of June 30, 2012, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ (1,590)	\$ 376,948	\$ 342,415	\$ 717,773
Institution Designated	408,912			408,912
Endowment Net Assets				
at end of year	<u>\$ 407,322</u>	<u>\$ 376,948</u>	<u>\$ 342,415</u>	<u>\$ 1,126,685</u>

For the years ended June 30, 2012 and 2011

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2012, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at beginning of year.	\$ 437,389	\$ 383,295	\$ 323,226	\$ 1,143,910
Reclassification of Net Assets	(1,207)	1,207		
Endowment Net Assets after reclassification	436,182	384,502	323,226	1,143,910
Investment income	1,493	1,227	1,679	4,399
Net appreciation (realized and unrealized)	(12,053)	(23,718)	(91)	(35,862)
Total Investment return	(10,560)	(22,491)	1,588	(31,463)
Gifts	1,816	1,025	15,270	18,111
Other changes	(24,354)	13,912	2,331	(8,111)
Institutional transfers from other funds	4,238			4,238
Endowment Net Assets at end of year	<u>\$ 407,322</u>	<u>\$ 376,948</u>	<u>\$ 342,415</u>	<u>\$ 1,126,685</u>

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	<u>\$ 437,389</u>	<u>\$ 383,295</u>	<u>\$ 323,226</u>	<u>\$ 1,143,910</u>

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	<u>\$ 437,389</u>	<u>\$ 383,295</u>	<u>\$ 323,226</u>	<u>\$ 1,143,910</u>

For the years ended June 30, 2012 and 2011

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2012 and 2011, in thousands of dollars, consist of the following:

	2012	2011
Accounts receivable, net:		
Students	\$ 17,359	\$ 15,862
Less allowances.	(6,843)	(6,320)
	<u>10,516</u>	<u>9,542</u>
Grants and contracts.	58,113	45,486
Departmental sales, services, and other. .	47,589	32,550
Less allowances.	(8,246)	(7,855)
	<u>97,456</u>	<u>70,181</u>
Student loans	77,466	76,066
Less allowances.	(2,987)	(3,238)
	<u>74,479</u>	<u>72,828</u>
Total.	<u>\$ 182,451</u>	<u>\$ 152,551</u>

Total allowances for doubtful accounts as of June 30, 2012 and 2011 are \$18,076,000 and \$17,413,000, respectively.

The University recorded an allowance for doubtful accounts of \$2,987,000 and \$3,238,000 as of June 30, 2012 and 2011, respectively, related to student loan receivables of \$77,466,000 and \$76,066,000 as of June 30, 2012 and 2011, respectively. Federally sponsored student loans receivable represents a significant portion of the loan portfolio, \$52,645,000 and \$46,872,000 as of June 30, 2012 and 2011, 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, 2012 and 2011 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Included in accounts receivable at June 30, 2012 and 2011 is \$768,000, 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, 2012 and 2011, to certain employees. The aggregate amount as of June 30, 2012 and 2011 is \$6,074,000 and \$5,521,000, respectively.

For the years ended June 30, 2012 and 2011

Pledges Receivable:

Pledges, net of discounts and allowances, in the amount of \$127,494,000 and \$96,965,000, are recorded as a receivable with the revenue assigned to the appropriate net asset category for fiscal years 2012 and 2011, respectively. Pledges consist of unconditional written promises to contribute to the University in the future. At June 30, 2012 and 2011, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2012	2011
In one year or less	\$ 51,441	\$ 47,479
Between one year and five years	81,405	52,406
More than five years	15,221	10,996
	<u>148,067</u>	<u>110,881</u>
Discount to present value	(12,573)	(8,372)
Less allowance for unfulfilled pledges . .	(8,000)	(5,544)
Pledges receivable	<u>\$ 127,494</u>	<u>\$ 96,965</u>

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2012 and 2011, in thousands of dollars, consist of the following:

	2012	2011
Land	\$ 94,778	\$ 82,931
Buildings and improvements	2,283,159	2,092,168
Construction in progress	266,697	364,960
Software	52,879	
Equipment	213,568	198,922
Library books	171,385	162,175
	<u>3,082,466</u>	<u>2,901,156</u>
Less accumulated depreciation	(1,071,950)	(988,323)
Property, plant, and equipment, net . . .	<u>\$ 2,010,516</u>	<u>\$ 1,912,833</u>

As of June 30, 2012 and 2011, buildings and improvements include \$84,642,000 associated with office and research space under capital lease.

Software costs related to Enterprise Resource System implementation projects of \$11,930,000 and \$26,680,000 were capitalized in fiscal year 2012 and 2011, respectively. During 2012, the system implementation was completed and software costs of \$52,879,000 were placed in service.

As of June 30, 2012 and 2011, capital expenditures of \$199,521,000 and \$198,288,000, respectively, were incurred for construction of the National Emerging Infectious Diseases Laboratory (NEIDL). Of this, \$117,796,000 was placed in service during the year ended June 30, 2012. The remaining expenditures are included within construction in progress at June 30, 2012, 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 \$1,905,000 and \$6,829,000 was removed from the Consolidated Statements of Financial Position in 2012 and 2011, 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, \$54,270,000 and \$51,295,000 has been included in the University's Consolidated Statements of Financial Position within prepaid expenses and other assets and accounts payable and accrued expenses at June 30, 2012 and 2011, respectively.

For the years ended June 30, 2012 and 2011

6. Indebtedness*Bonds and Notes Payable:*

The principal amounts of bonds and notes payable at June 30, 2012 and 2011, 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, 2012	Outstanding Principal	
			2012	2011
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
MDFA Series W (Taxable)	10/1/45	5.20%	100,470	
Century Notes (Taxable)	7/15/97	7.63%	100,000	100,000
Boston Medical Center Note (Taxable)	5/12/16	2.00%	23,251	
Boston Redevelopment Authority Note (Taxable)	6/15/21	0.00%	10,305	
Aetna Loan (Taxable)	9/15/18	10.20%	5,044	5,569
Various notes payable (Taxable)			6,121	5,398
Total Fixed Rate Bonds and Notes Payable			\$ 714,561	\$ 580,337
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	0.15%	25,000	25,000
HEFA Series N (Taxable)	10/1/34	0.23%	31,300	132,450
MDFA Series U-1	10/1/40	0.11%	50,000	50,000
MDFA Series U-2	10/1/40	0.92%	50,000	50,000
MDFA Series U-3	10/1/40	0.11%	50,000	50,000
MDFA Series U-5A	10/1/31	0.10%	38,500	39,300
MDFA Series U-5B	10/1/31	0.14%	40,200	41,100
MDFA Series U-6A	10/1/42	0.78%	62,850	62,850
MDFA Series U-6C	10/1/42	0.17%	52,545	52,545
MDFA Series U-6E	10/1/42	0.14%	62,695	62,695
Royal Bank of Scotland (Taxable)	8/15/29	1.46%	41,535	43,877
Total Variable Rate Bonds Payable			\$ 522,625	\$ 627,817
Total Bonds and Notes Payable			\$1,237,186	\$ 1,208,154
Net Unamortized Bond Premium and Discount			9,447	10,131
Total Bonds and Notes Payable, net			\$1,246,633	\$ 1,218,285

For the years ended June 30, 2012 and 2011

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, 2012. 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 and notes payable at June 30, 2012 and 2011 is approximately \$1,338,249,000 and \$1,247,227,000, respectively, versus the outstanding principal at June 30, 2012 and 2011 of \$1,237,186,000 and \$1,208,154,000, 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 \$37,806,000 and \$35,632,000 were made in fiscal years 2012 and 2011, respectively. These amounts are net of interest capitalized as a cost of construction totaling \$2,599,000 and \$505,000, in fiscal years 2012 and 2011, respectively.

Scheduled principal payments on notes, bonds, and capital lease obligations, in thousands of dollars, are presented in the table below. Capital lease obligations totaled \$84,330,000 at June 30, 2012.

Year	Scheduled Principal Maturities
2013	\$ 30,454
2014	12,758
2015	86,556
2016	13,073
2017	7,905
Thereafter	<u>1,170,770</u>
Total	<u>\$1,321,516</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. The University's debt portfolio includes variable rate demand bonds ("VRDBs") of \$350,240,000 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 2013 and December 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 had been put as of June 30, 2012, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$152,286,000, \$79,182,000, \$79,182,000, and \$39,590,000 in 2013, 2014, 2015, and 2016, respectively. As of June 30, 2012, 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 June 2012, the University extended the initial term of the Series U-6A direct purchase transaction from January 2013 to April 2014. The final maturity of the underlying bonds is unchanged at October 2042.

In May 2012, the University entered into a Promissory Note with the Boston Redevelopment Authority pursuant to a Land Disposition Agreement. The terms of the Note require the University to pay total principal of \$10,305,000 over a term of nine years at an interest rate of 0%.

In February 2012, the University entered into an agreement with Boston Medical Center to pay a total of \$29,064,000 over a term of five years at an interest rate of 2%. See Note 8 for additional details.

In December 2011, the University closed a direct purchase of its Series U-2 variable rate demand bonds. This \$50,000,000 direct purchase transaction has an initial term of four years. The final maturity of the underlying bonds is unchanged at October 2040.

For the years ended June 30, 2012 and 2011

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 issue were used to partially redeem \$100,000,000 of Series N taxable variable rate bonds and to pay certain transaction expenses.

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.

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, 2012 and 2011, 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, 2012 the University had interest rate exchange agreements in place with total notional amounts of \$569,395,000 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, 2012, 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	23,960	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	78,700	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	41,535	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

For the years ended June 30, 2012 and 2011

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 \$(331,272,000) and \$(169,132,000) at June 30, 2012 and 2011, respectively, and are included in accounts payable and accrued expenses. The change in estimated fair value of \$162,140,000 and of \$24,811,000 in 2012 and 2011, 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 \$27,012,000 and \$11,147,000 at June 30, 2012 and 2011, 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 2012 and 2011, the University paid net settlement costs on interest rate exchange agreements of \$25,312,000 and \$25,249,000, respectively. These net settlement costs have been recorded in nonoperating activities on the Consolidated Statements 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, 2012 and 2011, the University was required to post collateral in the amounts of \$207,284,000 and \$41,625,000, 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 \$61,104,000 in fiscal year 2012 and \$57,936,000 in fiscal year 2011.

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

For the years ended June 30, 2012 and 2011

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 \$12,349,000 in fiscal year 2012 from \$14,710,000 in fiscal year 2011.

The Post-retirement Benefit Plan at June 30, 2012 and 2011, in thousands of dollars, consists of the following:

	Post-retirement Benefits	
	2012	2011
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 14,710	\$ 15,806
Interest cost	602	648
Actuarial loss	(568)	775
Benefits paid	(2,395)	(2,519)
Benefit obligation at end of year	<u>12,349</u>	<u>14,710</u>
Change in Funded Status		
Funded status	(12,349)	(14,710)
Net amount recognized	<u>\$ (12,349)</u>	<u>\$ (14,710)</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities		
Current year actuarial loss	(568)	775
Amortization of actuarial loss	(1,915)	(2,122)
Current year prior service cost		
Amortization of prior service credit	3,474	3,474
Total recognized in Statement of Activities .	<u>\$ 991</u>	<u>\$ 2,127</u>
Amounts recognized in the Statement of Financial Position consist of:		
Accrued post-retirement benefit obligation .	\$ (12,349)	\$ (14,710)
Amounts recognized in Unrestricted Net Assets consist of:		
Net actuarial loss	\$ 11,036	\$ 13,519
Prior service credit	(11,533)	(15,007)
	<u>\$ (497)</u>	<u>\$ (1,488)</u>
Weighted-average Assumptions as of June 30 used to determine benefit obligation		
Discount rate	3.35%	4.45%
Initial health care trend	9.00%	9.50%
Assumed health care trend in subsequent year	8.50%	9.00%
Ultimate health care trend	5.00%	5.00%
Years to reach ultimate	8	9

For measurement purposes, a 9.0% and 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011, respectively, decreasing at .5% per year thereafter until an ultimate rate of 5% in 2020.

For the years ended June 30, 2012 and 2011

	Post-retirement Benefits	
	2012	2011
Components of Net Periodic Benefit Cost		
Interest cost	\$ 602	\$ 648
Amortization of prior service cost	(3,474)	(3,474)
Amortization of actuarial loss	1,915	2,122
Net periodic benefit cost	<u>\$ (957)</u>	<u>\$ (704)</u>
Weighted-average Assumptions as of June 30 used to determine net periodic cost		
Discount rate	3.35%	4.45%
Initial health care trend	9.00%	9.50%
Ultimate health care trend	5.00%	5.00%
Years to reach ultimate	8	9

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:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$ 26	\$ (24)
Effect on post-retirement benefit obligation	433	(401)

There was no accumulated benefit obligation at the end of the fiscal year 2012 and 2011.

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:

	<u>Post-retirement Benefits</u>
Employer contributions	
2013 (expected)	\$ 2,395
Expected benefit payments	
2013	1,907
2014	1,804
2015	1,603
2016	1,390
2017	1,225
2018–2022	3,996

For the years ended June 30, 2012 and 2011

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
2013	\$ 23,859	\$ 3,868
2014	23,049	3,956
2015	21,790	3,956
2016	21,574	4,021
2017	20,540	4,021
Thereafter	144,234	196,833
	\$ 255,046	\$ 216,655
Less: Amounts representing interest		132,325
Capital lease obligation		\$ 84,330

For the fiscal years 2012 and 2011 rent expense for educational facilities and office space was \$27,362,000 and \$24,670,000, 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 \$57,526,000 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 \$26,804,000 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 \$9,443,000 at June 30, 2012.

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 \$18,372,000 at June 30, 2012.

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 \$9,600,000 at June 30, 2012.

The University entered into a 10-year non-cancellable operating lease of an office property in fiscal 2001. Minimum annual lease payments of approximately \$1,409,000 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 \$9,125,000 at June 30, 2012.

For the years ended June 30, 2012 and 2011

National Emerging Infectious Diseases Laboratory (“NEIDL”):

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 and other organizations to study infectious diseases and to support the federal government’s bio-defense effort.

Construction of the NEIDL was substantially completed in fiscal 2009. The use of the building for Biosafety Level 4 research has been delayed due to pending litigation challenging the environmental review process relating to the planned use of the building for BSL-4 research. In March of 2012 the University received clearance from the Massachusetts Executive Office of Energy and Environmental Affairs to begin research at NEIDL at Biosafety Level 2 and as of March 15, 2012, the related portion of the facility was placed into service and research began.

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 non-controlling interest. At June 30, 2010, the non-controlling 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 required the University to repay Boston Medical Center’s equity commitment of \$29,064,000. Repayment terms for this obligation were finalized in February of 2012, with repayment to be made over 5 years at an interest rate of 2%. The balance of this obligation as of June 30, 2012 of \$23,251,000 is reflected in Bonds and Notes Payable. As of June 30, 2011, prior to the finalization of the Note, the original obligation of \$29,064,000 was included in the University’s accounts payable and accrued expenses.

Total construction costs were approximately \$199,521,000 and \$198,288,000 as of June 30, 2012 and 2011, respectively. NIH has reimbursed \$140,625,000 as of June 30, 2012 and 2011, respectively. When initially received by the University, NIH funding for NEIDL construction was recorded as an increase to temporarily restricted net assets, to be released from restriction when the asset is placed in service. As noted above, over 60% of the building was placed into service during 2012, and as a result, in 2012, a pro-rata share of NIH funding, \$86,507,000, was transferred from temporarily restricted net assets to unrestricted net assets.

Other:

As of June 30, 2012, the University has commitments of approximately \$271,366,000, 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 2013 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.

For the years ended June 30, 2012 and 2011

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 Statements of Cash Flows within cash flows from financing activities, the University paid net settlement costs of \$15,916,000 and \$15,781,000 related to the swap replacement transactions in fiscal year 2012 and 2011, respectively.

10. Subsequent Events

The University has assessed the impact of subsequent events through October 12, 2012, 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.

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