Boston University

Financial Statements
June 30, 2015 and 2014

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Boston University:

We have audited the accompanying consolidated financial statements of Boston University and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston University and its subsidiaries as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 16, 2015

June 30, 2015 and 2014
($000)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 590,011	$ 572,114
Cash and cash equivalents-restricted	190,048	163,436
Short-term investments	4,151	1,705
Accounts and loans receivable, net	182,832	188,641
Pledges receivable, net	147,491	121,178
Prepaid expenses and other assets	33,813	35,000
Investment in residual asset note	50,542	53,285
Long-term investments	1,663,056	1,611,101
Property, plant, and equipment, net	2,185,496	2,136,638
Total assets	$ 5,047,440	$ 4,883,098
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 111,692	$ 108,601
Accounts payable and accrued expenses	161,822	155,969
Deferred revenue	84,694	82,588
Student deposits	97,065	86,442
Fair value of interest rate exchange agreements	297,603	242,303
Annuities payable	13,620	15,092
Residual asset note obligation	50,542	53,285
Capital lease obligation	83,341	83,714
Bonds and notes payable, net	1,306,857	1,323,929
Total liabilities	2,207,236	2,151,923
Net assets:		
Unrestricted	1,600,969	1,538,141
Temporarily restricted	658,406	687,765
Permanently restricted	580,829	505,269
Total net assets	2,840,204	2,731,175
Total liabilities and net assets	$ 5,047,440	$ 4,883,098

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2015 and 2014
($000)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	$ 1,256,099	$	$	$1,256,099
Student aid	(311,267)			(311,267)
Net student tuition and fees	944,832			944,832
Sponsored programs	224,360			224,360
Recovery of facilities and administrative costs	122,583			122,583
Contributions	37,413			37,413
Sales and services	96,070			96,070
Spending formula amount and other investment income	49,251			49,251
Sponsored program income for student aid	14,957			14,957
Auxiliary enterprises	268,385			268,385
Student aid	(4,670)			(4,670)
Net auxiliary enterprises	263,715			263,715
Contributions used for operations	8,966			8,966
Total operating revenues	1,762,147			1,762,147
OPERATING EXPENSES				
Instruction and departmental research	820,012			820,012
Educational support activities	150,885			150,885
Sponsored programs	224,673			224,673
Libraries	25,724			25,724
Institutional support	205,580			205,580
Student support	12,666			12,666
Auxiliary enterprises	203,038			203,038
Total operating expenses	1,642,578			1,642,578
Change in net assets from operating activities	119,569			119,569
NONOPERATING REVENUES AND (EXPENSES)				
Contributions		15,591	74,089	89,680
Contributions used for operations		(8,966)		(8,966)
Reinvested endowment and other investment income	2,342	4,183	753	7,278
Excess (deficit) of investment return over spending formula amount	(10,797)	(12,519)	(1,022)	(24,338)
Net realized and unrealized losses on interest rate exchange agreements	(81,935)			(81,935)
Change in value of designated non-core institutional real estate	5,492			5,492
Post-retirement related changes other than net periodic cost	(2,543)			(2,543)
Net assets released from restrictions-building funds	31,956	(31,956)		
Other additions (deductions) and transfers, net	(1,256)	4,308	1,740	4,792
Net nonoperating gain (loss)	(56,741)	(29,359)	75,560	(10,540)
Change in net assets	62,828	(29,359)	75,560	109,029
Beginning net assets	1,538,141	687,765	505,269	2,731,175
Ending net assets	$ 1,600,969	$ 658,406	$ 580,829	$2,840,204

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2015 and 2014
($000)

2014 Unrestricted	2014 Temporarily Restricted	2014 Permanently Restricted	2014 Total	
				OPERATING REVENUES
$ 1,204,646	$	$	$1,204,646	Student tuition and fees
(299,838)			(299,838)	Student aid
904,808			904,808	Net student tuition and fees
236,952			236,952	Sponsored programs
123,547			123,547	Recovery of facilities and administrative costs
30,261			30,261	Contributions
108,528			108,528	Sales and services
44,528			44,528	Spending formula amount and other investment income
14,684			14,684	Sponsored program income for student aid
260,992			260,992	Auxiliary enterprises
(4,420)			(4,420)	Student aid
256,572			256,572	Net auxiliary enterprises
7,728			7,728	Contributions used for operations
1,727,608			1,727,608	**Total operating revenues**
				OPERATING EXPENSES
789,807			789,807	Instruction and departmental research
145,757			145,757	Educational support activities
235,702			235,702	Sponsored programs
26,716			26,716	Libraries
210,311			210,311	Institutional support
11,173			11,173	Student support
196,514			196,514	Auxiliary enterprises
1,615,980			1,615,980	**Total operating expenses**
111,628			111,628	**Change in net assets from operating activities**
				NONOPERATING REVENUES AND (EXPENSES)
	11,591	36,458	48,049	Contributions
	(7,728)		(7,728)	Contributions used for operations
2,236	2,251	651	5,138	Reinvested endowment and other investment income
64,853	97,158	4,788	166,799	Excess (deficit) of investment return over spending formula amount
(39,906)			(39,906)	Net realized and unrealized losses on interest rate exchange agreements
3,976			3,976	Change in value of designated non-core institutional real estate
(2,543)			(2,543)	Post-retirement related changes other than net periodic cost
9,748	(9,748)			Net assets released from restrictions-building funds
(640)	398	(1,629)	(1,871)	Other additions (deductions) and transfers, net
37,724	93,922	40,268	171,914	**Net nonoperating gain (loss)**
149,352	93,922	40,268	283,542	**Change in net assets**
1,388,789	593,843	465,001	2,447,633	Beginning net assets
$ 1,538,141	$ 687,765	$ 505,269	$2,731,175	**Ending net assets**

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2015 and 2014
($000)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 109,029	$ 283,542
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	103,354	96,480
Amortization	(420)	(844)
Loss on disposal of property and equipment	1,549	1,316
Change in value of designated non-core institutional real estate	(5,492)	(3,976)
Unrealized losses on interest rate exchange agreements	55,300	14,468
Settlements on swap replacement transactions, net	13,793	12,145
Net realized and unrealized gains on investments	(21,449)	(202,351)
Contributions and pledge payments restricted for long-term investment	(63,367)	(61,312)
Gifts of securities and property	(6,235)	(4,131)
Unrealized (gain) loss on currency exchange	(3,355)	4,756
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and loans receivable, net	5,809	(1,764)
(Increase) decrease in pledges receivable, net	(26,313)	3,523
Decrease in prepaid expenses and other assets	1,187	4,042
Increase in accrued payroll and related expenses	3,091	918
Increase (decrease) in accounts payable and accrued expenses	6,688	(9,203)
Increase (decrease) in deferred revenue	2,106	(4,075)
Increase in student deposits	10,623	3,312
Net cash provided by operating activities	185,898	136,846
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(219,346)	(211,057)
Proceeds from sales and maturities of investments	191,887	223,887
Purchases of property and equipment	(154,596)	(188,003)
(Increase) decrease in cash and cash equivalents-restricted	(26,612)	20,577
Net cash used in investing activities	(208,667)	(154,596)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds	108,370	
Payment of bonds, notes, and mortgages	(121,399)	(12,998)
Payment of bond issuance costs	(642)	
Decrease in annuity obligations	(1,472)	(1,687)
Contributions and pledge payments restricted for long-term investment	63,367	61,312
Proceeds from sale of restricted gifts of securities	6,235	3,607
Settlements on swap replacement transactions, net	(13,793)	(12,145)
Net cash provided by financing activities	40,666	38,089
Net increase in cash and cash equivalents	17,897	20,339
Cash and cash equivalents beginning of year	572,114	551,775
Cash and cash equivalents end of year	$ 590,011	$ 572,114

	2015	2014
SUPPLEMENTAL INFORMATION:		
Change in accounts payable for property, plant, and equipment	$ (835)	$ 1,995
Acquisition of property and equipment through borrowings	$	$ 623
Interest paid in cash, net of capitalized interest of $3,274 in 2015 and $5,363 in 2014	$ 42,105	$ 41,821

See accompanying notes to 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 generally exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except to the extent the University has unrelated business income. There was no provision for income taxes due on unrelated business income in fiscal years 2015 and 2014. The University has no material uncertain tax positions.

Summary of Significant Accounting Policies:

Basis of Presentation:
The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP).

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

Boston Medical Center is the primary teaching affiliate of the Boston University School of Medicine. Boston Medical Center is a separately governed legal entity organized as a 501(c)(3) and is not consolidated in the accompanying consolidated financial statements.

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

Unrestricted net assets are free of donor-imposed restrictions. Contributions, endowment income, gains, and investment income that are received and spent or whose restrictions are met in the same reporting period are reported as unrestricted. Unrestricted net assets may be designated by the Board of Trustees for specific purposes, including to function as endowments.

Temporarily restricted net assets include contributions, pledges, and endowment income 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. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. The University is subject to the Massachusetts Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA), under which donor-restricted endowment funds may be appropriated for expenditure by the Board of Trustees of the University in accordance with the standard of prudence prescribed by UPMIFA. Net assets of such funds in excess of the fair value of the original gift are classified as temporarily restricted until appropriated by the Board and spent in accordance with the standard of prudence imposed by UPMIFA.

Permanently restricted net assets include contributions, pledges, and income required to be permanently retained and primarily consist of the historic dollar value of contributions to donor-restricted endowment funds.

The composition of net assets as of June 30, 2015 and 2014, in thousands of dollars, is as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose	$ 403,548	$ 143,516	$ 120,757	$ 667,821
Scholarships	71,684	170,807	156,132	398,623
Professorships	85,736	129,441	140,000	355,177
Awards, prizes, fellowships, and other	19,251	45,683	34,080	99,014
Research	12,021	6,680	12,546	31,247
Annuities		24,712		24,712
Total endowment funds	592,240	520,839	463,515	1,576,594
Other funds:				
General and plant funds	867,464			867,464
Building and gift funds	70,887	67,590		138,477
Pledges		58,011	89,480	147,491
Student loan funds	25,926	1,866	27,834	55,626
Unexpended endowment distributions	44,452	10,100		54,552
Total other funds	1,008,729	137,567	117,314	1,263,610
Total net assets	$ 1,600,969	$ 658,406	$ 580,829	$ 2,840,204

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose	$ 413,250	$ 150,655	$ 106,088	$ 669,993
Scholarships	70,293	176,498	145,479	392,270
Professorships	82,515	127,893	125,205	335,613
Awards, prizes, fellowships, and other	19,090	47,598	31,931	98,619
Research	12,150	5,382	9,988	27,520
Annuities		23,478		23,478
Total endowment funds	597,298	531,504	418,691	1,547,493
Other funds:				
General and plant funds	802,595			802,595
Building and gift funds	66,146	89,921		156,067
Pledges		61,851	59,326	121,177
Student loan funds	25,875	1,668	27,252	54,795
Unexpended endowment distributions	46,227	2,821		49,048
Total other funds	940,843	156,261	86,578	1,183,682
Total net assets	$ 1,538,141	$ 687,765	$ 505,269	$ 2,731,175

Collections:
The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the Consolidated Statements of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

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

Cash and Cash Equivalents:
Cash equivalents include certain assets invested in the short-term pool, all of which can be liquidated within thirty (30) days. The University utilizes the short-term pool to fund daily cash needs, and such assets, reported at fair value, primarily consist of short-term U.S. Treasury securities and other short-term highly liquid investments.

Cash and cash equivalents-restricted represent funds (a) held by bond trustees that will be drawn down to fund various capital projects and costs of issuance and (b) collateral posted with counterparties under the terms of certain derivative agreements.

Fair Value Measurements:
Investments and interest rate exchange agreements are reported at fair value in the University's consolidated financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1-quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2-observable prices that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3-unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The majority of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient.

The NAVs or their equivalents, as estimated and reported by the general partners or investment managers, are reviewed and evaluated by the University's Investment Office, in accordance with valuation procedures established by the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer.

Valuation results, changes in valuation policies and procedures, and issues regarding valuation that may arise from time to time are reviewed with the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer.

Non-core institutional real estate is valued using one or more of the following valuation techniques: the use of prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; or an income approach determining valuation by direct capitalization of net income or discounting future cash flows. Inputs such as capitalization rates, price information, operating statistics, specific and broad credit data, recent transactions, discount rates, and other factors are used in the valuation calculations.

The University discloses fair value information for financial assets and liabilities for which it is practicable to estimate fair value. Financial assets and liabilities not reported at fair value are generally carried at net realizable value, which approximates fair value. Such financial assets and liabilities include cash and cash equivalents, receivables, accounts payable, and accrued expenses.

Investments in Perpetual Trusts Held by Others and Split-Interest Agreements:
The University is the beneficiary of certain perpetual trusts held and administered by outside trustees. The University's interests are reported at estimated fair value, based on the value of the underlying assets which approximates the present value of future income from these trusts. These assets fall within Level 3 of the hierarchy. Income distributions from these trusts are recorded as investment income for current operations.

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 in investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University, and liabilities are recorded at the present value of estimated future payments to the donors and beneficiaries under these agreements. The liabilities are adjusted during the term of the annuities to reflect actuarial gains and losses.

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

Property, Plant, and Equipment:
Land, buildings, equipment, and library books are reported at cost or estimated fair value at the date of contribution. Maintenance and repairs are expensed as incurred and improvements that increase the useful life of the asset are capitalized. Costs associated with the construction of new facilities are reported as additions to construction in progress when expended until such projects are completed. Equipment includes general and scientific equipment, computers, furniture, and vehicles.

The University acquired equipment or other assets of approximately $7,071,000 in 2015 and $2,990,000 in 2014 through the use of federal funds. In most cases, the University continues to maintain the assets after the granting agreement expires.

Depreciation is computed on a straight-line basis over the remaining useful lives of assets as follows: buildings, 50 years; renovations and improvements, 20 years or lease term, if shorter; University buildings used in sponsored research activities, 12 to 50 years, by using the distinct useful lives for each major building component; equipment, 2 to 20 years; internally used software, 20 years; and library books, 10 years. Depreciation expense for the years ended June 30, 2015 and 2014 was $103,354,000 and $96,480,000, respectively.

Long-lived assets and certain intangibles are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount 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 carrying value exceeds its estimated fair value.

Conditional Asset Retirement Obligations:
The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related

asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Consolidated Statements of Activities.

The asset retirement obligation at June 30, 2015 and 2014, was $14,807,000 and $15,090,000, respectively, and is included in accounts payable and accrued expenses in the Consolidated Statements of Financial Position.

Tuition and Fees:
Student tuition and fees are reported as revenue in the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are reported as student deposits.

Student Aid:
Student aid in the amount of $311,267,000 and $299,838,000 for the years ended June 30, 2015 and 2014, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $4,670,000 and $4,420,000 for the years ended June 30, 2015 and 2014, respectively, has been presented as a reduction of auxiliary enterprises (room and board) revenue.

In addition to tuition, fees, and room and board, student support in the amount of $12,666,000 and $11,173,000 for the years ended June 30, 2015 and 2014, respectively, has been presented as an operating expense.

Sponsored Programs:
Revenues associated with contracts and grants are recognized as the related expenses or capital expenditures are incurred. Grant revenue used for the construction or acquisition of plant is reported within nonoperating activities. The University recognizes reimbursement of facilities and administrative costs relating to government contracts and grants at authorized rates each year. All funds expended in connection with government grants and contracts are subject to audit by granting agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

Contributions:
Contributions, including unconditional promises to give, are recognized upon receipt. Contributions other than cash are recorded at fair value at the date of contribution. Contributions with donor-imposed restrictions, which are reported as temporarily restricted revenues, are reclassified to unrestricted net assets when an expenditure is incurred that satisfies the restriction. Pledges receivable are carried at estimated net present value, net of allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Allocation of Expenses:
Certain indirect costs have been allocated to functional expenses in the Consolidated Statements of Activities. For the years ended June 30, 2015 and 2014, these expenses are comprised of, in thousands of dollars:

	2015	2014
Operation and maintenance of plant	$ 107,598	$ 106,872
Interest on indebtedness	41,987	42,155
Depreciation	103,354	96,480

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

Changes in Accounting Policies:
Effective in fiscal year 2015, the University retroactively adopted the provisions of Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the Consolidated Statements of Financial Position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Accordingly, bonds, loans, and notes payable originally stated at $1,328,518,000 in the June 30, 2014 Consolidated Statements of Financial Position have been restated to $1,323,929,000 to reflect $4,589,000 of unamortized issuance costs previously included in prepaid expenses and other assets.

The adoption of ASU 2015-03 did not affect the University's net assets, Consolidated Statements of Activities, or Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2015 and 2014.

Effective in fiscal year 2015, the University retroactively adopted the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the Consolidated Statements of Financial Position. As a result of the adoption, the June 30, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments of $637,816,000 previously classified in Level 2 and $385,093,000 in Level 3. In addition, the June 30, 2013 opening balance in the Level 3 roll forward was restated to reflect the removal of NAV-measured investments aggregating $336,161,000.

Reclassifications:
Certain 2014 balances previously reported have been reclassified to conform to the 2015 presentation. These reclassifications are not considered material.

2. Investments

Basis of Reporting:
Investments consist of directly held equity and fixed income securities, registered mutual funds, exchange traded funds, commingled funds, limited partnerships, non-core institutional real estate, and split-interest agreements. Investments are reported at estimated fair value.

If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as the reported fair value. The majority of the University's investments are in shares or units of institutional commingled funds and limited partnerships invested in equity, fixed income, hedge, natural resources, private equity, or real estate strategies. Hedge strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, which are valued by the investment manager. Private equity funds employ buyout, growth and venture capital, and distressed security strategies. Real estate and natural resources funds generally hold interests in private real estate, oil and gas partnerships, and mineral holdings.

The University's interests in commingled investment funds are generally reported at the NAV reported by the fund managers and assessed as reasonable by the University. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015 and 2014, the University had no plans or intentions to sell investments at amounts different from NAV.

Although the University's alternative fund managers adhere to fair value accounting as required by ASC 820, *Fair Value Measurements and Disclosures*, because of inherent uncertainties in valuation assumptions, the estimated fair values for alternative investments may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, earnings of the underlying holding, projected cash flows, recent sales prices, and other pertinent information.

The fair value of non-core institutional real estate is based on independent appraisals and broker opinions of value, including recent sales of similar properties in the same region and in an active market. The determination of whether a real estate market is active is based on the median number of days to sale for properties with a similar geographic location, type, size, condition, and long-term occupancy rate. When independent appraisals have not been carried out and where comparable sales information is not available, a direct capitalization model is used, with significant assumptions including rental rates ranging from $11 to $35 per square foot, vacancy rates of between zero and 20%, and capitalization rates of between 6% and 12%. Significant changes in these inputs may result in a significantly lower or higher fair value measure.

Cash and investments included in the Consolidated Statements of Financial Position at June 30, 2015 and 2014 were as follows, in thousands of dollars.

	2015	2014
Cash and cash equivalents	$ 590,011	$ 572,114
Cash and cash equivalents-restricted	190,048	163,436
Short-term investments	4,151	1,705
Investment in residual asset note	50,542	53,285
Long-term investments	1,663,056	1,611,101
	2,497,808	2,401,641
Less assets not reported at fair value:		
Investment in residual asset note	(50,542)	(53,285)
Real estate partnerships accounted for under the equity method	(30,014)	(27,738)
Cash and investments at fair value	$ 2,417,252	$2,320,618

The following tables summarize the fair value hierarchy of the University's cash and investments as of June 30, 2015 and 2014, in thousands of dollars:

	Investments Measured at	Investments Classified in the Fair Value Hierarchy			Total
As of June 30, 2015	NAV	Level 1	Level 2	Level 3	Fair Value
Assets at fair value					
Cash and cash equivalents	$	$ 780,059	$	$	$ 780,059
Common and preferred equities:					
Domestic	109,208	76,428			185,636
International	219,886	67,517			287,403
	329,094	143,945			473,039
Fixed income:					
Domestic		466	1,557		2,023
International		2	135		137
US government and agencies		92,640	751		93,391
		93,108	2,443		95,551
Alternatives:					
Hedge	501,242				501,242
Natural resources	52,976				52,976
Private	207,274			3,363	210,637
Real estate	70,943			227,700	298,643
	832,435			231,063	1,063,498
Split-interest agreements held by third parties				5,105	5,105
Total assets at fair value	$ 1,161,529	$ 1,017,112	$ 2,443	$ 236,168	$ 2,417,252

As of June 30, 2014	Investments Measured at NAV	Investments Classified in the Fair Value Hierarchy Level 1	Level 2	Level 3	Total Fair Value
Assets at fair value					
Cash and cash equivalents	$	$ 735,550	$	$	$ 735,550
Common and preferred equities:					
Domestic	96,685	81,083			177,768
International	214,828	73,229			288,057
	311,513	154,312			465,825
Fixed income:					
Domestic		430	1,623		2,053
International		2	202		204
US government and agencies		91,533	846		92,379
		91,965	2,671		94,636
Alternatives:					
Hedge	493,510				493,510
Natural resources	35,113				35,113
Private	187,029			3,224	190,253
Real estate	77,071			223,777	300,848
	792,723			227,001	1,019,724
Split-interest agreements held by third parties				4,883	4,883
Total assets at fair value	$ 1,104,236	$ 981,827	$ 2,671	$ 231,884	$ 2,320,618

The following tables present a summary of the University's activity for the years ended June 30, 2015 and 2014 for investment classified in Level 3, in thousands of dollars:

2015	Alternatives Private	Alternatives Real Estate	Split-interest agreements held by third parties	Total Assets at Level 3
Fair Value, July 1, 2014	$ 3,224	$ 223,777	$ 4,883	$ 231,884
Purchases	139	1,025		1,164
Sales or redemptions		(2,571)		(2,571)
Unrealized gains		5,469	222	5,691
Fair Value, June 30, 2015	$ 3,363	$ 227,700	$ 5,105	$ 236,168

2014	Alternatives Private	Alternatives Real Estate	Split-interest agreements held by third parties	Total Assets at Level 3
Fair Value, July 1, 2013	$ 4,627	$ 88,150	$ 4,577	$ 97,354
Purchases		149	1,303	1,452
Unrealized losses	(1,403)	(642)	(997)	(3,042)
Transfers to Level 3		136,120		136,120
Fair Value, June 30, 2014	$ 3,224	$ 223,777	$ 4,883	$ 231,884

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

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2015 and 2014, there were no transfers between Level 1 and Level 2. Transfers from Level 2 to Level 3 were due to changes in the underlying investments and refinements to the valuation methodology applied.

Investment Related Derivatives:
The endowment employs certain derivative financial instruments to replicate long asset positions more cost effectively than through purchases or sales of the underlying assets.

As a result of entering investment derivative agreements, the University is subject to market volatility consistent with the underlying asset classes. The University has established policies, procedures, and internal controls governing the use of derivatives.

The purchase and sale of exchange-traded derivatives require collateral deposits with the Futures Commission Merchant (FCM). Collateral is posted and moved on a daily basis as required by the rules of the exchange on which the derivatives are traded. In the event of the FCM's insolvency, recovery may be limited to the University's pro-rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total cash or other collateral posted. The collateral is generally in the form of debt obligations issued by the U.S. Treasury or cash. Cash collateral and certain securities owned by the University were held at counterparty brokers to collateralize these positions and are included in cash and cash equivalents-restricted on the Consolidated Statements of Financial Position. As of June 30, 2015 and 2014, the aggregate notional exposure on long-term assets was $103,480,000 and $127,385,000, respectively. The associated unrealized gain (loss) on these assets was $(870,000) and $87,000, respectively, as of June 30, 2015 and 2014. The notional amount of these derivatives is not recorded on the University's Consolidated Statements of Financial Position.

Residual Asset Note:
In June 2006, the University securitized its interest in an investment banking partnership that owned rights to residual future cash flows. To effect the securitization, the rights to receive the future cash flows were transferred from the University to a 100% owned, bankruptcy remote, special purpose limited liability corporation called BU Funding, LLC (LLC). To finance the transaction, the LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust (DBLF), collateralized by the LLC's rights to the future cash flow stream. The note had an initial face value of $88,227,000, the aggregate amount of scheduled cash flows to be received between 2007 and 2021. The purchase price of the note was $25,244,000 and is non-recourse to the University. As of June 30, 2015 and 2014, the carrying value of the investment in residual asset note receivable and related obligation was $50,542,000 and $53,285,000, respectively.

The LLC is consolidated in the financial statements of the University. The LLC's discounted note obligation is recorded as a liability and its investment has been recorded as an asset on the Consolidated Statements of Financial Position. The valuation of this investment was based on a present value analysis using readily available observable market discount factors applied to contractually committed cash inflows and outflows. The discount on the note is amortized over its scheduled maturity using the effective interest method and the note obligation decreases as future residual cash flows are received. As a result, the note and the related asset are expected to decline 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 2022–2025. Consistent with GAAP, due to the uncertainty of the timing and ultimate amount of the additional cash flows, the University recorded a nominal value at inception of the transaction for these future cash flows even though disruption of such cash flows is unlikely.

Real Estate Partnerships:
The University owns shares ranging from 45% to 50% in certain University business-related real estate partnerships with a related party, which have been accounted for using the equity method. The University's ownership interest in these partnerships has been recorded within long-term investments on the Consolidated Statements of Financial Position.

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

For the year ended June 30, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 9,878	$ 7,119	$ 442	$ 17,439
Net realized and unrealized gains	3,777	11,686	(711)	14,752
Total return on investments	13,655	18,805	(269)	32,191
Less: Spending formula	(19,352)	(31,324)	(753)	(51,429)
Less: Other non-endowment income	(5,100)			(5,100)
	(24,452)	(31,324)	(753)	(56,529)
Excess (deficit) of investment return over spending formula amount	$ (10,797)	$ (12,519)	$ (1,022)	$ (24,338)

For the year ended June 30, 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 6,993	$ 8,127	$ 606	$ 15,726
Net realized and unrealized gains	77,811	118,095	4,833	200,739
Total return on investments	84,804	126,222	5,439	216,465
Less: Spending formula	(18,262)	(29,064)	(651)	(47,977)
Less: Other non-endowment income	(1,689)			(1,689)
	(19,951)	(29,064)	(651)	(49,666)
Excess of investment return over spending formula amount	$ 64,853	$ 97,158	$ 4,788	$ 166,799

Commitments:
Private equity, natural resources, and real estate investments are generally made through private limited partnerships. Under the terms of the partnership agreements, the University makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the General Partner as the partnership executes on its investment strategy. Private equity, natural resources, and real estate funds are typically structured with investment periods of 3 to 7 years. Subsequent to the expiration of the investment period, a fund is usually prohibited from calling capital for new investments. The aggregate amount of unfunded commitments associated with private limited partnerships as of June 30, 2015 and 2014 was $183,071,000 and $145,083,000, respectively. Of this amount, approximately 15% and 16% of commitments as of June 30, 2015 and 2014, respectively, were for funds whose investment period had expired. The timing and amount of capital calls expected to be exercised in any particular future year is uncertain.

Liquidity:

Investment liquidity is aggregated below based on redemption or sale period, in thousands of dollars:

As of June 30, 2015	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 780,059	$	$	$	$	$ 780,059
Common and preferred equities:						
Domestic	76,273	225	109,138			185,636
International	125,365	114,164	46,807		1,067	287,403
	201,638	114,389	155,945		1,067	473,039
Fixed income:						
Domestic	1,764	259				2,023
International	118	19				137
US government and agencies	93,391					93,391
	95,273	278				95,551
Alternatives:						
Hedge			208,727	219,138	73,377	501,242
Natural resources			16,500		36,476	52,976
Private					210,637	210,637
Real estate				225,048	73,595	298,643
			225,227	444,186	394,085	1,063,498
Split-interest agreements held by third parties					5,105	5,105
	$1,076,970	$ 114,667	$ 381,172	$ 444,186	$ 400,257	$2,417,252

*Cash and cash equivalents includes $189,587,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short term rates.

As of June 30, 2014	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 735,550	$	$	$	$	$ 735,550
Common and preferred equities:						
Domestic	80,922	232	96,614			177,768
International	133,907	105,914	47,159		1,077	288,057
	214,829	106,146	143,773		1,077	465,825
Fixed income:						
Domestic	1,795	258				2,053
International	185	19				204
US government and agencies	92,379					92,379
	94,359	277				94,636
Alternatives:						
Hedge			206,533	202,174	84,803	493,510
Natural resources					35,113	35,113
Private					190,253	190,253
Real estate				219,360	81,488	300,848
			206,533	421,534	391,657	1,019,724
Split-interest agreements held by third parties					4,883	4,883
	$1,044,738	$ 106,423	$ 350,306	$ 421,534	$ 397,617	$2,320,618

*Cash and cash equivalents includes $140,616,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short term rates.

Certain hedge funds contain lockup provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

The University has sole discretion to liquidate its direct holdings in non-core real estate included in the table above under "Annually." These assets are located in the greater Boston market, which is generally active. Notwithstanding that relevant market assumptions have been incorporated where applicable, determining the fair values of such assets involves significant judgment and their ultimate sales price may be materially different than the values reported.

Investments in the ">1 Year" category include non-redeemable assets totaling $382,398,000 and $374,084,000 as well as investments with rolling lockup periods totaling $17,859,000 and $23,533,000 as of June 30, 2015 and 2014, respectively.

3. Endowment Funds

Total endowment assets as of June 30, 2015 and 2014 are $1,644,117,000 and $1,616,004,000, respectively. A pooled endowment fund is included as part of the University's investments. The amounts distributed from the investment return of pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution amount is established annually and is between 3% and 5% of the market value per share as of the most recent December 31. The actual distribution amount is recommended by management, and approved by the Trustee Executive Committee. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year accumulated earnings. Income attributable to shares from new donor restricted and institution designated endowment funds during the first six months after establishment is not spent; such income is included in unrestricted or temporarily restricted net assets, depending on the nature of the endowment fund. For the fiscal years ended June 30, 2015 and 2014, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.4% and 3.7%.

At June 30, 2015 and 2014, respectively, approximately $234,000 and $411,000 of unrealized losses on permanently restricted endowment funds were classified as a reduction in the unrestricted net assets as the fair value of these funds was less than their original gift value. Unrestricted net assets will be replenished when the fair value equals the original gift value.

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

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization

The University has investment and spending policies for its endowment and similar funds that emphasize long-term capital appreciation as a primary source of return while balancing the dual objectives of growth in capital and principal preservation. Investments are expected to earn inflation-adjusted 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 U.S. Treasury bills, common and preferred equities, fixed income, hedge funds, natural resources, private equity, and real estate. The portfolio is expected to produce risk-adjusted returns that exceed the policy benchmarks, a blended rate of indices.

The following table represents endowment net asset composition by type of fund as of June 30, 2015, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (234)	$ 520,839	$ 463,515	$ 984,120
Institution designated	592,474			592,474
Endowment net assets at end of year	$ 592,240	$ 520,839	$ 463,515	$1,576,594

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2015, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 597,298	$ 531,504	$ 418,691	$1,547,493
Reclassification of net assets	177	(177)		
Endowment net assets after reclassification	597,475	531,327	418,691	1,547,493
Reinvested income distribution	2,342	1,170	753	4,265
Realized and unrealized gains (losses)	9,999	14,807	(270)	24,536
Less: spending formula	(19,352)	(31,324)	(753)	(51,429)
Undistributed investment income	(7,011)	(15,347)	(270)	(22,628)
Contributions	2,992	1,194	4,737	8,923
Other additions (deductions), transfers, and pledge payments	(1,216)	3,665	40,357	42,806
Endowment net assets at end of year	$ 592,240	$ 520,839	$ 463,515	$1,576,594

The following table represents endowment net asset composition by type of fund as of June 30, 2014, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (411)	$ 531,504	$ 418,691	$ 949,784
Institution designated	597,709			597,709
Endowment net assets at end of year	$ 597,298	$ 531,504	$ 418,691	$1,547,493

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2014, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 521,917	$ 435,323	$ 378,421	$1,335,661
Reclassification of net assets	613	(613)		
Endowment net assets after reclassification	522,530	434,710	378,421	1,335,661
Reinvested income distribution	2,236	1,295	651	4,182
Realized and unrealized gains	79,269	126,206	5,437	210,912
Less: spending formula	(18,262)	(29,064)	(651)	(47,977)
Undistributed investment income	63,243	98,437	5,437	167,117
Contributions	2,773	1,636	17,125	21,534
Other additions (deductions), transfers, and pledge payments	8,752	(3,279)	17,708	23,181
Endowment net assets at end of year	$ 597,298	$ 531,504	$ 418,691	$1,547,493

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2015 and 2014, in thousands of dollars, consist of the following:

	2015	2014
Accounts receivable, net:		
Students	$ 17,807	$ 17,921
Less: allowances	(7,100)	(7,292)
	10,707	10,629
Grants and contracts	58,150	55,388
Departmental sales, services, and other	48,265	55,636
Less: allowances	(10,939)	(11,184)
	95,476	99,840
Student loans	79,897	81,484
Less: allowances	(3,248)	(3,312)
	76,649	78,172
Total	$ 182,832	$ 188,641

Federally sponsored student loans receivable represented $44,945,000 and $46,013,000 as of June 30, 2015 and 2014, respectively, of total student loans receivable, which consist of amounts due from current and former students under various federal government loan programs, including Perkins and health professional programs offered to graduate and undergraduate students. The University has the right to assign loans disbursed under these programs to the federal government upon default by the borrower; therefore, no allowance has been provided for these loans.

The University considered the allowance recorded at June 30, 2015 and 2014 to be reasonable and sufficient to absorb potential credit losses inherent in the student loan portfolio.

Departmental sales, services, and other receivables include outstanding notes, mortgages, and advances bearing interest at rates up to 5.21% at June 30, 2015 and 2014, to certain employees. The aggregate amount as of June 30, 2015 and 2014 is $7,256,000 and $7,577,000, respectively.

Pledges Receivable:
Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2015 and 2014, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2015	2014
In one year or less	$ 50,760	$ 39,606
Between one year and five years	95,867	91,295
More than five years	31,739	6,291
	178,366	137,192
Discount to present value	(19,275)	(7,714)
Less allowance for unfulfilled pledges	(11,600)	(8,300)
Pledges receivable	$ 147,491	$ 121,178

ASC 958-230 requires cash received from pledges restricted for long-term purposes to be reported as cash flows from financing activities in the statement of cash flows. Through fiscal year 2014, the University's historical practice was to report such receipts as cash flows from operating activities. Beginning in 2015, the University changed this practice to conform to ASC 958-230. Accordingly, the University has adjusted the 2014 Consolidated Statements of Cash Flows to report as cash flows from financing activities $36,464,000 of cash received from such pledges that were previously categorized as cash flows from operating activities.

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2015 and 2014, in thousands of dollars, consist of the following:

	2015	2014
Land	$ 100,261	$ 100,278
Buildings and improvements	2,728,435	2,505,677
Construction in progress	178,721	288,347
Software	55,722	54,087
Equipment	250,075	228,817
Library books	203,488	192,463
	3,516,702	3,369,669
Less: accumulated depreciation	(1,331,206)	(1,233,031)
Property, plant, and equipment, net	$ 2,185,496	$ 2,136,638

As of June 30, 2015 and 2014, buildings and improvements include $94,544,000 and $94,293,000 associated with office and research space under capital lease.

As of June 30, 2015 and 2014, capital expenditures of $203,879,000 and $202,489,000, respectively, were incurred for construction of the National Emerging Infectious Diseases Laboratories (NEIDL). Of this, $42,815,000 and $117,796,000 was placed in service during the years ended June 30, 2015 and 2012, respectively. The remaining expenditures are included within construction in progress at June 30, 2015 and 2014, and will be placed in service when the construction is complete and the project is ready for its intended use.

6. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2015 and 2014, in thousands of dollars, are summarized in the table below. Tax exempt and certain taxable bonds were issued through the Massachusetts Development Finance Agency (MDFA) and through the Massachusetts Health and Educational Facilities Authority (HEFA) prior to its merger with MDFA.

	Final Bond Maturity	Interest Rate at June 30, 2015	Interest Rate at June 30, 2014	Outstanding Principal	
				2015	2014
Fixed rate bonds and notes payable:					
MDFA Series P, blended fixed rate	5/15/59	5.63%	5.63%	$ 100,000	$ 100,000
HEFA Series S, blended fixed rate	10/1/39	4.71%	4.71%		35,000
MDFA Series T-1	10/1/39	5.00%	5.00%	162,740	162,740
MDFA Series T-2 (taxable)	10/1/30	5.27%	5.27%	4,260	4,260
MDFA Series U-4	10/1/40	5.65%	5.65%	50,000	50,000
MDFA Series V-1	10/1/29	5.00%	5.00%	44,000	44,000
MDFA Series V-2	10/1/14	2.88%	2.88%		63,170
MDFA Series V-3	10/1/14	2.88%	2.88%		10,200
MDFA Series W (taxable)	10/1/45	5.20%	5.20%	100,470	100,470
MDFA Series X, blended fixed rate	10/1/48	4.78%	4.78%	111,485	111,485
MDFA Series Z-1	10/1/19	1.50%	n/a	63,170	
MDFA Series Z-2	10/1/19	1.50%	n/a	10,200	
Century notes (taxable)	7/15/97	7.63%	7.63%	100,000	100,000
Boston Medical Center note (taxable)	5/12/16	2.00%	2.00%	5,813	11,626
Boston Redevelopment Authority note (taxable)	6/15/21	0.00%	0.00%	6,870	8,015
Aetna loan (taxable)	9/15/18	10.20%	10.20%	3,114	3,822
Various notes payable (taxable)	various	various	various	3,562	4,916
Total fixed rate bonds and notes payable				$ 765,684	$ 809,704
Variable rate bonds payable:					
HEFA Series H	12/1/29	0.05%	0.06%	$ 25,000	$ 25,000
HEFA Series N (taxable)	10/1/34	0.11%	0.11%	30,385	30,725
MDFA Series U-1	10/1/40	0.65%	0.64%	50,000	50,000
MDFA Series U-2	10/1/40	0.53%	0.86%	50,000	50,000
MDFA Series U-3	10/1/40	0.04%	0.04%	50,000	50,000
MDFA Series U-5A	10/1/31	0.05%	0.03%	35,800	36,700
MDFA Series U-5B	10/1/31	0.07%	0.07%	37,300	38,400
MDFA Series U-6A	10/1/42	0.47%	0.66%	62,850	62,850
MDFA Series U-6C	10/1/42	0.02%	0.03%	52,545	52,545
MDFA Series U-6E	10/1/42	0.62%	0.61%	62,695	62,695
Royal Bank of Scotland (taxable)	8/15/29	1.04%	0.97%	36,924	41,948
MDFA Series Y	10/1/39	0.44%	n/a	35,000	
Total variable rate bonds payable				$ 528,499	$ 500,863
Total bonds and notes payable				$ 1,294,183	$1,310,567
Plus: unamortized bond premium and discount				17,213	17,951
Less: bond issuance costs				(4,539)	(4,589)
Total bonds and notes payable, net				$ 1,306,857	$1,323,929

Certain bond and bank obligations are collateralized by a pledge on tuition revenues, and certain other notes payable are collateralized by plant and property with a net carrying value of $48,579,000 and $49,812,000 as of June 30, 2015 and 2014, respectively. The University's bank agreements require annual compliance with financial covenants, including a minimum level of debt service coverage and a minimum level of expendable resources relative to debt. The University was in compliance with financial debt covenants as of June 30, 2015 and 2014.

The fair value of the University's outstanding fixed rate long-term debt was estimated based on recent market data for each debt issue when available. When market data was not available, fair value was estimated based on calculating the present value of the remaining debt service cash flows using a discount rate that takes into consideration comparable terms and estimated yields for similar transactions and obligors. For variable rate debt, the fair value is equal to the carrying value. The inputs to the assumptions used to determine the estimated fair value of debt are based on primarily observable inputs and are classified in Level 2 of the fair value hierarchy. The estimated fair value of the debt portfolio as of June 30, 2015 and 2014 is $1,376,960,000 and $1,418,963,000, respectively.

Scheduled principal payments on bonds and notes payable, in thousands of dollars, are presented in the table below:

Year	Scheduled Principal Maturities
2016	$ 12,929
2017	7,760
2018	8,732
2019	82,040
2020	8,363
Thereafter	1,174,359
Total	$1,294,183

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2015, the University's debt portfolio includes variable rate demand bonds (VRDBs) of $231,030,000 that are supported by irrevocable letters of credit (LOCs). The LOCs are provided by a diverse group of financial institutions to secure bond repayment and interest obligations and have various maturity dates between July 2015 and June 2018. In the event that a VRDB cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to the University to fund redemption of the bond. If all outstanding VRDBs had been "put" as of June 30, 2015, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: $38,505,000, $77,010,000, $77,010,000, and $38,505,000 in 2016, 2017, 2018, and 2019, respectively. 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 October 2014, the University issued its Series Y tax exempt variable rate bonds in the amount of $35,000,000. The proceeds from the Series Y bonds were used to refinance Series S bonds on their October 1, 2014 call date and the new bonds have an amortization schedule and a final maturity date identical to the Series S bonds. The remaining unamortized bond issuance costs of $1,308,000 for Series S is included in other additions (deductions) and transfers, net in the Consolidated Statements of Activities for the year ending June 30, 2015.

In October 2014, the University issued its Series Z-1 and Z-2 tax exempt fixed rate bonds in the aggregate amount of $73,370,000 with a final maturity in 2019. The bonds were issued at par and proceeds were used to refinance existing Series V-2 and V-3 tax exempt fixed rate bonds that matured on October 1, 2014. Interest is payable semi-annually at a fixed rate of 1.5% per annum.

Bank Lines:
The University has $140,000,000 in committed 364-day lines of credit with six financial institutions. There were no draws or outstanding loans under these lines of credit as of and for the years ended June 30, 2015 and 2014. The current expiration date for all lines of credit is in April 2016.

Debt Related Derivatives:

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. The contracts 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 under the swap agreements also generally match the scheduled amortization of the underlying debt.

In connection with the counterparty's exercise of an existing swaption contract related to its Series S bonds, the University entered into a swap with a notional amount of $35,000,000 effective October 1, 2014. Under the terms of the swap, the University pays a fixed rate of 4.7% and receives the SIFMA index from October 1, 2014 through October 1, 2039.

In connection with the October 2014 issuance of its Series Z-1 and Z-2 fixed rate bonds, the University entered into a fixed receiver swap with a notional amount of $73,370,000 effective October 1, 2014 with a lump-sum maturity matching the Series Z-1 and Z-2 bonds. Under the terms of the Swap, the University receives a fixed rate of 1.265% and pays the SIFMA Index from October 1, 2014 to October 1, 2019. This agreement was effected to offset a portion of the cost of the continuing long-term fixed payer swap agreements associated with Series Z-1 and Z-2 bonds.

Below is a summary of the terms of the University's outstanding debt related derivatives as of June 30, 2015 and 2014, in thousands of dollars:

Swap/Swaption Agreement	Notional Amount	Fair Value 6/30/15	Fair Value 6/30/14	Effective Date	Termination Date	University Pays	University Receives
Series H	$ 25,000	$ 8,997	$ 8,218	10/30/1997	12/01/2027	5.28%	SIFMA
Series N	23,200	9,291	9,350	10/30/1997	10/01/2027	6.79%	LIBOR
Series U1–3	150,000	51,736	44,968	10/01/2007	10/01/2040	3.97%	69% of 1-Mo. USD LIBOR
Series U5	73,100	16,278	16,302	10/30/2001	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	10,700	1,796	1,966	10/01/2002	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series U6, V	239,500	136,755	112,079	07/01/2008	10/01/2042	5.42%	SIFMA
Series V	73,370		(681)	12/04/2009	10/01/2014	SIFMA	1.94%
Royal Bank of Scotland	36,924	9,135	8,697	08/15/2006	08/15/2029	5.65%	3-Mo. GBP LIBOR +45 basis points
Series Z	73,370	(1,232)		10/01/2014	10/01/2019	SIFMA	1.265%
Series Y	35,000	14,134	10,103	10/01/2014	10/01/2039	4.70%	SIFMA
Series T swaption	162,740	66,052	45,463	10/01/2015	on exercise	4.95%*	SIFMA
Less: Credit valuation adjustment		(15,339)	(14,162)				
		$ 297,603	$ 242,303				

SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index
LIBOR—London Interbank Offered Rate
*If exercised

Interest rate exchange liabilities are valued using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. In instances where models are used to validate extended quotations, the value of the interest rate exchange liability depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs. The fair value of interest rate exchange agreements is included within Level 2 of the valuation hierarchy.

In 2015 and 2014, the University's net settlement payments on interest rate exchange agreements were $26,635,000 and $25,438,000, respectively. These net settlement payments have been reported in nonoperating activities on the Consolidated Statements of Activities.

For purposes of the Consolidated Statements of Cash Flows, net settlements under the University's interest rate exchange agreements are generally included in cash flows from operating activities. However, in October 2008, the University elected to terminate its existing interest rate exchange agreements with a subsidiary of Lehman Brothers after that firm's bankruptcy and simultaneously entered replacement agreements with new counterparties who provided cash to facilitate settlement of the existing agreements. Accordingly, future net settlements under various replacement agreements, with a total notional amount of $356,750,000 at June 30, 2015, are considered financing activities. During 2015 and 2014, respectively, $13,793,000 and $12,145,000 of the net settlement payments were classified as cash flows used in financing 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, 2015 and 2014, the University was required to post collateral of $163,604,000 and $106,494,000, respectively. Posted collateral balances are included on the Consolidated Statements of Financial Position in cash and cash equivalents-restricted. Contractual bilateral collateral posting levels are based on counterparty public debt ratings; current University posting amounts could increase or decrease should the University's credit ratings change. Additionally, interest rate exchange contracts provide for early termination should a counterparty's credit ratings fall below investment grade.

7. Pension and Other Employee Benefits

Defined Contribution Plan:
The University funds retirement plan contributions to Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF), and Fidelity Investments for employees. This 403(b) plan is a defined contribution plan available to all employees who work at least 50% of a full-time schedule, and have an appointment or an expected assignment duration of at least nine months. The expenses for this program amounted to $65,625,000 and $63,859,000 in fiscal years 2015 and 2014, respectively.

Pension and Other Post-Retirement Benefit Plans:
The Boston University Retirement Plan, a qualified defined benefit plan, covered certain University retirees and eligible employees who had elected to participate before December 31, 1986 when the plan was closed to new participants. During 2008, the University initiated the plan termination process. As part of this process, plan assets were used to purchase guaranteed annuities on behalf of the participants to settle the pension liability, and all assets remaining were used to purchase additional benefits for the participants. After receipt of an acceptance of the plan termination filing from the Internal Revenue Service and upon finalization of a plan audit by the Pension Benefit Guarantee Corporation in 2013, the University completed the plan termination process, including the distribution of remaining plan assets to participants and final required filings in 2014.

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. Reflecting an extension of the termination date made in fiscal year 2010, the change applied to employees terminating 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.

Beginning in 2013, the valuation process for the University's post-retirement benefits plan liability was simplified to reflect actual claims, interest cost, and the amortization of actuarial gains and losses over their expected life. Claims paid in 2015 and 2014, net of interest cost totaled $900,000 and $1,000,000, respectively. Actuarial losses and prior service credits previously recognized in the Consolidated Statements of Activities as nonoperating gains and losses are being amortized into operations over time. In 2015 and 2014, this amortization resulted in a net credit to operating expense of $2,543,000. The University's accrued post-retirement benefit obligation reflected in the Consolidated Statements of Financial Position totaled $4,000,000 and $4,900,000 in 2015 and 2014, respectively.

8. Commitments and Contingencies

Leases:

The University is committed to minimum annual rent payments under several long-term non-cancellable operating and capital leases for educational and office space through fiscal year 2033. Amounts scheduled include options to extend capital leases through the year 2066, in thousands of dollars, and are summarized below as of June 30, 2015:

	Operating	Capital
2016	$ 22,032	$ 4,021
2017	20,881	4,021
2018	20,586	4,021
2019	20,844	4,021
2020	16,189	4,064
Thereafter	88,306	184,729
	$ 188,838	$ 204,877
Less: Amounts representing interest		(121,536)
Capital lease obligation		$ 83,341

For 2015 and 2014, rent expense for educational facilities and office space was $25,391,000 and $27,807,000, 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 Boston. Future minimum lease payments are approximately $83,341,000 to be paid over the 60-year term of the lease.

Joint Venture Commitments:

The University has entered into certain non-cancellable operating leases expiring through 2030 with its equity-method real estate partnerships. The partnerships have total assets of $105,362,000 and $109,233,000 and total liabilities of $37,366,000 and $44,266,000 as of June 30, 2015 and 2014, respectively. The total outstanding debt is equal to $32,588,000 and $37,469,000 as of June 30, 2015 and 2014, respectively. The University's share of the debt is $15,841,000 and $18,290,000 as of June 30, 2015 and 2014, respectively. The total minimum annual lease payments associated with these leases of approximately $7,523,000 and $7,505,000 for the years ended June 30, 2015 and 2014, respectively, are included in the table above.

NEIDL:

In September 2003 the University received an award from the National Institutes of Health (NIH) for the construction of a Biosafety Level (BSL) 4 NEIDL on the University's Medical Campus. The NEIDL is to be used by the University and other organizations to study infectious diseases and to support the federal government's bio-defense effort.

Construction of the NEIDL was substantially completed in 2009. The use of the building for BSL-4 research has been delayed due to pending litigation; with the dismissal of litigation in Massachusetts Superior Court in April 2014, all pending litigation has been resolved, and the University is working to obtain regulatory approval for BSL-4 research from the Boston Public Health Commission. In March of 2012 the University received clearance from the Massachusetts Executive Office of Energy and Environmental Affairs to begin research at NEIDL at Biosafety Level 2 and as of March 2012, the related portion of the facility was placed into service and research began. In November 2014, the University received the final clearance from the Boston Public Health Commission to begin research at NEIDL at Biosafety Level 3 and the related portion of the facility was placed into service in November 2014.

The University and Boston Medical Center each committed $28,300,000 toward construction, and each held a 50% equity interest in the project with the right to share equally in the future operating activities of the NEIDL. In May 2010, in accordance with the terms of the agreement between the University and Boston Medical Center, Boston Medical Center notified the University of its intent to withdraw from further participation in the NEIDL as of May 1, 2011. The agreement required the University to repay Boston Medical Center's equity commitment of $29,064,000. Repayment terms for this obligation were finalized in February of 2012, with repayment to be made over 5 years at an interest rate of 2%. The balance of this obligation as of June 30, 2015 and 2014, of $5,813,000 and $11,626,000, respectively, is reflected in bonds and notes payable on the Consolidated Statements of Financial Position.

Total original construction costs were $203,879,000 and $202,489,000 as of June 30, 2015 and 2014, respectively. NIH has reimbursed $140,921,000 and $140,625,000 as of June 30, 2015 and 2014, respectively. When initially received by the University, NIH funding for NEIDL construction was recorded as an increase to temporarily restricted net assets, to be released from restriction when the asset is placed in service. As noted above, over 60% of the building was placed into service during 2012, and an additional 21% in 2015. As a result, in 2015 and 2012, a pro-rata share of NIH funding, $29,531,000 and $86,507,000, respectively, was transferred from temporarily restricted net assets to unrestricted net assets.

Other:
As of June 30, 2015, the University has commitments of approximately $230,358,000, related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flow, federal government grants, and borrowings.

In December 2012, in connection with the sale of a non-core asset, the University entered into a 75-year ground agreement to lease the land to the purchaser of the building. The lease term is through 2087. In connection with this transaction, the University received a prepaid lease payment of $38,625,000 that is included in deferred revenue on the Consolidated Statements of Financial Position and will be amortized on a straight-line basis over the term of the lease. For the years ended June 30, 2015 and 2014, the University recognized rental revenue of $515,000 related to the ground lease. The unamortized deferred rent as of June 30, 2015 and 2014 is $37,338,000 and $37,853,000, respectively.

Effective July 1, 1996, the University entered into a support agreement with Boston Medical Corporation, which was formed from the merger of Boston City Hospital and Boston Medical Center Hospital. The University agreed to continue its support of clinical department operations at a level of support proportionately consistent to what was provided before the merger. The University's commitment for fiscal year 2015 is approximately $8,300,000.

On June 30, 1998, the University entered into an arrangement with a private investor to lease/leaseback four properties with an estimated fair value at that date of approximately $223,000,000. The lease terms expire between 2039 and 2050, with sublease terms expiring from 2031 through 2040. The University has options to purchase the investor's leasehold interest in the properties at predetermined prices on dates specific to each property from 2015 through 2022. An irrevocable trust sufficient to fund required annual sublease obligations and lease purchase options, all of which the University intends to exercise, was established at the time of the transaction. The transaction did not result in a sale of the properties, which remain on the Consolidated Statements of Financial Position and have a net carrying value of $148,238,000 and $162,466,000 as of June 20, 2015 and June 30, 2014, respectively. In September 2014, the University exercised its options to purchase the investor's leasehold interest for the agreed purchase option price for one of the four properties. In 2015, the University eliminated from its Consolidated Statements of Financial Position asset and liability amounts equal to the investments in the irrevocable trust that will be used to purchase the investor's remaining leasehold interests in the properties because it determined that it does not hold these assets or control the trust. Accordingly, the University has adjusted the June 30, 2014 Consolidated Statements of Financial Position by removing the comparable prior year balance of $60,751,000 from prepaid expenses and other assets and accounts payable and accrued expenses.

The University is a defendant in various legal actions arising in the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

9. Subsequent Events

In July 2015, in connection with an existing $162,740,000 swaption contract related to its Series T-1 bonds, the University was notified of the counterparty's intent to exercise its option effective as of October 1, 2015. The University will refinance the Series T-1 bonds, and holds a bank commitment for that bank's purchase of the new bonds in a private transaction scheduled to close on September 30, 2015; final documentation for that transaction is substantially complete. Under the terms of the resulting swap, the University will pay a fixed rate of 4.95% and receive the SIFMA index from October 1, 2015 through October 1, 2039. The Series AA (2015) variable rate bonds will be fully hedged with the new swap.

The University has assessed the impact of subsequent events through September 16, 2015, the date the Consolidated Financial Statements were issued.