Boston University

Financial Statements
June 30, 2010 and 2009

BOSTON
UNIVERSITY

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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 8, 2010

June 30, 2010 and 2009
($000)

	2010	2009
ASSETS		
Cash and cash equivalents (Note 2)	$ 448,345	$ 404,647
Cash and cash equivalents—restricted (Note 2)	127,815	115,847
Short-term investments (Note 2)	5,840	7,173
Accounts receivable, net of allowance (Note 3)	153,569	155,330
Pledges receivable, net of allowance (Note 3)	84,292	50,291
Prepaid expenses and other assets (Note 4)	83,230	79,455
Investment in residual asset note (Note 2)	38,457	34,535
Long-term investments (Note 2)	1,150,614	1,065,877
Property, plant, and equipment, net (Note 4)	1,851,596	1,849,617
Total assets	$ 3,943,758	$ 3,762,772
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 125,763	$ 117,862
Accounts payable and accrued expenses (Notes 4, 5, and 6)	380,455	344,831
Short-term lines of credit (Note 5)		42,500
Deferred income and student deposits	102,149	98,177
Annuities payable	16,187	16,281
Minority interest (Note 7)	97,171	94,008
Capital lease obligation (Note 7)	84,692	84,800
Discounted note obligation (Note 2)	38,457	34,535
Bonds, notes, and mortgages payable, net of unamortized bond premium/discount (Note 5)	1,219,043	1,227,545
Total liabilities	2,063,917	2,060,539
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.

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

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	$ 1,004,002	$	$	$ 1,004,002
Student aid	(260,793)			(260,793)
Sponsored programs	224,011			224,011
Gifts	27,973	619		28,592
Sales and services	109,098			109,098
Spending formula amount and other investment income (Note 2)	6,963	25,059		32,022
Recovery of facilities and administrative costs	155,405			155,405
Sponsored program income for student aid	15,510			15,510
Other income	23,518			23,518
Auxiliary enterprises	260,232			260,232
Student aid	(3,402)			(3,402)
Net assets released from restrictions	30,116	(30,116)		
Contributions used for operations		4,133		4,133
Total operating revenues	1,592,633	(305)		1,592,328
OPERATING EXPENSES				
Instruction and departmental research	735,460			735,460
Educational support activities	107,578			107,578
Sponsored programs	224,011			224,011
Libraries	23,673			23,673
General and administrative	164,103			164,103
Student aid	13,223			13,223
Auxiliary enterprises	220,587			220,587
Total operating expenses	1,488,635			1,488,635
Net operating gain (loss)	103,998	(305)		103,693
NONOPERATING REVENUES AND (EXPENSES)				
Contribution revenue	4,161	13,790	48,051	66,002
Contributions used for operations		(4,133)		(4,133)
Spending formula amount and other investment income (Note 2)	1,644	3,001	18	4,663
Excess (deficit) of investment return over spending formula amount (Note 2)	29,754	41,504	513	71,771
Net realized and unrealized losses on interest rate exchange agreements (Note 5)	(67,000)			(67,000)
Cumulative effect of initial application of new accounting principle (Note 2)				
Change in value of designated non-core institutional real estate (Note 2)	(5,358)			(5,358)
Post-retirement related changes other than net periodic pension cost (Note 6)	(4,215)			(4,215)
Other additions (deductions), net	8,772	2,079	1,334	12,185
Net nonoperating income (loss)	(32,242)	56,241	49,916	73,915
Change in net assets	71,756	55,936	49,916	177,608
Beginning net assets	1,021,699	366,066	314,468	1,702,233
Ending net assets	$ 1,093,455	$ 422,002	$ 364,384	$ 1,879,841

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

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

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

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

	2010	2009
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		559
Unrealized losses on interest rate exchange agreements	41,229	40,622
Settlement on swap replacement transactions, net	17,083	
Amortization of bond premium/discount	(205)	(198)
Amortization of capital lease obligation	(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	(5,737)
(Increase) in pledges receivable	(36,212)	(18,458)
(Increase) decrease in prepaid expenses and other assets	(4,315)	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	177,352	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, net	(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	219,848
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.

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.

The composition of temporarily restricted net assets as of June 30, 2010 and 2009, in thousands of dollars, is as follows:

	2010	2009
Net realized and unrealized gain on endowment	$ 288,521	$ 246,080
Life income and annuity funds	13,934	11,021
Contributions receivable, net	40,918	35,422
Contributions restricted for plant	78,197	72,864
Other contributions	432	679
	$ 422,002	$ 366,066

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

The composition of permanently restricted net assets as of June 30, 2010 and 2009, in thousands of dollars, is as follows:

	2010	2009
Endowment funds	$ 297,377	$ 276,538
Contributions receivable, net	43,374	14,869
Donor funds restricted for student loans	23,633	23,061
	$ 364,384	$ 314,468

Collections:
The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the Consolidated Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as releases from temporarily restricted net assets if the assets used to purchase the items are restricted by donors. 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.

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

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

Related Party Transactions:
Under the University's conflict of interest policy, all business and financial relationships 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 at 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 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:

	2010	2009
Operation and maintenance of plant	$ 96,795	$ 96,612
Interest on indebtedness	34,727	36,392
Depreciation expense	88,426	77,985

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 nonrecurring activities.

2. Investments

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

Summary by Investment Type	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Money Market	$ 576,160	576,160	520,494	520,494
Fixed Income	73,770	79,583	71,189	69,932
Global Equities	251,813	275,267	278,979	298,864
Marketable Alternatives	176,022	195,428	137,456	134,477
Non-Marketable Alternatives	254,148	224,107	253,674	216,967
Real Assets	393,618	382,069	384,997	352,810
Other	38,457	38,457	34,535	34,535
Total	$1,763,988	1,771,071	1,681,324	1,628,079

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:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Dividend and interest income	$ 7	$ 11,904	$ 18	$ 11,929	$ 18,916
Net realized and unrealized gains (losses)	38,354	57,660	513	96,527	(272,967)
Total return on investments	38,361	69,564	531	108,456	(254,051)
Less: Spending formula amount	(7,425)	(28,060)		(35,485)	(33,674)
Less: Other non-endowment income	(1,182)		(18)	(1,200)	(7,519)
	(8,607)	(28,060)	(18)	(36,685)	(41,193)
Excess (deficit) of investment return over spending formula amount	$ 29,754	$ 41,504	$ 513	$ 71,771	$ (295,244)

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:

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

As of June 30, 2009	Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value				
Money Market	$ 520,494	$	$	$ 520,494
Fixed Income	38,355	31,577		69,932
Global Equities & Convertibles	152,093	119,974	26,797	298,864
Marketable Alternatives		13,417	121,060	134,477
Non-Marketable Alternatives			216,967	216,967
Real Assets		134,085	218,725	352,810
Other		34,535		34,535
Total Investments:	$ 710,942	$ 333,588	$ 583,549	$ 1,628,079
Split-interest agreements held by third parties			3,692	3,692
Total assets at fair value	$ 710,942	$ 333,588	$ 587,241	$ 1,631,771
Liabilities at fair value				
Interest rate exchange liabilities	$	$ 152,714	$	$ 152,714
Total liabilities at fair value	$	$ 152,714	$	$ 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:

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

The net realized and unrealized gains (losses) in the table above are reflected in excess (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.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equity Funds	$ 183,003	$ 6,000	Monthly–Annually	15–92 Days
Real Asset Funds	52,720		Daily–Annually	4–60 Days
Marketable Alternatives	195,428		Quarterly–Tri-Annually	30–180 Days
Private Equity Funds	206,543	88,268	At maturity	n/a
Private Real Estate Funds	49,946	33,515	At maturity	n/a
	$ 687,640	$ 127,783		

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

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:

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

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$ (5,188)	$ 257,100	$ 276,538	$ 528,450
Institution Designated	341,319			341,319
Total Endowment Net Assets	$ 336,131	$ 257,100	$ 276,538	$ 869,769

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

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

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:

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

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.

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:

	2010	2009
In one year or less	$ 32,330	$ 20,667
Between one year and five years	53,432	27,502
More than five years	13,167	12,534
	98,929	60,703
Discount to present value	(9,530)	(7,516)
Less allowance for unfulfilled pledges	(5,107)	(2,896)
Pledges receivable	$ 84,292	$ 50,291

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:

	2010	2009
Land	$ 69,060	$ 69,060
Buildings and improvements	2,006,677	1,847,738
Construction in progress	319,211	439,243
Equipment	224,723	200,140
Library books	152,400	134,563
	2,772,071	2,690,744
Less accumulated depreciation	(920,475)	(841,127)
Property, plant, and equipment, net	$1,851,596	$1,849,617

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").

	Final Bond Maturity	Interest Rate at June 30, 2010	Outstanding Principal 2010	Outstanding Principal 2009
Fixed Rate Bonds and Notes Payable				
MDFA Series P, blended fixed rate	5/15/59	5.63%	$ 100,000	$ 100,000
HEFA Series S, blended fixed rate	10/1/39	4.71%	35,000	35,000
MDFA Series T-1	10/1/39	5.00%	162,740	162,740
MDFA Series T-2 (Taxable)	10/1/30	5.27%	4,260	4,260
MDFA Series U-4	10/1/40	5.65%	50,000	50,000
MDFA Series V-1	10/1/29	5.00%	44,000	–
MDFA Series V-2	10/1/14	2.88%	63,170	–
MDFA Series V-3	10/1/14	2.88%	10,200	–
Century Notes (Taxable)	7/15/97	7.63%	100,000	100,000
Aetna Loan (Taxable)	9/15/18	10.20%	6,044	6,475
Various notes payable (Taxable)			4,604	4,808
Total Fixed Rate Bonds and Notes Payable			$ 580,018	$ 463,283
Variable Rate Bonds Payable				
HEFA Series E, Capital Asset Program	3/25/13	0.25%	$ 18,000	$ 18,000
HEFA Series H	12/1/29	0.18%	25,000	69,000
HEFA Series N (Taxable)	10/1/34	0.28%	133,400	134,200
MDFA Series U-1	10/1/40	0.22%	50,000	50,000
MDFA Series U-2	10/1/40	0.23%	50,000	50,000
MDFA Series U-3	10/1/40	0.23%	50,000	50,000
MDFA Series U-5A	10/1/31	0.24%	40,200	41,000
MDFA Series U-5B	10/1/31	0.21%	41,900	42,800
MDFA Series U-6A	10/1/42	0.16%	62,850	62,850
MDFA Series U-6B			–	62,775
MDFA Series U-6C	10/1/42	1.25%	52,545	52,545
MDFA Series U-6D			–	10,200
MDFA Series U-6E	10/1/42	0.25%	62,695	62,695
Royal Bank of Scotland (Taxable)	8/15/29	1.11%	42,091	47,648
Total Variable Rate Bonds Payable			$ 628,681	$ 753,713
Total Bonds and Notes Payable			$1,208,699	$1,216,996
Net Unamortized Bond Premium and Discount			10,344	10,549
Total Bonds and Notes Payable			$1,219,043	$1,227,545

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:

Year	Scheduled Principal Maturities
2011	$ 5,228
2012	5,417
2013	23,672
2014	6,085
2015	79,986
Thereafter	1,173,003
Total	$1,293,391

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 remarketed 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 taxable 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:

Interest Rate Exchange Agreement	Notional Amount	Effective Date	Termination Date	University Pays	University Receives
Series H	$ 25,000	10/30/1997	12/01/2027	5.28%	SIFMA*
Series N	24,345	10/30/1997	10/01/2027	6.79%	LIBOR*
Series U-1–3	150,000	10/01/2007	10/01/2040	3.97%**	69% of 1-Mo. USD LIBOR*
Series U-5	82,100	10/30/2001	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR*
Series U-6	10,700	10/01/2002	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR*
Series U-6	239,500	7/01/2008	10/01/2042	5.42%**	SIFMA*
Series V	73,370	12/04/2009	10/01/2014	SIFMA*	1.94%
Royal Bank of Scotland	42,092	8/15/2006	8/15/2029	5.65%	3-Mo. GBP LIBOR +45 basis points

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

The University is also a party to two fixed rate swaption agreements. A swaption agreement related to the Series S bonds in a notional amount of $35,000,000 gives the counterparty a one-time option to enter into a fixed rate swap on October 1, 2014, the call date of the Series S bonds. The option, if exercised, will require the University to pay a fixed rate of 4.70% in exchange for a variable rate equal to the monthly SIFMA municipal swap index rate on an amortizing notional amount consistent with the amortization schedule of the Series S bonds. A swaption agreement related to the Series T bonds in a notional amount of $162,740,000 gives the counterparty a one-time option to enter into a fixed rate swap on October 1, 2015, the call date of the Series T bonds. The option, if exercised, will require the University to pay a fixed rate of 4.95% in exchange for a variable rate equal to the monthly SIFMA municipal swap index rate on an amortizing notional amount consistent with the amortization schedule of the Series T bonds.

Interest rate exchange agreements, including the Series S and 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:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Change in Benefit Obligation				
Benefit obligation at beginning of year	$	$ 3,723	$ 14,740	$ 34,797
Service cost			3	1,693
Interest cost			732	1,820
Plan amendments			384	(23,223)
Actuarial (gain) loss			2,335	2,067
Benefits paid			(2,388)	(2,414)
Settlements		(3,723)		
Benefit obligation at end of year			15,806	14,740
Change in Plan Assets				
Fair value of plan assets at beginning of year		3,723		
Actual return on plan assets				
Benefits paid				
Settlements		(3,723)		
Fair value of plan assets at end of year				
Funded status			(15,806)	(14,740)
Net amount recognized	$	$	$ (15,806)	$ (14,740)
Other Changes in Plan Assets and Benefit Obligations Recognized in the Statement of Activities:				
Curtailment effects				3,299
Settlements				
Current year actuarial gain			2,335	2,067
Amortization of actuarial gain (loss)			(1,978)	(1,340)
Current year prior service (credit)/cost			384	(23,223)
Amortization of prior service (credit)/cost			3,474	1,709
Total recognized in Statement of Activities	$	$	$ 4,215	$ (17,488)
Amounts recognized in Statement of Financial Position consist of:				
Accrued post-retirement benefit obligation	$	$	$ (15,806)	$ (14,740)

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Amounts recognized in Unrestricted Net Assets consist of:				
Net actuarial loss	$	$	$ 14,867	$ 14,510
Prior service cost/(credit)			(18,097)	(22,339)
	$	$	$ (3,230)	$ (7,829)
Weighted-average Assumptions as of June 30 used to determine benefit obligation				
Discount rate			4.45%	5.25%
Initial health care trend			8.00%	8.50%
Ultimate health care trend			5.00%	5.00%
Years to reach ultimate			6	7

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.

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Components of Net Periodic Benefit Cost				
Service cost	$	$	$ 3	$ 1,693
Interest cost			732	1,820
Expected return on plan assets				
Amortization of prior service cost			(3,474)	(1,709)
Curtailment gain			0	(3,299)
Settlement loss				
Amortization of actuarial loss			1,978	1,340
Net periodic benefit cost	$	$	$ (761)	$ (155)

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

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 27	$ (25)
Effect on post-retirement benefit obligation	590	(542)

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:

	Other Benefits
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

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:

	Operating	Capital
2011	$ 25,046	$ 3,738
2012	26,060	3,868
2013	25,585	3,868
2014	24,777	3,956
2015	23,513	3,956
Thereafter	197,875	204,884
	$ 322,856	$ 224,270
Less: Amounts representing interest		139,578
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 of 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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