Financial Summary
Fiscal Year 2010 Financial Highlights

For the one-year period ending June 30, 2010, the endowment of Boston University returned 12.7 percent and stood at $1.02 billion, down from its high of $1.18 billion on June 30, 2008.

In FY 2010 we held our undergraduate tuition increase to 3.7 percent, the lowest in 30 years.

Revenues associated with auxiliary operations such as dining and housing were responsible for about 16.1 percent of all our revenues. Income from the endowment and gifts from alumni, friends, and foundations that are used in the current year made up 3.8 percent of revenues.

Our expenses in 2010 included the $277.4 million the University invested in student financial aid, with $175 million directed toward undergraduate students. Our undergraduate financial aid budget has grown from $120 million in 2000 to $175 million today, at a rate faster than the growth of tuition.

After revenues and expenses were calculated, we were able to transfer $114.3 million for use in academic programs, support of faculty and research, facilities, student services, and other essentials.

Balancing Revenue

Boston University relies on tuition and fees as well as sponsored program activities as major drivers for our business model. As a result, we face the same decision each year. On one hand, we want additional funding to cover salary increases, deal with increased health care costs, and expand our programs and services. On the other, we want to hold down tuition increases so as to moderate the financial burden on our students and their families. Because of the strong relationship between tuition and the financing of BU, the trade-off between quality of University resources and student access is a continuing struggle.

The Importance of Research

Research is a relatively new emphasis for Boston University. Indeed, we have emerged in the ranks of the most research-intensive universities only in the last decade. Our sponsored program awards have gone from receiving less than $14 million of support in 1971 to over $407 million in FY 2010 (see chart). In the last decade alone, research support has doubled.

Take a tour of Associate Professor Kathryn Bard’s archaeological dig of an ancient Red Sea port, where she unearthed artifacts from Egyptian seagoing vessels.

www.bu.edu/ar
# Financial Summary

Thousands of $

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net</td>
<td>$609,387</td>
<td>$652,224</td>
<td>$698,104</td>
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<td>Auxiliaries, net</td>
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<td>$224,757</td>
<td>$236,035</td>
<td>$246,308</td>
<td>$256,830</td>
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<td>Sponsored programs</td>
<td>$194,404</td>
<td>$187,393</td>
<td>$189,642</td>
<td>$203,668</td>
<td>$224,011</td>
</tr>
<tr>
<td>Recovery of facilities and administrative costs</td>
<td>$131,352</td>
<td>$128,605</td>
<td>$136,767</td>
<td>$146,713</td>
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<td>Sales and services</td>
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<td>$105,725</td>
<td>$105,440</td>
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<td>Endowment spending dist. and other inv. income</td>
<td>$26,031</td>
<td>$33,607</td>
<td>$35,514</td>
<td>$37,675</td>
<td>$43,161</td>
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<td>Total Operating Revenues</td>
<td><strong>$1,314,597</strong></td>
<td><strong>$1,389,496</strong></td>
<td><strong>$1,461,180</strong></td>
<td><strong>$1,529,335</strong></td>
<td><strong>$1,592,328</strong></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Instructional and departmental research</td>
<td>$616,170</td>
<td>$657,863</td>
<td>$688,363</td>
<td>$707,519</td>
<td>$735,460</td>
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<td>Academic support</td>
<td>$111,345</td>
<td>$106,103</td>
<td>$109,833</td>
<td>$112,528</td>
<td>$107,578</td>
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<tr>
<td>Sponsored programs</td>
<td>$194,404</td>
<td>$187,393</td>
<td>$189,642</td>
<td>$203,668</td>
<td>$224,011</td>
</tr>
<tr>
<td>Auxiliaries</td>
<td>$190,756</td>
<td>$202,485</td>
<td>$213,859</td>
<td>$214,394</td>
<td>$220,587</td>
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<tr>
<td>General and administrative</td>
<td>$147,612</td>
<td>$145,669</td>
<td>$160,120</td>
<td>$168,965</td>
<td>$164,103</td>
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<td>Other expenses</td>
<td>$35,359</td>
<td>$33,930</td>
<td>$36,904</td>
<td>$36,403</td>
<td>$36,896</td>
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<tr>
<td>Total Operating Expenses</td>
<td><strong>$1,295,646</strong></td>
<td><strong>$1,333,443</strong></td>
<td><strong>$1,398,721</strong></td>
<td><strong>$1,443,477</strong></td>
<td><strong>$1,488,635</strong></td>
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<tr>
<td>Net Operating Results</td>
<td>$18,951</td>
<td>$56,053</td>
<td>$62,459</td>
<td>$85,858</td>
<td>$103,693</td>
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<tr>
<td>Nonoperating Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Undistributed investment gains/losses</td>
<td>$104,765</td>
<td>$184,062</td>
<td>$1,795</td>
<td>$(295,244)</td>
<td>$71,771</td>
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<td>Contribution revenue</td>
<td>$30,189</td>
<td>$20,642</td>
<td>$18,307</td>
<td>$34,382</td>
<td>$61,869</td>
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<td>Valuation adjustment</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td>Non-core real estate</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>50,656</td>
<td>(5,358)</td>
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<tr>
<td>Other</td>
<td>$53,780</td>
<td>$8,578</td>
<td>$(44,863)</td>
<td>28,293</td>
<td>$(54,367)</td>
</tr>
<tr>
<td>Total Nonoperating Results</td>
<td><strong>$188,734</strong></td>
<td><strong>$213,282</strong></td>
<td><strong>$24,761</strong></td>
<td><strong>$181,913</strong></td>
<td><strong>$73,915</strong></td>
</tr>
<tr>
<td>Total Results</td>
<td><strong>$207,685</strong></td>
<td><strong>$269,335</strong></td>
<td><strong>$37,698</strong></td>
<td><strong>$96,055</strong></td>
<td><strong>$177,608</strong></td>
</tr>
</tbody>
</table>

Sponsored Program Awards*

FY 1971 through FY 2010 (Millions)

* Excluding financial aid. FY 2004 includes $128.0 million for the construction of the National Emerging Infectious Diseases Laboratories (NEIDL).
How has this growth been financed? We have leveraged our financial operating discipline to generate the funding to support this growth. We have built new research facilities and renovated others through a combination of cash reserves, debt financing, and dedicated grant funding.

The Recession and Its Impact
Boston University took action during the early days of the recession by freezing staff hiring and curtailing capital spending. The goal? Position the University to weather the capital crisis and address what would be our biggest challenge: the increase in financial aid needed by those students (and their families) affected by the recession.

To help achieve that goal, we realigned our budget moving into the fall of 2009 and eliminated approximately 86 staff positions. By doing so, we were able to maintain our commitment to the University’s Strategic Plan and continue to create new faculty positions throughout the 2009 and 2010 academic years.

Moving Forward
Heading into the new decade, our investment strategy is focused on the long-term growth of our resources. We are doing well in this regard. If you look at our investment returns over the last five years (2006–2010), we have averaged 5.8 percent annually, placing our performance in the top quartile of all college and university endowments, as reported by Cambridge Associates.

To buffer the University’s programs against the effects of inevitable years of weaker returns, the annual income from the endowment to the academic units is computed by applying a percentage to the average endowment market value over a rolling five-year series of historical quarterly market values. So far, in this recession, this averaging has protected us from any decrease in actual income.

Fundraising
We have made good strides in fundraising, even in a recessionary economy. Last year saw us raise $85 million in gifts and $84.3 million in formal pledges, for the best combined year in the University’s history.

Boston University has ambitious plans for the years to come. To achieve these goals, we will need to combine our traditional approach of coupling entrepreneurial leadership and disciplined fiscal management with the philanthropic help of our alumni and friends. If we can do that, we will be poised to continue building our reputation as one of the great private research universities in the world.

Boston University Financials

REVENUE

TOTAL REVENUE = $1,592.3 MILLION

EXPENSE

TOTAL EXPENSE = $1,488.6 MILLION
Consolidated Financial Statements 2010 and 2009
Report of Independent Auditors

To the Board of Trustees of Boston University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Boston University (the “University”) at June 30, 2010 and 2009, and the results of its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, the University elected to record certain financial assets and liabilities at fair value, as of July 1, 2008. In accordance with the transition provisions of ASC 825—Financial Instruments, the 2009 consolidated financial statements include the cumulative effect of adopting this accounting principle as of July 1, 2008.

Boston, Massachusetts
October 8, 2010
## Consolidated Statements of Financial Position

### June 30, 2010 and 2009 ($000)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (Note 2)</td>
<td>$ 448,345</td>
<td>$ 404,647</td>
</tr>
<tr>
<td>Cash and cash equivalents—restricted (Note 2)</td>
<td>127,815</td>
<td>115,847</td>
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<tr>
<td>Short-term investments (Note 2)</td>
<td>5,840</td>
<td>7,173</td>
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<tr>
<td>Accounts receivable, net of allowance (Note 3)</td>
<td>153,569</td>
<td>155,330</td>
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<tr>
<td>Pledges receivable, net of allowance (Note 3)</td>
<td>84,292</td>
<td>50,291</td>
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<tr>
<td>Prepaid expenses and other assets (Note 4)</td>
<td>153,569</td>
<td>155,330</td>
</tr>
<tr>
<td>Investment in residual asset note (Note 2)</td>
<td>38,457</td>
<td>34,535</td>
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<tr>
<td>Long-term investments (Note 2)</td>
<td>1,150,614</td>
<td>1,065,877</td>
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<tr>
<td>Property, plant, and equipment, net (Note 4)</td>
<td>1,851,596</td>
<td>1,849,617</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 3,943,758</strong></td>
<td><strong>$ 3,762,772</strong></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
</tr>
<tr>
<td>Accrued payroll and related expenses.</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses (Notes 4, 5, and 6).</td>
</tr>
<tr>
<td>Short-term lines of credit (Note 5).</td>
</tr>
<tr>
<td>Deferred income and student deposits.</td>
</tr>
<tr>
<td>Annuities payable</td>
</tr>
<tr>
<td>Capital lease obligation (Note 7).</td>
</tr>
<tr>
<td>Discounted note obligation (Note 2)</td>
</tr>
<tr>
<td>Bonds, notes, and mortgages payable, net of unamortized bond premium/discount (Note 5).</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

| Net assets:                |
| Unrestricted:             |
| Allocated for designated purposes | 1,077,251  | 1,005,721  |
| Available for general purposes | 16,204     | 15,978     |
| **Total unrestricted**    | **1,093,455** | **1,021,699** |
| Temporarily restricted     | 422,002    | 366,066    |
| Permanently restricted     | 364,384    | 314,468    |
| **Total net assets**       | **$ 1,879,841** | **$ 1,702,233** |

| **Total liabilities and net assets** | **$ 3,943,758** | **$ 3,762,772** |

The accompanying notes are an integral part of the consolidated financial statements.
## Consolidated Statements of Activities

For the years ended June 30, 2010 and 2009

($000)

### OPERATING REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student tuition and fees</td>
<td>$ 1,004,002</td>
<td>$</td>
<td>$</td>
<td>$ 1,004,002</td>
</tr>
<tr>
<td>Student aid</td>
<td>(260,793)</td>
<td>(260,793)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored programs</td>
<td>224,011</td>
<td></td>
<td></td>
<td>224,011</td>
</tr>
<tr>
<td>Gifts</td>
<td>27,973</td>
<td>619</td>
<td></td>
<td>28,592</td>
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<tr>
<td>Sales and services</td>
<td>109,098</td>
<td></td>
<td></td>
<td>109,098</td>
</tr>
<tr>
<td>Spending formula amount and other investment income (Note 2)</td>
<td>6,963</td>
<td>25,059</td>
<td></td>
<td>32,022</td>
</tr>
<tr>
<td>Recovery of facilities and administrative costs</td>
<td>155,405</td>
<td></td>
<td></td>
<td>155,405</td>
</tr>
<tr>
<td>Sponsored program income for student aid</td>
<td>23,518</td>
<td></td>
<td></td>
<td>23,518</td>
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<tr>
<td>Other income</td>
<td>260,232</td>
<td></td>
<td></td>
<td>260,232</td>
</tr>
<tr>
<td>Student aid</td>
<td>(3,402)</td>
<td></td>
<td></td>
<td>(3,402)</td>
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<tr>
<td>Net assets released from restrictions</td>
<td>30,116</td>
<td>(30,116)</td>
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<tr>
<td>Contributions used for operations</td>
<td>4,133</td>
<td></td>
<td></td>
<td>4,133</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>1,592,633</td>
<td>(305)</td>
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<td>1,592,328</td>
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</table>

### OPERATING EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
</tr>
</thead>
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<tr>
<td>Instruction and departmental research</td>
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<td>Educational support activities</td>
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<td>Sponsored programs</td>
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<td>Libraries</td>
<td>23,673</td>
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<tr>
<td>General and administrative</td>
<td>164,103</td>
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<tr>
<td>Student aid</td>
<td>13,223</td>
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<td>Auxiliary enterprises</td>
<td>220,587</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>1,488,635</td>
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</table>

**Net operating gain (loss)**

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
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</thead>
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<tr>
<td>103,998</td>
<td>(305)</td>
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<td>103,693</td>
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### NONOPERATING REVENUES AND (EXPENSES)

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
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<tbody>
<tr>
<td>Contribution revenue</td>
<td>4,161</td>
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<tr>
<td>Contributions used for operations</td>
<td>(4,133)</td>
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<tr>
<td>Spending formula amount and other investment income (Note 2)</td>
<td>1,644</td>
</tr>
<tr>
<td>Excess (deficit) of investment return over spending formula amount (Note 2)</td>
<td>29,754</td>
</tr>
<tr>
<td>Net realized and unrealized losses on interest rate exchange agreements</td>
<td>(67,000)</td>
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<tr>
<td>Cumulative effect of initial application of new accounting principle (Note 2)</td>
<td>(67,000)</td>
</tr>
<tr>
<td>Change in value of designated non-core institutional real estate (Note 2)</td>
<td>(5,358)</td>
</tr>
<tr>
<td>Post-retirement related changes other than net periodic pension cost (Note 6)</td>
<td>(4,215)</td>
</tr>
<tr>
<td>Other additions (deductions), net</td>
<td>8,772</td>
</tr>
<tr>
<td><strong>Net nonoperating income (loss)</strong></td>
<td>(32,242)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>71,756</td>
</tr>
<tr>
<td>Beginning net assets</td>
<td>1,021,699</td>
</tr>
<tr>
<td><strong>Ending net assets</strong></td>
<td>$ 1,093,455</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
## Consolidated Statements of Activities

*For the years ended June 30, 2010 and 2009*  
($000)

### OPERATING REVENUES

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2009</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees</td>
<td>(244,169)</td>
<td>(244,169)</td>
<td>(244,169)</td>
</tr>
<tr>
<td>Gifts</td>
<td>25,368</td>
<td>25,368</td>
<td>25,368</td>
</tr>
<tr>
<td>Sales and services</td>
<td>111,661</td>
<td>111,661</td>
<td>111,661</td>
</tr>
<tr>
<td>Recovery of facilities and administrative costs</td>
<td>33,475</td>
<td>33,475</td>
<td>33,475</td>
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<tr>
<td>Other income</td>
<td>214,394</td>
<td>214,394</td>
<td>214,394</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>1,529,563</td>
<td>1,529,563</td>
<td>1,529,335</td>
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### OPERATING EXPENSES

<table>
<thead>
<tr>
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<th>Temporarily Unrestricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction and departmental research</td>
<td>203,668</td>
<td>203,668</td>
<td>203,668</td>
</tr>
<tr>
<td>Educational support activities</td>
<td>168,965</td>
<td>168,965</td>
<td>168,965</td>
</tr>
<tr>
<td>General and administrative</td>
<td>12,338</td>
<td>12,338</td>
<td>12,338</td>
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<tr>
<td>Student aid</td>
<td>214,394</td>
<td>214,394</td>
<td>214,394</td>
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<tr>
<td>Total operating expenses</td>
<td>1,443,477</td>
<td>1,443,477</td>
<td>1,443,477</td>
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</tbody>
</table>

### NONOPERATING REVENUES AND (EXPENSES)

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution revenue</td>
<td>16,220</td>
<td>16,115</td>
<td>17,488</td>
</tr>
<tr>
<td>Contributions used for operations</td>
<td>5,347</td>
<td>(1,224)</td>
<td>(295,244)</td>
</tr>
<tr>
<td>Net realized and unrealized losses on interest rate exchange agreements (Note 5)</td>
<td>(59,942)</td>
<td>(59,942)</td>
<td>(59,942)</td>
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<tr>
<td>Change in value of designated non-core institutional real estate (Note 7)</td>
<td>31,123</td>
<td>31,123</td>
<td>31,123</td>
</tr>
<tr>
<td>Post-retirement related changes other than net periodic pension cost (Note 6)</td>
<td>17,488</td>
<td>17,488</td>
<td>17,488</td>
</tr>
<tr>
<td>Other additions (deductions), net</td>
<td>9,624</td>
<td>76</td>
<td>31,906</td>
</tr>
<tr>
<td>Net nonoperating income (loss)</td>
<td>(181,913)</td>
<td>(181,913)</td>
<td>(181,913)</td>
</tr>
</tbody>
</table>

### Change in net assets

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning net assets</td>
<td></td>
<td></td>
<td>1,702,233</td>
</tr>
<tr>
<td>Ending net assets</td>
<td>314,468</td>
<td>314,468</td>
<td>314,468</td>
</tr>
<tr>
<td></td>
<td>366,066</td>
<td>366,066</td>
<td>366,066</td>
</tr>
<tr>
<td></td>
<td>1,021,699</td>
<td>1,021,699</td>
<td>1,021,699</td>
</tr>
</tbody>
</table>

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

Consolidated Statements of Cash Flows

For the years ended June 30, 2010 and 2009
($000)

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets ........................................... $ 177,608 $ (96,055)
Adjustments to reconcile change in net assets to net cash
provided by operating activities:
Depreciation ......................................................... 88,426 77,985
Loss on debt extinguishment ...................................... 541 186
Cumulative effect of initial application of new accounting principle ................................ (31,123)
Change in value of designated non-core institutional real estate ........................................ 3,629 (50,656)
Loss on disposal of property and equipment ................... 41,229 40,622
Unrealized losses on interest rate exchange agreements ........ 17,083
Settlement on swap replacement transactions, net .......... (205) (198)
Amortization of bond premium/discount ....................... (109)
Net realized and unrealized losses (gains) on investments (96,526) 272,967
Provision for bad debts ............................................ 3,495 (4,727)
Restricted and temporarily restricted contributions .......... (19,545) (6,074)
Gifts of securities and property ................................ 8,149
Changes in operating assets and liabilities:

(Increase) decrease in accounts receivable .................. 502 (6,737)
(Increase) in pledges receivable ................................. (36,212) (18,458)
(Increase) decrease in prepaid expenses and other assets (4,314) 468
(Decrease) increase in accounts payable, accrued expenses, and minority interest (1,971) 6,173
(Decrease) increase in accrued payroll and related expenses 7,900 (10,887)
(Decrease) increase in deferred income and student deposits 3,971 (308)
Net cash provided by operating activities before swap termination 177,352 174,737
Payment on swap termination ..................................... (54,876)
Net cash provided by operating activities ..................... 122,476 119,861

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchases of investments ........................................ 381,066 (247,779)
Proceeds from sales and maturities of investments ........... 396,788 300,174
Purchases of property and equipment ......................... (96,741) (154,877)
Proceeds from gifts of securities and property ................ 8,149
(Increase) decrease in cash equivalents-restricted ......... (11,968) 99,326
Net cash used in investing activities .......................... (84,838) (3,156)

CASH FLOWS FROM FINANCING ACTIVITIES:
Payment of bonds, notes, and mortgages ...................... (120,957) (79,042)
(Decrease) increase in annuity obligations .................. (95) 330
Bond issuance costs ............................................. (782)
Proceeds (payments) from short-term borrowings .......... 42,500 42,500
Proceeds from bonds and notes payable ........................ 117,370 50,000
Restricted contributions ......................................... 19,545 6,074
Payment on swap replacement transactions .................. (17,083)
Net cash (used in) provided by financing activities before swap replacement transactions .... (44,502) 19,862
Proceeds from swap settlements ................................ 58,570
Net cash (used in) provided by financing activities ........ (44,502) 78,432
Unrealized gains on currency exchange ....................... (4,314) (10,338)
Net increase in cash and cash equivalents ................... 43,698 184,799
Cash and cash equivalents beginning of year ................. 404,647 219,868
Cash and cash equivalents end of year ........................ $ 448,345 $ 404,647

Supplemental disclosure of non-cash information:
Property and equipment included in accounts payable ....... $ 9,382 $ 9,464

The accompanying notes are an integral part of the consolidated financial statements.
Notes to Consolidated Financial Statements

For the years ended June 30, 2010 and 2009

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 17 schools and colleges.

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

Summary of Significant Accounting Policies:

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

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

Certain June 30, 2009 balances previously reported have been reclassified to conform to the June 30, 2010 presentation.

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

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

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

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.

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net realized and unrealized gain on endowment</td>
<td>$288,521</td>
<td>$246,080</td>
</tr>
<tr>
<td>Life income and annuity funds</td>
<td>13,934</td>
<td>11,021</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>40,918</td>
<td>35,422</td>
</tr>
<tr>
<td>Contributions restricted for plant</td>
<td>78,197</td>
<td>72,864</td>
</tr>
<tr>
<td>Other contributions</td>
<td>432</td>
<td>679</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$422,002</strong></td>
<td><strong>$366,066</strong></td>
</tr>
</tbody>
</table>
The composition of permanently restricted net assets as of June 30, 2010 and 2009, in thousands of dollars, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment funds</td>
<td>$297,377</td>
<td>$276,538</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>43,374</td>
<td>14,869</td>
</tr>
<tr>
<td>Donor funds restricted for student loans</td>
<td>23,633</td>
<td>23,061</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$364,384</td>
<td>$314,468</td>
</tr>
</tbody>
</table>

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

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 between 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 the bond trustees that will be drawn down to fund various capital projects and costs of issuance. Collateral with counterparties under the terms of certain interest rate exchange agreements is also included in cash and cash equivalents—restricted. Cash posted with these counterparties is reflected as cash and cash equivalents—restricted on the Consolidated Statement of Financial Position.

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

Investments:
Investments in marketable securities are stated at fair value as determined by the quoted market prices of publicly traded securities. Alternative investments, for which fair value quotations are not readily available, are valued by the general partnership or fund manager, and are reviewed by management for reasonableness. Estimated values are subject to uncertainty and, therefore, may differ significantly from the value that would have been used had the investments been traded on a public market. The average cost method is used for calculating realized gains. The investment portfolio is reflected on a trade-date basis.
Net gains and losses are classified as unrestricted net assets unless they are restricted by a donor or the law. Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the University in accordance with donor restrictions and Massachusetts law.

The University owns shares in certain University business-related real estate partnerships ranging from 20 to 50%, which have been accounted for using the equity method within the Consolidated Statement of Financial Position. The University’s ownership interest in these partnerships has been recorded within long-term investments on the Consolidated Statement of Financial Position.

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

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

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

**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 accumulated depreciation thereon is removed from the accounts, and gains and losses are included in non-operating activity in the Consolidated Statement of Activities.

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

All capital expenditures for, and gifts of, land, buildings, equipment, and library books are recorded as additions when the assets are placed in service, and carried at cost at the date of the acquisition or fair value at the date of donation. Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University acquires equipment or other assets through the use of federal funds. In most cases, the University continues to maintain the assets after the grant 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 are depreciated from 12 to 50 years, by using the distinct useful lives for each major building component; equipment, 2 to 20 years; and library books, 10 years.

Depreciation for the years ended June 30, 2010 and 2009 was $88,426,000 and $77,985,000, 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
Notes to Consolidated Financial Statements

For the years ended June 30, 2010 and 2009

to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Consolidated Statement of Activities.

The asset retirement obligation at June 30, 2010 and 2009 was $12,238,000 and $11,752,000, 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 $260,793,000 and $244,169,000 for the years ended June 30, 2010 and 2009, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $3,402,000 and $2,638,000 for the years ended June 30, 2010 and 2009, respectively, has been classified as a reduction of auxiliary enterprises (room and board) revenue.

Student aid in addition to tuition, fees, room and board in the amount of $13,223,000 and $12,338,000 for the years ended June 30, 2010 and 2009, 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. The University records gifts of patents that are accepted solely for future use in educational or scientific research at a nominal value. Gifts with donor-imposed restrictions, which are reported as temporarily restricted revenues, are reclassified to unrestricted net assets when an expense is incurred that satisfies the restriction.

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation and maintenance of plant</td>
<td>$96,795</td>
<td>$96,612</td>
</tr>
<tr>
<td>Interest on indebtedness</td>
<td>34,727</td>
<td>36,392</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>88,426</td>
<td>77,985</td>
</tr>
</tbody>
</table>

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

Total investments by type as of June 30, 2010 and 2009, in thousands of dollars, were as follows:

<table>
<thead>
<tr>
<th>Summary by Investment Type</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>$576,160</td>
<td>$576,160</td>
<td>$520,494</td>
<td>$520,494</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>73,170</td>
<td>79,583</td>
<td>71,189</td>
<td>69,932</td>
</tr>
<tr>
<td>Global Equities</td>
<td>251,813</td>
<td>275,267</td>
<td>278,979</td>
<td>298,864</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>176,022</td>
<td>195,428</td>
<td>137,456</td>
<td>134,477</td>
</tr>
<tr>
<td>Non-Marketable Alternatives</td>
<td>254,148</td>
<td>224,107</td>
<td>253,674</td>
<td>216,967</td>
</tr>
<tr>
<td>Real Assets</td>
<td>393,618</td>
<td>382,069</td>
<td>384,997</td>
<td>352,810</td>
</tr>
<tr>
<td>Other</td>
<td>38,457</td>
<td>38,457</td>
<td>34,535</td>
<td>34,535</td>
</tr>
<tr>
<td>Total</td>
<td>$1,763,988</td>
<td>$1,771,071</td>
<td>$1,681,324</td>
<td>$1,628,079</td>
</tr>
</tbody>
</table>

Money market investments totaling $576,160,000 and $520,494,000 as of June 30, 2010 and 2009, respectively, included in the table above represent cash and cash equivalents and cash and cash equivalents—restricted as reported on the Consolidated Statement of Financial Position. These totals include $572,000 and $4,835,000 of cash on hand and cash in banks as of June 30, 2010 and 2009, respectively.

Non-Core Institutional Real Estate:
In fiscal year 2009, the University elected to record its investments in designated non-core institutional real estate at fair value. Accordingly, the University changed the valuation methodology related to these investments in designated non-core institutional real estate from cost less accumulated depreciation to fair value. The University has recorded a change in value of ($5,358,000) and $50,656,000 during the years ended June 30, 2010 and 2009, respectively, related to these investments. The investments in designated non-core institutional real estate have been recorded at fair value of $241,414,000 and $240,570,000 as of June 30, 2010 and 2009, respectively, within the real assets category of long-term investments.

Residual Asset Note:
In June 2006, the University securitized its interest in an investment banking partnership which owned rights to residual future cash flows. To effect the securitization, the rights to receive the future cash flows were transferred from the University to a 100% owned, bankruptcy remote, special purpose, limited liability corporation called BU Funding, LLC (“LLC”). To finance the transaction, the LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust (“DBLF”), collateralized by the LLC’s rights to the future cash flow stream. The note has a face value of $88,227,000, which is 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, 2010 and 2009, the carrying values of the discounted note obligation was $38,457,000 and $34,535,000, respectively.

In fiscal year 2009, the University adopted the fair value option for certain financial assets and liabilities. As a result, the University has recorded a cumulative effect adjustment which increased unrestricted net assets by $31,123,000 and has also recorded the asset at its fair value of $38,457,000 and $34,535,000 on the Consolidated Statement of Financial Position at June 30, 2010 and 2009, respectively.

The LLC is consolidated in the financial statements of the University. The LLC’s discounted note obligation is recorded as a liability and its investment has been recorded as an asset on the Consolidated Statement of Financial Position. The valuation of this investment is based on a present value analysis using readily available observable market discount factors applied to contractually committed cash inflows and outflows. The discount on the note will be amortized over its scheduled maturity using the effective interest method and the note obligation will also decrease as future residual cash flows are received. Future unrealized gains and losses associated with the investment will be recorded as an offset to the amortization. As a result, the note and the related asset are expected to accrete to a maximum value of $54,300,000 in 2014, declining thereafter to a balance of zero in 2021. Upon expected extinguishment of the note in 2021, the University remains the beneficiary of $39,700,000 of cash flows scheduled for 2022–2035. Due to the uncertainty of the timing and ultimate amount of the additional cash flows, the University has recorded a nominal value for these flows. The risk of any disruption of future cash flows is considered remote, as the two principal risks that could cause a disruption have been assumed by DBLF.
The following summarizes, in thousands of dollars, the investment return, as reflected in the Consolidated Statement of Activities:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2010 Total</th>
<th>2009 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend and interest income</td>
<td>$ 7</td>
<td>$ 11,904</td>
<td>$ 18</td>
<td>$ 11,929</td>
<td>$ 18,916</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses)</td>
<td>38,354</td>
<td>57,660</td>
<td>513</td>
<td>96,527</td>
<td>(272,967)</td>
</tr>
<tr>
<td>Total return on investments</td>
<td>38,361</td>
<td>69,564</td>
<td>513</td>
<td>108,456</td>
<td>(254,051)</td>
</tr>
<tr>
<td>Less: Spending formula amount</td>
<td>(7,425)</td>
<td>(28,060)</td>
<td>(18)</td>
<td>(35,485)</td>
<td>(33,674)</td>
</tr>
<tr>
<td>Less: Other non-endowment income</td>
<td>(1,182)</td>
<td></td>
<td>(18)</td>
<td>(1,200)</td>
<td>(7,519)</td>
</tr>
<tr>
<td>Excess (deficit) of investment return over spending formula amount</td>
<td>$ 29,754</td>
<td>$ 41,504</td>
<td>$ 513</td>
<td>$ 71,771</td>
<td>$(295,244)</td>
</tr>
</tbody>
</table>

A pooled endowment fund is included as part of the University’s investments. Total endowment assets at June 30, 2010 and 2009 are $1,022,401,000 and $916,291,000, respectively. The amounts distributed from the investment yield of pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution is based on fixed quarterly amounts per unit and is calculated as 4% of a twenty-quarter moving average of pooled endowment fund market values. During the fiscal years ended June 30, 2010 and 2009, 3.8% and 3.6%, respectively, represented the distribution as a percentage of the ending fair value of the pooled endowment fund for the five preceding quarters.

At June 30, 2010 and 2009, respectively, approximately $2,385,000 and $5,188,000 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.

As of June 30, 2010, investment commitments to venture capital limited partnerships and private equity funds are approximately $121,800,000 and are expected to be drawn down by the general partners over the next six years in accordance with the individual investment periods of the underlying partnerships.

Fair Value Measurements:

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

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

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

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

The following table presents the financial instruments carried at fair value as of June 30, 2010 and 2009 categorized by the valuation hierarchy defined above, in thousands of dollars:

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>$520,494</td>
<td>$</td>
<td>$</td>
<td>$520,494</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>38,355</td>
<td>31,577</td>
<td>69,932</td>
<td></td>
</tr>
<tr>
<td>Global Equities &amp; Convertibles</td>
<td>152,093</td>
<td>119,974</td>
<td>298,864</td>
<td></td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>13,417</td>
<td>121,060</td>
<td>216,967</td>
<td></td>
</tr>
<tr>
<td>Non-Marketable Alternatives</td>
<td>134,085</td>
<td>218,725</td>
<td>352,810</td>
<td></td>
</tr>
<tr>
<td>Real Assets</td>
<td>34,535</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Marketable Alternatives</td>
<td>216,967</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Investments</td>
<td>$710,942</td>
<td>$333,588</td>
<td>$583,549</td>
<td>$1,628,079</td>
</tr>
<tr>
<td>Split-interest agreements held by third parties</td>
<td>$3,692</td>
<td>$3,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets at fair value</td>
<td>$710,942</td>
<td>$333,588</td>
<td>$587,241</td>
<td>$1,631,771</td>
</tr>
</tbody>
</table>

### Liabilities at fair value

- Interest rate exchange liabilities: $152,714
- Total liabilities at fair value: $152,714

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

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

The net realized and unrealized gains (losses) in the table above are reflected in excess (deficit) of investment return over spending formula amount in the accompanying Consolidated Statement of Activities. Net unrealized gains (losses) relate to those financial instruments held by the University at June 30, 2010. Reclassifications into Level 2 are included as of July 1, 2009.

On July 1, 2009, the University adopted the Fair Value Measurements standard for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with U.S. GAAP. As a practical expedient, the University is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with U.S. GAAP. The University’s investments in private equity, real estate, and marketable alternatives are fair valued based on the most current NAV.

The University has adopted a policy that defines near-term liquidity as those investments allowing liquidity within twelve months of the reporting period. Included in Level 2 are assets valued at NAV which are redeemable in the near term. Investments offering periodic transparency with opportunities for liquidity within twelve months of the reporting period generally consist of commingled funds and are reported in Level 2. This policy is consistent with several large research universities.
The following table summarizes all such investments recorded at NAV categorized based on the risk and return characteristics of the investments.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Unfunded Commitments</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity Funds</td>
<td>$183,003</td>
<td>$6,000</td>
<td>Monthly–Annually</td>
<td>15–92 Days</td>
</tr>
<tr>
<td>Real Asset Funds</td>
<td>$52,720</td>
<td></td>
<td>Daily–Annually</td>
<td>4–60 Days</td>
</tr>
<tr>
<td>Private Equity Funds</td>
<td>$206,543</td>
<td>$88,268</td>
<td>At maturity</td>
<td>n/a</td>
</tr>
<tr>
<td>Private Real Estate Funds</td>
<td>$49,946</td>
<td>$33,515</td>
<td>At maturity</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$687,640</strong></td>
<td><strong>$127,783</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

**Endowment Funds:**

Net asset classification of donor-restricted endowment funds for a not-for-profit organization is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). The Commonwealth of Massachusetts adopted UPMIFA effective for institutional funds existing on or established after June 30, 2009.

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

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

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor Restricted</td>
<td>$ (2,385)</td>
<td>$ 302,454</td>
<td>$ 297,377</td>
<td>$ 597,446</td>
</tr>
<tr>
<td>Institution Designated</td>
<td>370,444</td>
<td></td>
<td></td>
<td>370,444</td>
</tr>
<tr>
<td>Endowment Net Assets at end of year</td>
<td>$ 368,059</td>
<td>$ 302,454</td>
<td>$ 297,377</td>
<td>$ 967,890</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor Restricted</td>
<td>$ (5,188)</td>
<td>$ 257,100</td>
<td>$ 276,538</td>
<td>$ 528,450</td>
</tr>
<tr>
<td>Institution Designated</td>
<td>341,319</td>
<td></td>
<td></td>
<td>341,319</td>
</tr>
<tr>
<td>Total Endowment Net Assets</td>
<td>$ 336,131</td>
<td>$ 257,100</td>
<td>$ 276,538</td>
<td>$ 869,769</td>
</tr>
</tbody>
</table>
The following table represents changes in endowment net assets for the fiscal year ended June 30, 2009, in thousands of dollars:

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

3. Accounts Receivable and Pledges Receivable

Accounts Receivable:
Accounts and loans receivable at June 30, 2010 and 2009, in thousands of dollars, consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, net:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td>$ 15,072</td>
<td>$ 15,144</td>
</tr>
<tr>
<td>Less allowances</td>
<td>(6,069)</td>
<td>(5,894)</td>
</tr>
<tr>
<td></td>
<td>9,003</td>
<td>9,250</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>41,588</td>
<td>53,004</td>
</tr>
<tr>
<td>Departmental sales, services, and other</td>
<td>39,474</td>
<td>30,303</td>
</tr>
<tr>
<td>Less allowances</td>
<td>(6,981)</td>
<td>(5,804)</td>
</tr>
<tr>
<td></td>
<td>74,081</td>
<td>77,503</td>
</tr>
<tr>
<td>Student loans</td>
<td>73,525</td>
<td>71,685</td>
</tr>
<tr>
<td>Less allowances</td>
<td>(3,040)</td>
<td>(3,108)</td>
</tr>
<tr>
<td></td>
<td>70,485</td>
<td>68,577</td>
</tr>
<tr>
<td>Total</td>
<td>$ 153,569</td>
<td>$ 155,330</td>
</tr>
</tbody>
</table>

Total allowances for doubtful accounts as of June 30, 2010 and 2009 are $16,090,000 and $14,806,000, respectively.

Included in accounts receivable at June 30, 2010 and 2009 is $2,099,000 and $1,324,000, 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, 2010 and 2009, to certain employees. The aggregated amount as of June 30, 2010 and 2009 is $4,464,000 and $3,927,000, respectively.
Notes to Consolidated Financial Statements

For the years ended June 30, 2010 and 2009

Pledges Receivable:
Pledges, net of discounts and allowances, in the amount of $84,292,000 and $50,291,000, are recorded as a receivable with the revenue assigned to the appropriate net asset category for fiscal years 2010 and 2009, respectively. Pledges consist of unconditional written promises to contribute to the University in the future. At June 30, 2010 and 2009, pledges, in thousands of dollars, are expected to be realized in the following time frame:

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>$32,330</td>
<td>$20,667</td>
</tr>
<tr>
<td>Between one year and five years</td>
<td>53,432</td>
<td>27,502</td>
</tr>
<tr>
<td>More than five years</td>
<td>13,167</td>
<td>12,534</td>
</tr>
<tr>
<td>Discount to present value</td>
<td>(9,530)</td>
<td>(7,516)</td>
</tr>
<tr>
<td>Less allowance for unfulfilled pledges</td>
<td>(5,107)</td>
<td>(2,896)</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>$84,292</td>
<td>$50,291</td>
</tr>
</tbody>
</table>

In fiscal year 2010, the University announced the receipt of a $25,000,000 pledge to be received over the next five years. This contribution is recorded as a pledge receivable and is included in the table above. This is the largest individual contribution the University has ever received.

4. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2010 and 2009, in thousands of dollars, consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$69,060</td>
<td>$69,060</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>2,006,677</td>
<td>1,847,738</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>319,211</td>
<td>439,243</td>
</tr>
<tr>
<td>Equipment</td>
<td>224,723</td>
<td>200,140</td>
</tr>
<tr>
<td>Library books</td>
<td>152,400</td>
<td>134,563</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(2,772,071)</td>
<td>(2,690,744)</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>$1,851,596</td>
<td>$1,849,617</td>
</tr>
</tbody>
</table>

As of June 30, 2010 and 2009, buildings and improvements include $84,692,000 associated with office and research space under capital lease.

Internally developed software costs as part of an Enterprise Resource System Implementation Project of $12,289,000 were capitalized in fiscal year 2010 and are included in construction in progress.

During fiscal year 2010, the University incurred capital expenditures of $5,773,000 for construction of the National Emerging Infectious Diseases Laboratory (NEIDL). These expenditures are included within construction in progress at June 30, 2010, and will be placed in service when the construction is complete and the projects are ready for their intended use.

Certain fully depreciated equipment amounting to approximately $9,078,000 and $3,079,000 was removed from the Consolidated Statement of Financial Position in 2010 and 2009, 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, $48,482,000 has been included in the University’s Consolidated Statement of Financial Position within prepaid expenses and other assets and accounts payable and accrued expenses at June 30, 2010.
5. Indebtedness

**Bonds and Notes Payable:**
The principal amounts of bonds and notes payable at June 30, 2010 and June 30, 2009, in thousands of dollars, are summarized in the table below. Bonds are issued through the Massachusetts Health and Educational Facilities Authority ("HEFA") and the Massachusetts Development Finance Agency ("MDFA").

<table>
<thead>
<tr>
<th>Final Bond Maturity</th>
<th>Interest Rate at June 30, 2010</th>
<th>Outstanding Principal 2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MDFA Series P, blended fixed rate</strong></td>
<td>5/15/59</td>
<td>5.63%</td>
<td>$100,000</td>
</tr>
<tr>
<td><strong>HEFA Series S, blended fixed rate</strong></td>
<td>10/1/39</td>
<td>4.71%</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>MDFA Series T-1</strong></td>
<td>10/1/39</td>
<td>5.00%</td>
<td>162,740</td>
</tr>
<tr>
<td><strong>MDFA Series T-2 (Taxable)</strong></td>
<td>10/1/30</td>
<td>5.27%</td>
<td>4,260</td>
</tr>
<tr>
<td><strong>MDFA Series U-4</strong></td>
<td>10/1/40</td>
<td>5.65%</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>MDFA Series V-1</strong></td>
<td>10/1/29</td>
<td>5.00%</td>
<td>44,000</td>
</tr>
<tr>
<td><strong>MDFA Series V-2</strong></td>
<td>10/1/14</td>
<td>2.88%</td>
<td>63,170</td>
</tr>
<tr>
<td><strong>Century Notes (Taxable)</strong></td>
<td>7/15/97</td>
<td>7.63%</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Aetna Loan (Taxable)</strong></td>
<td>9/15/18</td>
<td>10.20%</td>
<td>6,044</td>
</tr>
<tr>
<td><strong>Various notes payable (Taxable)</strong></td>
<td></td>
<td></td>
<td>4,604</td>
</tr>
<tr>
<td><strong>Total Fixed Rate Bonds and Notes Payable</strong></td>
<td></td>
<td></td>
<td>$580,018</td>
</tr>
<tr>
<td><strong>HEFA Series E, Capital Asset Program</strong></td>
<td>3/25/13</td>
<td>0.25%</td>
<td>$18,000</td>
</tr>
<tr>
<td><strong>HEFA Series H</strong></td>
<td>12/1/29</td>
<td>0.18%</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>HEFA Series N (Taxable)</strong></td>
<td>10/1/34</td>
<td>0.28%</td>
<td>133,400</td>
</tr>
<tr>
<td><strong>MDFA Series U-1</strong></td>
<td>10/1/40</td>
<td>0.22%</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>MDFA Series U-2</strong></td>
<td>10/1/40</td>
<td>0.23%</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>MDFA Series U-3</strong></td>
<td>10/1/40</td>
<td>0.23%</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>MDFA Series U-5A</strong></td>
<td>10/1/31</td>
<td>0.24%</td>
<td>40,200</td>
</tr>
<tr>
<td><strong>MDFA Series U-5B</strong></td>
<td>10/1/31</td>
<td>0.21%</td>
<td>41,900</td>
</tr>
<tr>
<td><strong>MDFA Series U-6A</strong></td>
<td>10/1/42</td>
<td>0.16%</td>
<td>62,850</td>
</tr>
<tr>
<td><strong>MDFA Series U-6B</strong></td>
<td>10/1/42</td>
<td>1.25%</td>
<td>52,800</td>
</tr>
<tr>
<td><strong>MDFA Series U-6C</strong></td>
<td>10/1/42</td>
<td>1.25%</td>
<td>62,800</td>
</tr>
<tr>
<td><strong>MDFA Series U-6D</strong></td>
<td>10/1/42</td>
<td>1.25%</td>
<td>62,800</td>
</tr>
<tr>
<td><strong>Royal Bank of Scotland (Taxable)</strong></td>
<td>8/15/29</td>
<td>1.11%</td>
<td>42,091</td>
</tr>
<tr>
<td><strong>Total Variable Rate Bonds Payable</strong></td>
<td></td>
<td></td>
<td>$628,681</td>
</tr>
<tr>
<td><strong>Total Bonds and Notes Payable</strong></td>
<td></td>
<td></td>
<td>$1,208,699</td>
</tr>
<tr>
<td><strong>Net Unamortized Bond Premium and Discount</strong></td>
<td></td>
<td></td>
<td>10,344</td>
</tr>
<tr>
<td><strong>Total Bonds and Notes Payable</strong></td>
<td></td>
<td></td>
<td>$1,219,043</td>
</tr>
</tbody>
</table>

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 $61,570,000 as of June 30, 2010. The University is also required to comply with certain annual financial covenants including a minimum level of debt service coverage and a minimum level of expendable resources relative to debt.

The fair value of the University’s bonds at June 30, 2010 is approximately $1,213,581,000. 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 $33,764,000 and $36,816,000 were incurred in fiscal years 2010 and 2009, respectively. These amounts are net of $607,000 and $3,633,000, in fiscal years 2010 and 2009, respectively, in interest capitalized as a cost of construction.
Scheduled principal payments on notes, bonds, and capital lease obligations of $84,692,000, in thousands of dollars, are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheduled Principal Maturities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 5,228</td>
</tr>
<tr>
<td>2012</td>
<td>5,417</td>
</tr>
<tr>
<td>2013</td>
<td>23,672</td>
</tr>
<tr>
<td>2014</td>
<td>6,085</td>
</tr>
<tr>
<td>2015</td>
<td>79,986</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,173,003</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,293,391</td>
</tr>
</tbody>
</table>

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

Included in the University’s debt is $568,590,000 of variable rate demand bonds (“VRDBs”). The University has entered into irrevocable letters of credit (“LOCs”) with a diverse group of financial institutions to secure bond repayment and interest obligations associated with these VRDBs. 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 it is assumed that all outstanding VRDBs are put as of July 1, 2010, aggregate scheduled repayments under the VRDB related LOCs would be as follows: $94,765,000, $189,530,000, $189,530,000, and $94,765,000 in 2011, 2012, 2013, and 2014, respectively. As of June 30, 2010, 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 remarked and was put back to the University.

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

In July 2010, the University substituted the existing LOC for Series U-6C provided by Allied Irish Banks, p.l.c. with a new LOC provided by JP Morgan Chase Bank, N.A.

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

In August 2009, the University’s Series U-5A and Series U-5B LOCs provided by RBS Citizens, N.A. were secured by an irrevocable standby LOC issued by the Federal Home Loan Bank of Boston. This transaction was completed to address the impact of the March 2009 downgrade of RBS Citizens’ public debt ratings.

In June 2009, the University converted $50,000,000 of Series U-4 tax exempt variable rate MDFA Revenue Bonds to a fixed rate with maturity dates in 2035 and 2040 at a blended fixed interest rate of 5.65%. The Series U-4 bonds were initially issued in May 2008. An amount of $186,000 consisting of the remaining unamortized bond issue costs relative to the refunded Series U-4 bonds is reflected as a deduction in the “Other additions (deductions)” line of the Consolidated Statement of Activities.

In September 2008, the University effected an early redemption of $21,950,000 of its outstanding Series 1999 tax-able Select Auction Variable Rate Securities (SAVRS).
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, 2010. Outstanding borrowings against the lines were $42,500,000 at June 30, 2009.

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, 2010 the University had interest rate exchange agreements in place with total notional amounts of $573,737,000 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, 2010, in thousands of dollars:

<table>
<thead>
<tr>
<th>Interest Rate Exchange Agreement</th>
<th>Notional Amount</th>
<th>Effective Date</th>
<th>Termination Date</th>
<th>University Pays</th>
<th>University Receives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series H</td>
<td>$25,000</td>
<td>10/30/1997</td>
<td>12/01/2027</td>
<td>5.28%</td>
<td>SIFMA*</td>
</tr>
<tr>
<td>Series N</td>
<td>24,345</td>
<td>10/30/1997</td>
<td>10/01/2027</td>
<td>6.79%</td>
<td>LIBOR*</td>
</tr>
<tr>
<td>Series U-1–3</td>
<td>150,000</td>
<td>10/01/2007</td>
<td>10/01/2040</td>
<td>3.97%**</td>
<td>69% of 1-Mo. USD LIBOR*</td>
</tr>
<tr>
<td>Series U-5</td>
<td>82,100</td>
<td>10/30/2001</td>
<td>10/01/2031</td>
<td>4.10%</td>
<td>LIBOR*</td>
</tr>
<tr>
<td>Series U-6</td>
<td>10,700</td>
<td>10/01/2002</td>
<td>10/01/2022</td>
<td>4.16%</td>
<td>LIBOR*</td>
</tr>
<tr>
<td>Series U-6</td>
<td>239,500</td>
<td>7/01/2008</td>
<td>10/01/2042</td>
<td>5.42%**</td>
<td>SIFMA*</td>
</tr>
<tr>
<td>Series V</td>
<td>73,370</td>
<td>12/04/2009</td>
<td>10/01/2014</td>
<td>SIFMA*</td>
<td>LIBOR*</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>42,092</td>
<td>8/15/2006</td>
<td>8/15/2029</td>
<td>5.65%</td>
<td>3-Mo. GBP LIBOR +45 basis points</td>
</tr>
</tbody>
</table>

*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 T swaption agreements, are recorded at an estimated fair value of $(193,943,000) and $(152,714,000) at June 30, 2010 and 2009, respectively, and are included in accounts payable and accrued expenses. The change in estimated market value of $(41,229,000) and $(40,622,000) in 2010 and 2009, respectively, is included in nonoperating losses on interest rate exchange.
agreements. The estimated market values of the interest rate exchange agreements were provided by the counterparties and validated by the University based on the net present value of the net fixed and floating future cash flows, with future floating flows estimated based on current forward interest rate yield curves. The discount rate was adjusted to reflect the risk of nonperformance. The total dollar adjustment for nonperformance risk reduced the recorded liability by $12,108,000 and $11,068,000 at June 30, 2010 and 2009, respectively. The fair value of interest rate exchange agreements, net of the nonperformance risk adjustment, is included in Level 2 within the valuation hierarchy defined in Note 2.

In fiscal years 2010 and 2009, the University paid net settlement costs on interest rate exchange agreements of $25,771,000 and $19,320,000, respectively. These net settlement costs have been recorded in nonoperating activities on the Consolidated Statement of Activities.

The University’s interest rate exchange agreements necessarily involve counterparty credit exposure. The counterparties for the University’s agreements are a diversified group of major financial institutions that meet the University’s criteria for financial stability and creditworthiness. Interest rate exchange agreements provide for two-way collateral posting requirements intended to mitigate credit risk. At June 30, 2010 and 2009, the University was required to post collateral in the amounts of $60,502,000 and $32,262,000, 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 rating change. Additionally, interest rate exchange contracts provide for early termination should either counterparty’s credit ratings fall below investment grade.

6. 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 $54,667,000 in fiscal year 2010 and $51,475,000 in fiscal year 2009.

**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 the fiscal year. The remaining $3,723,000 of plan assets were used to purchase additional benefits for the participants. The University is awaiting a final determination from the Internal Revenue Service on the plan termination filing. Once the final determination has been received, the University will complete the termination of the plan.

During fiscal year 2009, the University initiated the process to discontinue a plan option that offers subsidized health care coverage to employees who retire from the University after age 55 until age 65, provided they have at least ten consecutive years of participation in the plan at the time they retire. During fiscal year 2010, the effective date of this change was adjusted; previously, the change applied to employees terminating from the University on or after July 1, 2009; the 2010 change will apply to any employee who terminates from the University on or after September 1, 2009. The University provides modest life insurance benefits to retirees in the plan as of January 1, 2007. The program change resulted in an increase of the benefit liability from $14,740,000 in fiscal year 2009 to $15,806,000 in fiscal year 2010.
## Pension and other Post-retirement Benefit Plans at June 30, 2010 and 2009, in thousands of dollars:

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th></th>
<th>Other Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td></td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Change in Benefit Obligation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$3,723</td>
<td></td>
<td>$14,740</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>3</td>
<td></td>
<td>1,693</td>
<td></td>
</tr>
<tr>
<td>Interest cost</td>
<td>732</td>
<td></td>
<td>1,820</td>
<td></td>
</tr>
<tr>
<td>Plan amendments</td>
<td>384</td>
<td></td>
<td>(23,223)</td>
<td></td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>2,335</td>
<td></td>
<td>2,067</td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(2,388)</td>
<td></td>
<td>(2,414)</td>
<td></td>
</tr>
<tr>
<td>Settlements</td>
<td>(3,723)</td>
<td></td>
<td>15,806</td>
<td></td>
</tr>
<tr>
<td>Change in Plan Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>3,723</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td></td>
<td></td>
<td>(2,388)</td>
<td></td>
</tr>
<tr>
<td>Settlements</td>
<td>(3,723)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funded status</td>
<td>(15,806)</td>
<td></td>
<td>(14,740)</td>
<td></td>
</tr>
<tr>
<td>Net amount recognized</td>
<td>$</td>
<td></td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

**Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities:**
- Curtailment effects: $3,299
- Settlements: $2,335
- Current year actuarial gain: $1,978
- Current year prior service (credit)/cost: $384
- Amortization of prior service (credit)/cost: $3,474
- Total recognized in Statement of Activities: $4,215

**Amounts recognized in Statement of Financial Position consist of:**
- Accrued post-retirement benefit obligation: $15,806
- Net Assets consist of:
  - Net actuarial loss: $14,867
  - Prior service cost/(credit): $(18,097)
- Weighted-average Assumptions as of June 30 used to determine benefit obligation:
  - Discount rate: 4.45%
  - Initial health care trend: 8.00%
  - Ultimate health care trend: 5.00%
  - Years to reach ultimate: 6

For measurement purposes, an 8.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010 and 2009, respectively, decreasing at 1% per year thereafter until an ultimate rate of 5% in 2016.
Notes to Consolidated Financial Statements

For the years ended June 30, 2010 and 2009

Pension Benefits

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$</td>
</tr>
<tr>
<td>Interest cost</td>
<td>732</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>1,820</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>(3,474)</td>
</tr>
<tr>
<td>Curtailment gain</td>
<td>0</td>
</tr>
<tr>
<td>Amortization of actuarial loss</td>
<td>1,978</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$</td>
</tr>
</tbody>
</table>

Other Benefits

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Components of Net Periodic Benefit Cost

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:

<table>
<thead>
<tr>
<th>1% Point Increase</th>
<th>1% Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on total of service and interest cost components</td>
<td>$ 27</td>
</tr>
<tr>
<td>Effect on post-retirement benefit obligation</td>
<td>590</td>
</tr>
</tbody>
</table>

There was no accumulated benefit obligation at the end of the fiscal year 2010 and 2009.

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

Expected Cash Flows:
Information about the expected cash flows for the U.S. pension and other post-retirement benefit plans are in thousands of dollars, as follows:

Employer contributions

| 2011 (Expected) | $ 2,388 |

Expected benefit payments

| 2011 | 2,519 |
| 2012 | 2,400 |
| 2013 | 2,116 |
| 2014 | 1,921 |
| 2015 | 1,695 |
| 2016–2020 | 5,259 |

Other Benefits

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

7. 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. Amounts scheduled through the year 2038, in thousands of dollars, are summarized below:

<table>
<thead>
<tr>
<th>Operating</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 25,046</td>
</tr>
<tr>
<td>2012</td>
<td>26,060</td>
</tr>
<tr>
<td>2013</td>
<td>25,585</td>
</tr>
<tr>
<td>2014</td>
<td>24,777</td>
</tr>
<tr>
<td>2015</td>
<td>23,513</td>
</tr>
<tr>
<td>Thereafter</td>
<td>197,875</td>
</tr>
<tr>
<td>$ 322,856</td>
<td>$ 224,270</td>
</tr>
</tbody>
</table>

Less: Amounts representing interest |
Capital lease obligation |
Capital lease obligation |
$ 84,692 |
For the fiscal years 2010 and 2009 rent expense for educational facilities and office space was $24,328,000 and $22,174,000, 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 $58,083,000 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 $26,608,000 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 $14,931,000 at June 30, 2010.

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 $19,091,000 at June 30, 2010.

The University entered into a 20-year non-cancellable operating lease of 50% of a parking garage at 710 Albany Street in fiscal 2000. Minimum annual lease payments of $758,000 are included in the table above. The garage was constructed at a cost of $18,187,000 and is owned by a non-profit corporation in which the University has a 50% interest. The corporation had outstanding debt of $10,500,000 at June 30, 2010.

The University entered into a 10-year non-cancellable operating lease of an office property in fiscal 2001. Minimum annual lease payments of approximately $715,000 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 in which the University owns 45%. The real estate partnership had outstanding debt of $9,200,000 at June 30, 2010.

**Minority Interest:**

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

NIH committed $141,000,000 toward the construction cost of the NEIDL. The University and Boston Medical Center each committed $28,300,000 toward construction and each holds a 50% equity interest in the NEIDL. Both parties have the right to share equally in the future operating activities of the NEIDL. Because the University controls the activity associated with the NIH award, the costs of construction have been recorded on the University’s consolidated financial statements, and Boston Medical Center’s 50% equity interest has been recorded as a minority interest liability.

As of June 30, 2010, the University incurred expenditures of approximately $197,426,000 related to construction of the NEIDL, of which $139,578,000 and $27,382,000 have been reimbursed to the University by NIH and Boston Medical Center, respectively. $97,171,000 has been recorded as a minority interest liability on the consolidated financial statements, and $69,789,000 of the NIH reimbursement has been recorded as an increase to temporarily restricted net assets and will be released from restriction when the NEIDL is placed in service.

Construction of the NEIDL was substantially completed in fiscal 2009. The use of the building has been delayed due to pending litigation challenging the environmental permits obtained for the building.

As provided in the agreement between the University and Boston Medical Center for the construction and operation of the NEIDL, Boston Medical Center has advised the University of its election to withdraw from further participation in the NEIDL as of May 1, 2011. The University is in the process of assessing the impact of the Boston Medical Center’s withdrawal.
Other:
As of June 30, 2010, the University has commitments of approximately $136,939,000, 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 ten-year agreement to purchase approximately $910,000 annually in natural gas for the University’s East Campus Central Energy Plant. The agreement is expected to commence in November of 2010, upon the University successfully testing the supplier’s connection to the East Campus Central Energy Plant.

The University has formally agreed to support the Huntington Theatre, Inc., a nonprofit theatre production company over the next five years. The University has agreed to provide $410,000 in 2011, $300,000 in 2012 and 2013, and $200,000 in 2014 and 2015.

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 2011 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.

8. 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.

Included in the line item “Payment on swap termination,” the $54,876,000 termination amount paid to LBCB is reported on the Consolidated Statement of Cash Flows within cash flows from Operating Activities.

Included in the line item “Proceeds from replacement swap transactions,” the $58,570,000 offsetting amount received from the new counterparties is reported on the Consolidated Statement of Cash Flows within cash flows from financing activities.

On the Consolidated Statement of Activities, the net gain of approximately $3,694,000 realized by the University as a result of the above transactions in fiscal year 2009 is recorded in the Nonoperating Revenues section in the line item “Other additions (deductions), net.”

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

9. Subsequent Events

The University has assessed the impact of subsequent events through October 8, 2010, the date the Consolidated Financial Statements were issued, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements, other than the events described below.

In July 2010, the University received a pledge totaling $15,000,000, of which $1,000,000 has been paid through the date the financial statements were issued.
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Isaac Rich
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THE ASSOCIATE FOUNDERS
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Provost of the Medical Campus
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Vice President for Administrative Services
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Effective June 30, 2010

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