Boston University

Financial Statements
June 30, 2013 and 2012

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Independent Auditor's Report

To the Board of Trustees of Boston University:

We have audited the accompanying consolidated financial statements of Boston University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 19, 2013

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June 30, 2013 and 2012
($000)

	2013	2012
ASSETS		
Cash and cash equivalents (Note 2)	$ 551,775	$ 424,884
Cash and cash equivalents—restricted (Note 2)	184,013	208,020
Short-term investments (Note 2)	1,454	1,413
Accounts receivable, net of allowance (Note 4)	186,877	182,451
Pledges receivable, net of allowance (Note 4)	129,278	127,494
Prepaid expenses and other assets (Note 5)	97,485	89,572
Investment in residual asset note (Note 2)	53,014	47,622
Long-term investments (Note 2)	1,412,754	1,251,227
Property, plant, and equipment, net (Note 5)	2,043,814	2,010,516
Total assets	$ 4,660,464	$ 4,343,199
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses (Note 7)	$ 107,684	$ 109,249
Accounts payable and accrued expenses (Notes 5, 6, and 8)	447,563	556,910
Deferred income and student deposits	167,332	120,349
Annuities payable	16,779	17,696
Capital lease obligation (Notes 6 and 8)	84,071	84,330
Discounted note obligation (Note 2)	53,014	47,622
Bonds and notes payable, net of unamortized bond premium/discount (Note 6)	1,336,388	1,246,633
Total liabilities	2,212,831	2,182,789
Net assets:		
Unrestricted	1,388,789	1,215,251
Temporarily restricted	593,843	521,813
Permanently restricted	465,001	423,346
Total net assets	2,447,633	2,160,410
Total liabilities and net assets	$ 4,660,464	$ 4,343,199

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

For the years ended June 30, 2013 and 2012
($000)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	$ 1,161,520	$	$	$ 1,161,520
Student aid	(291,566)			(291,566)
Sponsored programs	240,763			240,763
Recovery of facilities and administrative costs	123,066			123,066
Gifts	31,334			31,334
Sales and services	91,876			91,876
Spending formula amount and other investment income (Note 2)	5,674	34,969		40,643
Sponsored program income for student aid	15,790			15,790
Auxiliary enterprises	274,445			274,445
Student aid	(4,426)			(4,426)
Net assets released from restrictions	35,293	(35,293)		
Contributions used for operations	5,998			5,998
Total operating revenues	1,689,767	(324)		1,689,443
OPERATING EXPENSES				
Instruction and departmental research	816,137			816,137
Educational support activities	102,181			102,181
Sponsored programs	237,408			237,408
Libraries	26,827			26,827
General and administrative	205,608			205,608
Student support	12,599			12,599
Auxiliary enterprises	221,880			221,880
Total operating expenses	1,622,640			1,622,640
Net operating gain (loss)	67,127	(324)		66,803
NONOPERATING REVENUES AND (EXPENSES)				
Contribution revenue		26,408	34,914	61,322
Contributions used for operations		(5,998)		(5,998)
Spending formula amount and other investment income (Note 2)	3,005	1,426	1,454	5,885
Excess (deficit) of investment return over spending formula amount (Note 2)	31,873	52,422	1,081	85,376
Net realized and unrealized gains (losses) on interest rate exchange agreements (Note 6)	78,046			78,046
Change in value of designated non-core institutional real estate (Note 2)				
Post-retirement related changes other than net periodic pension cost (Note 7)	2,957			2,957
Other additions (deductions) and transfers, net (Note 8)	(9,470)	(1,904)	4,206	(7,168)
Net nonoperating income (loss)	106,411	72,354	41,655	220,420
Change in net assets	173,538	72,030	41,655	287,223
Beginning net assets	1,215,251	521,813	423,346	2,160,410
Ending net assets	$ 1,388,789	$ 593,843	$ 465,001	$ 2,447,633

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

2012 Unrestricted	2012 Temporarily Restricted	2012 Permanently Restricted	2012 Total	
				OPERATING REVENUES
$ 1,120,531	$	$	$ 1,120,531	Student tuition and fees
(280,801)			(280,801)	Student aid
248,221			248,221	Sponsored programs
125,896			125,896	Recovery of facilities and administrative costs
30,072			30,072	Gifts
94,876			94,876	Sales and services
6,173	29,556		35,729	Spending formula amount and other investment income (Note 2)
14,257			14,257	Sponsored program income for student aid
277,509			277,509	Auxiliary enterprises
(3,614)			(3,614)	Student aid
30,019	(30,019)			Net assets released from restrictions
6,389			6,389	Contributions used for operations
1,669,528	(463)		1,669,065	**Total operating revenues**
				OPERATING EXPENSES
782,604			782,604	Instruction and departmental research
102,621			102,621	Educational support activities
242,917			242,917	Sponsored programs
28,681			28,681	Libraries
201,628			201,628	General and administrative
11,696			11,696	Student support
217,196			217,196	Auxiliary enterprises
1,587,343			1,587,343	**Total operating expenses**
82,185	(463)		81,722	**Net operating gain (loss)**
				NONOPERATING REVENUES AND (EXPENSES)
	34,631	24,726	59,357	Contribution revenue
	(6,389)		(6,389)	Contributions used for operations
1,584	1,227	1,874	4,685	Spending formula amount and other investment income (Note 2)
(11,363)	(23,719)	(92)	(35,174)	Excess (deficit) of investment return over spending formula amount (Note 2)
(187,452)			(187,452)	Net realized and unrealized gains (losses) on interest rate exchange agreements (Note 6)
7,970			7,970	Change in value of designated non-core institutional real estate (Note 2)
(991)			(991)	Post-retirement related changes other than net periodic pension cost (Note 7)
61,274	(74,125)	8,200	(4,651)	Other additions (deductions) and transfers, net (Note 8)
(128,978)	(68,375)	34,708	(162,645)	**Net nonoperating income (loss)**
(46,793)	(68,838)	34,708	(80,923)	**Change in net assets**
1,262,044	590,651	388,638	2,241,333	Beginning net assets
$ 1,215,251	$ 521,813	$ 423,346	$ 2,160,410	**Ending net assets**

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

For the years ended June 30, 2013 and 2012 ($000)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 287,223	$ (80,923)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	93,780	85,678
Amortization	(522)	(464)
Loss on disposal of property and equipment	6,849	3,379
Change in value of designated non-core institutional real estate		(7,970)
Unrealized (gains) losses on interest rate exchange agreements	(103,437)	162,140
Settlement on swap replacement transactions, net	12,153	15,916
Net realized and unrealized losses (gains) on investments	(118,551)	7,255
Provision for bad debts	3,010	1,349
Restricted and temporarily restricted contributions	(15,070)	(14,152)
Gifts of securities and property	(33,574)	(7,949)
Other non-cash adjustments	153	6,914
Changes in operating assets and liabilities:		
Increase in accounts receivable	(7,433)	(31,248)
Increase in pledges receivable	(1,784)	(30,529)
Increase in prepaid expenses and other assets	(4,764)	(7,537)
(Decrease) increase in accounts payable and accrued expenses	(11,314)	30,545
Decrease in accrued payroll and related expenses	(1,565)	(21,628)
Increase (decrease) in deferred income and student deposits	46,985	(4,235)
Net cash provided by operating activities	152,139	106,541
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(409,503)	(200,173)
Proceeds from sales and maturities of investments	366,485	275,029
Proceeds from sale of property and equipment		699
Purchases of property and equipment	(128,951)	(167,114)
Proceeds from sale of gifts of securities and property	31,870	5,722
Decrease (increase) in cash and cash equivalents-restricted	24,007	(132,084)
Net cash used in investing activities	(116,092)	(217,921)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds and notes payable	111,485	100,470
Bond discount	(235)	(469)
Bond premium	9,487	
Payment of bonds, notes and mortgages	(30,475)	(111,790)
(Decrease) increase in annuity obligations	(1,070)	666
Restricted contributions	15,070	14,152
Payment on swap replacement transactions, net	(12,153)	(15,916)
Net cash provided by (used in) financing activities	92,109	(12,887)
Unrealized loss on currency exchange	(1,265)	(922)
Net increase (decrease) in cash and cash equivalents	126,891	(125,189)
Cash and cash equivalents beginning of year	424,884	550,073
Cash and cash equivalents end of year	$551,775	$424,884
Supplemental disclosure of non-cash information:		
Property and equipment included in accounts payable	$ 18,366	$ 16,113
Acquisition of property and equipment through borrowings	$ 1,020	$ 12,114
Conversion of accounts payable to notes payable	$	$ 29,064

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 2012 balances previously reported have been reclassified to conform to the 2013 presentation. These reclassifications are not considered material.

In addition, during 2012, management identified three transactions incorrectly recorded in the prior year consolidated financial statements and corrected them in the 2012 Consolidated Financial Statements. These adjustments 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 were not considered material to the University's prior year consolidated 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.
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> 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.
>
> 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 net assets as of June 30, 2013 and 2012, in thousands of dollars, is as follows:

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment principal					
General purpose	$ 317,250	$ 117,735	$ 92,914	$ 527,899	$ 402,381
Professorships	62,629	80,139	108,144	250,912	219,076
Scholarships	58,504	142,422	122,652	323,578	295,884
Research	18,537	4,699	6,008	29,244	26,710
Awards, prizes, fellowships and other	18,630	74,091	47,318	140,039	157,501
Annuities		13,045		13,045	17,133
Total endowment funds	475,550	432,131	377,036	1,284,717	1,118,685
Other funds					
Building and gift funds	61,313	92,509		153,822	132,186
Designated funds	42,661			42,661	37,732
General and plant funds	783,122			783,122	690,831
Pledges		67,722	61,556	129,278	127,494
Student loan funds	26,143	1,481	26,409	54,033	53,482
Total other funds	913,239	161,712	87,965	1,162,916	1,041,725
Total net assets	$1,388,789	$ 593,843	$ 465,001	$2,447,633	$2,160,410

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 accounting principles generally accepted in the United States of America ("US GAAP") 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, when applicable. Dividend income is recorded on the ex-dividend date. The investment portfolio is reflected on a trade-date basis.

The University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO and Treasurer have reviewed valuation procedures governing the valuation of the investments held by the University, including investments for which market quotations are not readily available. Management has day-to-day responsibility for the internal controls and procedures used in the valuation of investments. Valuation results, fair valuations, proposed changes in valuation policies, and issues regarding valuation that may arise from time to time are reviewed with the University Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO and Treasurer.

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 ranging from 45% to 50% in certain University business-related real estate partnerships, 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.

On July 1, 2012, the University adopted new guidance enhancing the Fair Value Measurement standard to ensure that the valuation techniques for investments that are categorized with Level 3 of the fair value hierarchy are fair, consistent, and verifiable. Refer to Note 2 for further details.

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 nonoperating 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 $4,057,000 in 2013 and $5,146,000 in 2012 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. Depreciation expense for the years ended June 30, 2013 and 2012 was $93,780,000 and $85,678,000, 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, 2013 and 2012 was $13,704,000 and $13,151,000, respectively, and is included in accounts payable and accrued expenses in the Consolidated Statements of Financial Position.

Tuition and Fees:
Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

Student Aid:
Student aid in the amount of $291,566,000 and $280,801,000 for the years ended June 30, 2013 and 2012, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $4,426,000 and $3,614,000 for the years ended June 30, 2013 and 2012, 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 $12,599,000 and $11,696,000 for the years ended June 30, 2013 and 2012, 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:

	2013	2012
Operation and maintenance of plant	$ 111,173	$ 113,988
Interest on indebtedness	40,407	38,942
Depreciation expense	93,780	85,678

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, 2013 and 2012, in thousands of dollars, were as follows:

Summary by Investment Type	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 735,788	$ 735,788	$ 632,904	$ 632,904
US treasury bills	22,348	22,351	17,794	17,801
Common and preferred equities				
Domestic	79,333	127,246	83,963	115,168
International	161,530	192,778	113,096	120,177
	240,863	320,024	197,059	235,345
Fixed income				
Domestic	2,711	2,754	2,805	2,898
International	352	356	271	286
US government and agencies	74,552	77,400	55,401	66,750
	77,615	80,510	58,477	69,934
Alternatives				
Hedge	281,379	438,324	244,334	344,906
Natural resources	44,012	41,389	37,836	34,160
Private	146,027	192,609	170,277	200,385
Real estate	327,192	319,001	359,678	350,109
	798,610	991,323	812,125	929,560
Residual asset note	53,014	53,014	47,622	47,622
Total investments	$1,928,238	$ 2,203,010	$1,765,981	$ 1,933,166

As of June 30, 2013, investment commitments to venture capital limited partnerships and private equity funds are approximately $108,088,000 and are expected to be drawn down by the general partners over the next seven 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 $214,090,000 and $252,858,000 as of June 30, 2013 and 2012, respectively, and is reflected in the real assets category of long-term investments.

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, 2013 and 2012, the carrying value of the discounted note obligation was $53,014,000 and $47,622,000, 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. However, 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.

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

For the period ended June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 8,302	$ 7,628	$ 755	$ 16,685
Net realized and unrealized gains	32,250	81,189	1,780	115,219
Total return on investments	40,552	88,817	2,535	131,904
Less: Spending formula	(5,933)	(36,395)	(1,424)	(43,752)
Less: Other investment income	(2,746)		(30)	(2,776)
	(8,679)	(36,395)	(1,454)	(46,528)
Excess of investment return over spending formula amount	$ 31,873	$ 52,422	$ 1,081	$ 85,376

For the period ended June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 5,957	$ 9,236	$ 259	$ 15,452
Net realized and unrealized gains (losses)	(9,563)	(2,172)	1,523	(10,212)
Total return on investments	(3,606)	7,064	1,782	5,240
Less: Spending formula	(7,630)	(30,783)	(1,842)	(40,255)
Less: Other investment income	(127)		(32)	(159)
	(7,757)	(30,783)	(1,874)	(40,414)
Excess of investment return over spending formula amount	$ (11,363)	$ (23,719)	$ (92)	$ (35,174)

Fair Value Measurements:

Fair value is defined as the price that the University would receive upon selling an investment in an orderly transaction between market participants.

The University uses the Fair Value Measurements standard for estimating the fair value of investments in 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, US GAAP. As a practical expedient, the University is permitted under US 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 US GAAP. Securities held in separate accounts and daily-traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly or quarterly liquidity are valued based on independently determined NAV.

Investments in private equity, real estate, and natural resources are in the form of limited partnership interests or similar limited liability vehicles, which typically invest in private securities for which there is no readily available market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparisons, and outside appraisals. When private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of external investments vary by classification. The University monitors the valuation methodologies and practices of managers.

Non-core institutional real estate is valued based on independent appraisals, broker opinions, recent sales, or using model-based techniques. 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 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. 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 are primarily the University ownership of limited liability interests in hedge, private equity, real estate, and other similar funds. The fair value of certain alternative investments represents the ownership interest in the 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. Significant changes in these inputs in isolation may result in a significantly lower or higher fair value measure, respectively. 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, 2013 and 2012.

When valuations of non-core institutional real estate are based on independent appraisals and broker opinions of value, including recent sales of similar properties in the same region and in an active market, these valuations have been categorized as Level 2. The determination of whether a real estate market is active is based on the median number of days to sale for properties with a similar geographic location, type, size, condition, and long-term occupancy rate. Non-core institutional real estate valued as Level 2 totaled $125,941,000 and $126,679,000 as of June 30, 2013 and 2012, respectively. Where independent appraisals have not been carried out and where comparable sales information is not available, a model was used, including rental rates ranging from $11 to $35 per square foot, vacancy rates of between zero and 20%, and capitalization rates of between 6% and 8%. Significant changes in these inputs in isolation may result in a significantly lower or higher fair value measure, respectively. Valuations performed in this manner are considered as Level 3. Non-core institutional real estate valued as Level 3 totaled $88,149,000 and $126,179,000, as of June 30, 2013 and 2012, respectively. The current use of the University's Level 3 non-core real estate is not considered to be the highest and best use for the property.

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 based on the group annuity mortality table and the risk-free rate of return. As of June 30, 2013 and 2012, the discount rate ranged from 4% to 5%.

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, 2013 and 2012 categorized by the valuation hierarchy defined above, in thousands of dollars:

As of June 30, 2013	Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value				
Cash and cash equivalents	$ 735,788	$	$	$ 735,788
US treasury bills	22,351			22,351
Common and preferred equities				
Domestic	72,293	54,953		127,246
International	44,965	146,714	1,099	192,778
	117,258	201,667	1,099	320,024
Fixed Income				
Domestic	2,508	246		2,754
International	356			356
US government and agencies	77,400			77,400
	80,264	246		80,510
Alternatives				
Hedge		365,606	72,718	438,324
Natural resources	1,508	13,982	25,899	41,389
Private			192,609	192,609
Real estate		130,209	188,792	319,001
	1,508	509,797	480,018	991,323
Residual asset note		53,014		53,014
Total investments	$ 957,169	$ 764,724	$ 481,117	$ 2,203,010
Split-interest agreements held by third parties	1,385		3,192	4,577
Total assets at fair value	$ 958,554	$ 764,724	$ 484,309	$ 2,207,587
Liabilities at fair value				
Interest rate exchange liabilities	$	$ 227,835	$	$ 227,835
Total liabilities at fair value	$	$ 227,835	$	$ 227,835

As of June 30, 2012	Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value				
Cash and cash equivalents	$ 632,904	$	$	$ 632,904
US treasury bills	17,801			17,801
Common and preferred equities				
Domestic	63,734	51,434		115,168
International	17,290	101,866	1,021	120,177
	81,024	153,300	1,021	235,345
Fixed Income				
Domestic	2,597	301		2,898
International	286			286
US government and agencies	66,750			66,750
	69,633	301		69,934
Alternatives				
Hedge		315,260	29,646	344,906
Natural resources	2,452	14,556	17,152	34,160
Private			200,385	200,385
Real estate		130,947	219,162	350,109
	2,452	460,763	466,345	929,560
Residual asset note		47,622		47,622
Total investments	$ 803,814	$ 661,986	$ 467,366	$ 1,933,166
Split-interest agreements held by third parties	1,302		3,090	4,392
Total assets at fair value	$ 805,116	$ 661,986	$ 470,456	$ 1,937,558
Liabilities at fair value				
Interest rate exchange liabilities	$	$ 331,272	$	$ 331,272
Total liabilities at fair value	$	$ 331,272	$	$ 331,272

The following tables are a rollforward of the Consolidated Statements of Financial Position amounts for financial instruments as of June 30, 2013 and 2012 classified by the University within Level 3 of the fair value hierarchy defined above, in thousands of dollars:

2013	Common and Preferred Equities International	Alternatives Hedge	Alternatives Natural Resources	Alternatives Private	Alternatives Real Estate	Split-Interest Agreements Held by Third Parties	Total Assets at Fair Value
Fair value, July 1, 2012	$ 1,021	$ 29,646	$ 17,152	$ 200,385	$ 219,162	$ 3,090	$ 470,456
Purchases	792	4,170	7,598	19,921	10,786		43,267
Sales or redemptions	(1,653)	(1,486)	(782)	(53,550)	(41,042)		(98,513)
Realized gains/(losses)		94	301	13,029	(3,582)		9,842
Unrealized gains/(losses)	38	1,577	1,630	12,824	3,468	102	19,639
Transfers to Level 3	901	46,801					47,702
Transfers from Level 3		(8,084)					(8,084)
Fair value, June 30, 2013	$ 1,099	$ 72,718	$ 25,899	$ 192,609	$ 188,792	$ 3,192	$ 484,309

2012	Common and Preferred Equities International	Alternatives Hedge	Natural Resources	Private	Real Estate	Split-Interest Agreements Held by Third Parties	Total Assets at Fair Value
Fair value, July 1, 2011	$ 1,282	$ 60,057	$ 13,180	$ 189,693	$ 217,209	$ 2,990	$ 484,411
Purchases			6,744	34,550	10,523		51,817
Sales or redemptions		(492)	(2,164)	(27,020)	(11,274)		(40,950)
Realized gains/(losses)		142	419	4,676	884		6,121
Unrealized gains/(losses)		(178)	(1,027)	(1,514)	1,820	100	(799)
Transfers to Level 3		14,157					14,157
Transfers from Level 3	(261)	(44,040)					(44,301)
Fair value, June 30, 2012	$ 1,021	$ 29,646	$ 17,152	$ 200,385	$ 219,162	$ 3,090	$ 470,456

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 years ended June 30, 2013 and 2012, the change in unrealized appreciation on investments classified as Level 3 was $21,995,000 and $(899,000), respectively.

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, 2013 and 2012. Reclassifications into Level 2 are included as of June 30, 2013 and 2012. Reclassifications from Level 3 to Level 2 primarily relate to the release of lockup features.

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, 2013, the University recorded transfers from Level 3 to Level 2 in the amount of $8,084,000. The University also recorded a transfer from Level 2 to Level 3 in the amount of $47,702,000 due to changes in the underlying investments.

As of June 30, 2012, the University recorded transfers from Level 3 to Level 2 in the amount of $44,301,000. The University also recorded a transfer from Level 2 to Level 3 in the amount of $14,157,000.

For the years ended June 30, 2013 and 2012, there were no transfers between Level 1 and Level 2.

The following tables summarize all investments recorded at NAV, categorized by the risk and return characteristics of the investments at June 30, 2013 and 2012, in thousands of dollars:

As of June 30, 2013	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common and preferred equities				
Domestic	$ 54,883	$	Daily–Annually	4–45 Days
International	147,770		Daily–Monthly	3–60 Days
	202,653			
Alternatives				
Hedge	$ 438,324	$	Quarterly–Tri-Annually	45–180 Days
Natural resources	39,881	26,077	At Maturity	N/A
Private	187,983	59,992	At Maturity	N/A
Real estate	75,125	22,019	At Maturity	N/A
	741,313	108,088		
	$ 943,966	$ 108,088		

As of June 30, 2012	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common and preferred equities				
Domestic	$ 51,339	$	Daily–Annually	4–45 Days
International	102,836		Daily–Monthly	3–60 Days
	154,175			
Alternatives				
Hedge	$ 344,906	$	Quarterly–Tri-Annually	45–180 Days
Natural resources	31,708	18,174	At Maturity	N/A
Private	194,322	55,131	At Maturity	N/A
Real estate	69,557	24,543	At Maturity	N/A
	640,493	97,848		
	$ 794,668	$ 97,848		

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.

3. Endowment Funds

Total endowment assets at June 30, 2013 and 2012 are $1,403,061,000 and $1,190,512,000, respectively. A pooled endowment fund is included as part of the University's investments. 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 share and is calculated by multiplying the "Effective Distribution" (a percentage between 3% and 5%, as determined by the Trustee Executive Committee) by the 20-quarter average market value per share as of December 31. The targeted distribution percentage is 4%. 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, 2013 and 2012, the distribution as a percentage of the ending fair value of the pooled endowment fund for the five preceding quarters was 3.6% and 3.7%, respectively.

At June 30, 2013 and 2012, respectively, approximately $1,024,000 and $1,590,000 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 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 US treasury bills, common and preferred equities, fixed income, hedge funds, natural resources, private equities, and real estate. 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, 2013, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (1,024)	$ 432,131	$ 377,036	$ 808,143
Institution designated	476,574			476,574
Endowment net assets at end of year	$ 475,550	$ 432,131	$ 377,036	$ 1,284,717

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2013, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 399,322	$ 376,948	$ 342,415	$ 1,118,685
Reclassification of net assets	566	(566)		
Endowment net assets	399,888	376,382	342,415	1,118,685
Reinvested income distribution	2,868	1,240	1,424	5,532
Net undistributed realized and unrealized gains	33,332	52,422	1,075	86,829
Undistributed investment returns	36,200	53,662	2,499	92,361
Gifts	2,655	1,262	12,764	16,681
Other changes	40,887	(2,983)	3,160	41,064
Pledge payments and transfers	(4,080)	3,808	16,198	15,926
Endowment net assets at end of year	$ 475,550	$ 432,131	$ 377,036	$ 1,284,717

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	400,912			400,912
Endowment net assets at end of year	$ 399,322	$ 376,948	$ 342,415	$ 1,118,685

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	$ 429,389	$ 383,295	$ 323,226	$ 1,135,910
Reclassification of net assets	(1,207)	1,207		
Endowment net assets after reclassification	428,182	384,502	323,226	1,135,910
Reinvested income distribution	1,493	1,227	1,679	4,399
Net undistributed realized and unrealized losses	(12,053)	(23,718)	(91)	(35,862)
Undistributed investment returns	(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)
Pledge payments and transfers	4,238			4,238
Endowment net assets at end of year	$ 399,322	$ 376,948	$ 342,415	$ 1,118,685

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2013 and 2012, in thousands of dollars, consist of the following:

	2013	2012
Accounts receivable, net:		
Students	$ 18,092	$ 17,359
Less allowances	(7,131)	(6,843)
	10,961	10,516
Grants and contracts	52,257	58,113
Departmental sales, services, and other	54,895	47,589
Less allowances	(7,487)	(8,246)
	99,665	97,456
Student loans	79,388	77,466
Less allowances	(3,137)	(2,987)
	76,251	74,479
Total	$ 186,877	$ 182,451

Total allowances for doubtful accounts as of June 30, 2013 and 2012 are $17,755,000 and $18,076,000, respectively.

The University recorded an allowance for doubtful accounts of $3,137,000 and $2,987,000 as of June 30, 2013 and 2012, respectively, related to student loan receivables of $79,388,000 and $77,466,000 as of June 30, 2013 and 2012, respectively. Federally sponsored student loans receivable represents a significant portion of the loan portfolio, $46,262,000 and $46,619,000 as of June 30, 2013 and 2012, 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; 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 loans receivable 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, 2013 and 2012 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Included in accounts receivable at June 30, 2013 and 2012 is $282,000 and $768,000, 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, 2013 and 2012, to certain employees. The aggregate amount as of June 30, 2013 and 2012 is $7,397,000 and $6,074,000, respectively.

Pledges Receivable:
Pledges, net of discounts and allowances, in the amount of $129,278,000 and $127,494,000, are recorded as a receivable with the revenue assigned to the appropriate net asset category for fiscal years 2013 and 2012, respectively. Pledges consist of unconditional written promises to contribute to the University in the future. At June 30, 2013 and 2012, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2013	2012
In one year or less	$ 34,201	$ 51,441
Between one year and five years	96,821	81,405
More than five years	19,846	15,221
	150,868	148,067
Discount to present value	(13,290)	(12,573)
Less allowance for unfulfilled pledges	(8,300)	(8,000)
Pledges receivable	$ 129,278	$ 127,494

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2013 and 2012, in thousands of dollars, consist of the following:

	2013	2012
Land	$ 100,278	$ 94,778
Buildings and improvements	2,425,955	2,283,159
Construction in progress	212,427	266,697
Software	54,087	52,879
Equipment	212,941	213,568
Library books	181,795	171,385
	3,187,483	3,082,466
Less accumulated depreciation	(1,143,669)	(1,071,950)
Property, plant, and equipment, net	$2,043,814	$2,010,516

As of June 30, 2013 and 2012, 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 $724,000 and $11,930,000 were incurred during fiscal years 2013 and 2012, respectively. During 2013 and 2012, software costs of $1,208,000 and $52,879,000, respectively, were placed in service.

As of June 30, 2013 and 2012, capital expenditures of $199,521,000 were incurred for construction of the National Emerging Infectious Diseases Laboratories ("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, 2013 and 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 $14,241,000 and $1,905,000 was removed from the Consolidated Statements of Financial Position in 2013 and 2012, 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, $57,420,000 and $54,270,000 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, 2013 and 2012, respectively.

6. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2013 and 2012, 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, 2013	Outstanding Principal 2013	Outstanding Principal 2012
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	100,470
MDFA Series X, blended fixed rate	10/1/48	4.78%	111,485	
Century notes (taxable)	7/15/97	7.63%	100,000	100,000
Boston Medical Center note (taxable)	5/12/16	2.00%	17,438	23,251
Boston Redevelopment Authority note (taxable)	6/15/21	0.00%	9,160	10,305
Aetna loan (taxable)	9/15/18	10.20%	4,463	5,044
Various notes payable (taxable)			5,747	6,121
Total fixed rate bonds and notes payable			$ 818,133	$ 714,561

	Final Bond Maturity	Interest Rate at June 30, 2013	Outstanding Principal 2013	Outstanding Principal 2012
Variable rate bonds payable				
HEFA Series E, Capital Asset Program	3/25/13		$	$ 18,000
HEFA Series H	12/1/29	0.05%	25,000	25,000
HEFA Series N (taxable)	10/1/34	0.18%	31,020	31,300
MDFA Series U-1	10/1/40	0.64%	50,000	50,000
MDFA Series U-2	10/1/40	0.88%	50,000	50,000
MDFA Series U-3	10/1/40	0.04%	50,000	50,000
MDFA Series U-5A	10/1/31	0.05%	37,600	38,500
MDFA Series U-5B	10/1/31	0.05%	39,300	40,200
MDFA Series U-6A	10/1/42	0.66%	62,850	62,850
MDFA Series U-6C	10/1/42	0.05%	52,545	52,545
MDFA Series U-6E	10/1/42	0.61%	62,695	62,695
Royal Bank of Scotland (taxable)	8/15/29	0.98%	38,807	41,535
Total variable rate bonds payable			$ 499,817	$ 522,625
Total bonds and notes payable			$1,317,950	$ 1,237,186
Net unamortized bond premium and discount			18,438	9,447
Total bonds and notes payable, net			$1,336,388	$ 1,246,633

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, 2013. 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 outstanding fixed rate long term debt has been estimated based on discounting the remaining cash flows for each individual fixed rate debt issue at a rate that reflects current market borrowing rates for issuers of comparable credit quality and for debt instruments with comparable structure and terms. Discount rates applied ranged from 1.08% to 5.92% at June 30, 2013 and 1.22% to 5.11% at June 30, 2012. The inputs to the assumptions used to determine the estimated fair value are based on observable inputs and are classified as Level 2. For variable rate debt, the carrying value is equal to the fair value.

The estimated fair value of the debt portfolio as of June 30, 2013 and June 30, 2012, in thousands of dollars, is presented below:

	June 30, 2013		June 30, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate bonds	$ 781,325	$ 835,455	$ 669,840	$ 770,903
Variable rate bonds	499,817	499,817	522,625	522,625
Other notes payable	36,808	37,350	44,721	44,721
Total bonds and notes payable	$1,317,950	$ 1,372,622	$1,237,186	$ 1,338,249

Interest payments of approximately $39,343,000 and $37,806,000 were made in fiscal years 2013 and 2012, respectively. These amounts are net of interest capitalized as a cost of construction totaling $2,946,000 and $2,599,000, in fiscal years 2013 and 2012, 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 $84,071,000 at June 30, 2013.

Year	Scheduled Principal Maturities
2014	$ 12,864
2015	86,760
2016	13,277
2017	8,109
2018	9,101
Thereafter	1,271,910
Total	$1,402,021

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 $235,465,000 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 2015 and June 2018. 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, 2013, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: $39,245,000, $78,488,000, $78,488,000, and $39,244,000 in 2014, 2015, 2016, and 2017, respectively. As of June 30, 2013, 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 April 2013, the University remarketed its existing $50,000,000 Series U-1 and $62,695,000 Series U-6E Variable Rate Demand Revenue Bonds in a public offering as SIFMA-based floating rate bonds. Interest is payable at a fixed spread over the weekly SIFMA index through March 2017 for Series U-1 and through September 2016 for Series U-6E. As a result of this remarketing, the bank letters of credit previously supporting these bonds were terminated.

In April 2013, the University issued its $111,485,000 Series X tax exempt fixed rate bonds with a final maturity in 2048. The bonds were issued at a premium and generated proceeds of $120,737,000, which will be used to fund designated capital expenditures and to pay bond issuance costs. Interest is payable at a blended fixed interest rate of 4.78% per annum.

In March 2013, the $18,000,000 outstanding balance of the HEFA Series E Capital Asset Program loan was repaid at its scheduled maturity date.

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 in equal annual installments 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.

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.

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, 2013 and 2012, 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, 2013, the University had interest rate exchange agreements in place with total notional amounts of $564,647,000 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, 2013, 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	23,740	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	76,900	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	38,807	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 $(227,835,000) and $(331,272,000) at June 30, 2013 and 2012, respectively, and are included in accounts payable and accrued expenses. The change in estimated fair value of $103,437,000 and of ($162,140,000) in 2013 and 2012, respectively, is included in net realized and unrealized gains (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 $13,355,000 and $27,012,000 at June 30, 2013 and 2012, 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 2013 and 2012, the University paid net settlement costs on interest rate exchange agreements of $25,391,000 and $25,312,000, 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, 2013 and 2012, the University was required to post collateral in the amounts of $91,520,000 and $207,284,000, 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–College Retirement Equities Fund (TIAA–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 $62,103,000 in fiscal year 2013 and $61,104,000 in fiscal year 2012.

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 applied to any employee who terminated 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.

Through June 30, 2012, this post-retirement benefits plan, valued under ASC 715-10, incorporated benefit obligations for permanently disabled individuals (age 45 or older); these individuals also participate in the University's self-insured long term disability income replacement plan, valued under ASC 712-60. While the post retirement benefits plan for active employees has been discontinued, the University's obligation to provide medical benefits to disabled individuals is ongoing; therefore, as of July 1, 2012, the University transferred its benefit obligation to these individuals from its post retirement obligation to its self-insured long term disability plan obligation, included in accrued payroll and related expenses in the Consolidated Statements of Financial Position. This change resulted in the one-time recognition of net outstanding actuarial losses for these individuals of $5,500,000; under ASC 715-10, these losses were being amortized, but must be recognized immediately under ASC 712-60.

The Post-Retirement Benefit Plan at June 30, 2013 and 2012, in thousands of dollars, consists of the following:

	Post-Retirement Benefits	
	2013	**2012**
Change in Benefit Obligation		
Benefit obligation at beginning of year before transfer	$ 12,349	$ 14,710
Transfer of benefit obligation for permanently disabled participants	$ (5,349)	$
Benefit obligation after transfer	7,000	14,710
Interest cost	200	602
Actuarial loss		(568)
Benefits paid	(1,300)	(2,395)
Benefit obligation at end of year	5,900	12,349
Change in Funded Status		
Funded status	(5,900)	(12,349)
Net amount recognized	$ (5,900)	$ (12,349)
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities		
Current year actuarial loss	(5,500)	(568)
Amortization of actuarial loss	(857)	(1,915)
Current year prior service cost		
Amortization of prior service credit	3,400	3,474
Total recognized in Statement of Activities	$ (2,957)	$ 991
Amounts recognized in the Statement of Financial Position consist of:		
Accrued post-retirement benefit obligation	$ (5,900)	$ (12,349)
Amounts recognized in Unrestricted Net Assets consist of:		
Net actuarial loss	$ 4,679	$ 11,036
Prior service credit	(8,133)	(11,533)
	$ (3,454)	$ (497)

Beginning in 2013, the valuation process for this liability has been simplified, to reflect actual claims, interest cost, and the amortization of actuarial gains and losses over their expected life. The discount rate for valuation was 3.35% in both 2013 and 2012; a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012, decreasing to 8.5% in 2013 and thereafter by .5% per year until reaching an ultimate rate of 5% over 7 years, in 2020.

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, in thousands of dollars:

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

	Post-Retirement Benefits	
	2013	**2012**
Components of Net Periodic Benefit Cost		
Interest cost	$ 200	$ 602
Current year actuarial loss	(5,500)	
Amortization of prior service cost	(3,400)	(3,474)
Amortization of actuarial loss	857	1,915
Net periodic benefit cost	$ (7,843)	$ (957)

There was no accumulated benefit obligation at the end of the fiscal years 2013 and 2012.

Expected Cash Flows:
Information about the expected cash flows for the post-retirement benefit plan is in thousands of dollars, as follows:

Employer contributions	**Post-Retirement Benefits**
2014 (expected)	$ 1,100
Expected benefit payments	
2014	1,000
2015	800
2016	700
2017	700
2018	500
2019	300

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
2014	$ 23,219	$ 3,956
2015	21,964	3,956
2016	21,753	4,021
2017	20,723	4,021
2018	20,422	4,021
Thereafter	125,004	192,812
	$ 233,085	$ 212,787
Less: Amounts representing interest		(128,716)
Capital lease obligation		$ 84,071

For the fiscal years 2013 and 2012 rent expense for educational facilities and office space was $27,936,000 and $27,362,000, 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 $57,229,000 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 $26,842,000 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 $6,516,000 at June 30, 2013.

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 $17,962,000 at June 30, 2013.

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 $8,600,000 at June 30, 2013.

The University entered into a 10-year non-cancellable operating lease of an office property in fiscal year 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 $9,008,000 at June 30, 2013.

National Emerging Infectious Diseases Laboratories ("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 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 BSL-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.

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. 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, 2013 and 2012, of $17,438,000 and $23,251,000, respectively, is reflected in bonds and notes payable.

Total construction costs were approximately $199,521,000 as of June 30, 2013 and 2012. NIH has reimbursed $140,625,000 as of June 30, 2013 and 2012. 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, 2013, the University has commitments of approximately $288,809,000, 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.

In December of 2012, in connection with the sale of a non-core asset, the University entered into a 75-year ground agreement to lease the land to the purchaser of the building. The lease term is through 2087. In connection with this transaction, the University received a prepaid lease payment of $38,625,000 that is included in deferred income and student deposits on the Consolidated Statements of Financial Position and will be amortized on a straight line basis over the term of the lease. For the year ended June 30, 2013, the University recognized rental revenue of $257,500 related to the ground lease. The unamortized deferred rent as of June 30, 2013 is $38,367,500.

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.

Effective July 1, 1996, 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. The University's commitment for fiscal year 2014 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. Statements 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 $12,153,000 and $15,916,000 related to the swap replacement transactions in fiscal years 2013 and 2012, respectively.

10. Subsequent Events

The University has assessed the impact of subsequent events through September 19, 2013, the date the Audited Consolidated Financial Statements were issued, and has concluded that there were no such events that require adjustment to the Audited Consolidated Financial Statements or disclosure in the notes to the Audited Consolidated Financial Statements.

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