

Letter from the Treasurer – Fiscal Year 2017:

It is my pleasure to present the audited financial statements for Boston University for the fiscal year ending June 30, 2017. Boston University continued on a path of steady growth to support its broad academic mission while targeting resources to support strategic objectives in teaching and research.

From an operating perspective, Boston University ended the fiscal year with a better than expected net operating gain of \$149.9 million—an historic high point for the University- which will allow for the continual reinvestment in academic and other strategic programs as well as provide funding for capital renewal and replacement needs.

University net assets increased by more than \$500 million for the fiscal year. In addition to the impact from operating results, net investment income and gains provided from the endowment (\$202.8 million) and gifts (\$137.4 million) contributed significantly to this 17.5% year over year increase in net assets.

Over the past five years, Boston University's net assets have increased by more than \$1.24 billion, representing a compound annual growth rate of 9.5%. Through greater reliance on University generated reserves and judicious use of debt financing, the University has significantly improved its position on key measures of relative balance sheet leverage.

The University's \$1.5 billion capital campaign "Choosing to be Great" stood at \$1.3 billion at the end of June including a very generous pledge at fiscal year end of \$115 million from Alumnus Rajen Kilachand. This pledge will provide a \$100 million endowment to support the University's investments in interdisciplinary research at the intersection of life science and engineering.

The University's endowment assets ended the year at \$1.9 billion representing a 19% year over year increase incorporating a preliminary portfolio investment return of 13% and other additions during the year. One major addition of \$114 million resulted from the transfer of partial proceeds from a land lease monetization of University non-core real estate located on the north side of Kenmore Square—a major commercial area at the eastern gateway of our campus.

This strengthening financial position enables the University to enhance its distinction among the best global universities through ambitious programmatic and capital investments. Highly visible outcomes of the University's capital plan include completion of the Center for Integrated Life Sciences and Engineering ("CILSE"), ongoing major renovations of the 730 bed Myles Standish Residence complex and the near completion of the Joan and Edgar Booth Theatre and Production Center.

The reported financial results for fiscal year 2017 are validating and consistent with the change in outlook from "stable" to "positive" as reported by Moody's Investor Services in October 2016. This rating and outlook is reflective of the University's increasing financial strength, growing donor support and effective governance and leadership.

Recognizing the considerable and increasing pressures on higher education resources, we will continue to work to strike the right balance between the management of operating and financial risks, and the critical importance of ongoing investments in the University's research, teaching and public service mission.

Best regards,

A handwritten signature in black ink, appearing to read "Martin J. Howard".

Martin J. Howard
Senior Vice President, CFO and Treasurer

Boston University

Financial Statements
June 30, 2017 and 2016





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, 2017 and 2016, 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 audits 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, 2017 and 2016, 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 14, 2017

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016
(\$000)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 198,959	\$ 227,257
Cash and cash equivalents-restricted	268,426	300,049
Short-term investments	520,393	248,979
Accounts and loans receivable, net.	185,067	182,326
Pledges receivable, net	210,954	127,665
Prepaid expenses and other assets	27,990	31,440
Investment in residual asset note	42,685	46,827
Long-term investments.	2,034,697	1,758,418
Property, plant, and equipment, net.	2,410,125	2,279,000
Total assets	\$ 5,899,296	\$ 5,201,961
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	\$ 117,780	\$ 114,372
Accounts payable and accrued expenses	118,405	93,820
Deferred revenue	65,324	57,338
Student deposits.	102,125	99,523
Fair value of interest rate exchange agreements.	318,200	421,820
Residual asset note obligation	42,685	46,827
Capital lease obligation	82,414	82,887
Other long-term obligations	142,151	69,724
Deferred ground lease revenue.	99,877	36,823
Bonds and notes payable, net	1,404,982	1,280,823
Total liabilities	2,493,943	2,303,957
Net assets:		
Unrestricted	1,996,102	1,709,160
Temporarily restricted	685,808	569,997
Permanently restricted	723,443	618,847
Total net assets	3,405,353	2,898,004
Total liabilities and net assets	\$ 5,899,296	\$ 5,201,961

See accompanying notes to consolidated financial statements.

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2017 and 2016
(\$000)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	\$ 1,390,128	\$	\$	\$1,390,128
Student aid	(344,110)			(344,110)
Net student tuition and fees	1,046,018			1,046,018
Sponsored programs-direct	234,665			234,665
Sponsored programs-indirect	82,737			82,737
External fringe benefit recoveries	39,542			39,542
Contributions	39,405			39,405
Sales and services	105,320			105,320
Spending formula amount and other investment income	58,226			58,226
Sponsored program income for student aid	13,707			13,707
Auxiliary enterprises	277,860			277,860
Student aid	(11,441)			(11,441)
Net auxiliary enterprises	266,419			266,419
Contributions used for operations	8,996			8,996
Total operating revenues	1,895,035			1,895,035
OPERATING EXPENSES				
Instruction and departmental research	894,771			894,771
Educational support activities	169,756			169,756
Sponsored programs	235,449			235,449
Libraries	27,270			27,270
Institutional support	209,303			209,303
Student support	9,287			9,287
Auxiliary enterprises	199,267			199,267
Total operating expenses	1,745,103			1,745,103
Change in net assets from operating activities	149,932			149,932
NONOPERATING GAIN (LOSS)				
Contributions		42,055	104,369	146,424
Contributions used for operations		(8,996)		(8,996)
Reinvested endowment and other investment income	16,417	17,241	1,300	34,958
Net realized and unrealized gains (losses) on investments and other assets	91,115	103,144	1,137	195,396
Spending formula amount	(26,684)	(37,321)	(459)	(64,464)
Net realized and unrealized gains (losses) on interest rate exchange agreements	71,990			71,990
Net assets released from restrictions- building funds	2,229	(2,229)		
Other additions (deductions) and transfers, net	(18,057)	1,917	(1,751)	(17,891)
Net nonoperating gain (loss)	137,010	115,811	104,596	357,417
Change in net assets	286,942	115,811	104,596	507,349
Beginning net assets	1,709,160	569,997	618,847	2,898,004
Ending net assets	\$ 1,996,102	\$ 685,808	\$ 723,443	\$3,405,353

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2017 and 2016
(\$000)

2016				
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
\$ 1,318,141	\$	\$	\$1,318,141	OPERATING REVENUES
(324,072)			(324,072)	Student tuition and fees
994,069			994,069	Student aid
228,327			228,327	Net student tuition and fees
78,792			78,792	Sponsored programs-direct
42,929			42,929	Sponsored programs-indirect
37,005			37,005	External fringe benefit recoveries
96,621			96,621	Contributions
				Sales and services
50,318			50,318	Spending formula amount and other
14,589			14,589	investment income
276,628			276,628	Sponsored program income for student aid
(12,889)			(12,889)	Auxiliary enterprises
263,739			263,739	Student aid
10,980			10,980	Net auxiliary enterprises
1,817,369			1,817,369	Contributions used for operations
				Total operating revenues
859,377			859,377	OPERATING EXPENSES
163,567			163,567	Instruction and departmental research
227,349			227,349	Educational support activities
27,144			27,144	Sponsored programs
209,660			209,660	Libraries
9,812			9,812	Institutional support
191,905			191,905	Student support
1,688,814			1,688,814	Auxiliary enterprises
128,555			128,555	Total operating expenses
				Change in net assets from operating activities
	11,818	33,088	44,906	NONOPERATING GAIN (LOSS)
	(10,980)		(10,980)	Contributions
7,972	12,383	1,934	22,289	Contributions used for operations
				Reinvested endowment and other investment income
101,608	(33,314)	552	68,846	Net realized and unrealized gains (losses) on
(21,241)	(34,246)	(480)	(55,967)	investments and other assets
				Spending formula amount
(156,616)			(156,616)	Net realized and unrealized gains (losses) on interest
				rate exchange agreements
35,659	(35,659)			Net assets released from restrictions-
12,254	1,589	2,924	16,767	building funds
(20,364)	(88,409)	38,018	(70,755)	Other additions (deductions) and transfers, net
108,191	(88,409)	38,018	57,800	Net nonoperating gain (loss)
1,600,969	658,406	580,829	2,840,204	Change in net assets
\$ 1,709,160	\$ 569,997	\$ 618,847	\$2,898,004	Beginning net assets
				Ending net assets

See accompanying notes to consolidated financial statements.

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016
(\$000)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 507,349	\$ 57,800
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	112,903	106,895
Amortization	(968)	(19)
Loss on disposal of property and equipment	287	3,141
Unrealized (gains) losses on interest rate exchange agreements	(103,620)	124,217
Settlements on swap replacement transactions, net	12,987	14,287
Net realized and unrealized gains on investments	(203,675)	(52,722)
Contributions and pledge payments restricted for long-term investment	(63,135)	(64,733)
Gifts of securities and property	(4,091)	(2,212)
Unrealized gain on currency exchange	(905)	(5,312)
Loss (gain) from extinguishment of debt	12,195	(7,464)
Gain from liquidation of equity investment		(7,513)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and loans receivable, net	(2,741)	506
(Increase) decrease in pledges receivable, net	(83,289)	19,826
Decrease in prepaid expenses and other assets	3,450	2,373
Increase in accrued payroll and related expenses	3,408	6,680
Increase (decrease) in accounts payable and accrued expenses	6,317	(7,143)
(Decrease) increase in other long-term obligations	(959)	1,052
Increase in deferred revenue	71,040	9,467
Increase in student deposits	2,602	2,458
Net cash provided by operating activities	269,155	201,584
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,483,883)	(724,385)
Proceeds from sales and maturities of investments	1,139,865	776,136
Purchases of property and equipment	(226,047)	(203,127)
Decrease (increase) in cash and cash equivalents-restricted	31,623	(110,001)
Net cash used in investing activities	(538,442)	(261,377)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds	201,820	162,740
Bond premium received	30,019	
Payment of bonds, notes, and mortgages	(116,854)	(175,563)
Payment of bond issuance costs	(1,148)	(416)
Payment of capital lease obligations	(473)	(454)
Deposit received from deferred sale of non-core real estate	76,000	
Payment of transaction costs related to deferred sale of non-core real estate	(1,975)	
Decrease in other long-term liabilities-annuity obligations	(639)	(2,707)
Contributions and pledge payments restricted for long-term investment	63,135	64,733
Proceeds from sale of restricted gifts of securities	4,091	2,212
Settlements on swap replacement transactions, net	(12,987)	(14,287)
Net cash provided by financing activities	240,989	36,258
Net decrease in cash and cash equivalents	(28,298)	(23,535)
Cash and cash equivalents beginning of year	227,257	250,792
Cash and cash equivalents end of year	\$ 198,959	\$ 227,257
SUPPLEMENTAL INFORMATION:		
Change in accounts payable for property, plant, and equipment	\$ 18,268	\$ (7,100)
Interest paid in cash, net of capitalized interest of \$9,195 in 2017 and \$5,741 in 2016	\$ 32,772	\$ 34,118

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 2017 and 2016. 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 inter-company 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 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.

For the years ended June 30, 2017 and 2016

The composition of net assets as of June 30, 2017 and 2016, in thousands of dollars, is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose	\$ 606,040	\$ 149,414	\$ 130,788	\$ 886,242
Scholarships	80,497	181,811	178,456	440,764
Professorships	89,767	137,339	186,066	413,172
Awards, prizes, fellowships, and other	19,363	43,655	34,219	97,237
Research	11,641	7,588	22,683	41,912
Annuities		21,825		21,825
Total endowment funds	807,308	541,632	552,212	1,901,152
Other funds:				
General and plant funds	1,039,228			1,039,228
Building and gift funds	78,221	57,448		135,669
Pledges		68,748	142,206	210,954
Student loan funds	22,362	1,188	29,025	52,575
Unexpended endowment distributions	48,983	16,792		65,775
Total other funds	1,188,794	144,176	171,231	1,504,201
Total net assets	<u>\$ 1,996,102</u>	<u>\$ 685,808</u>	<u>\$ 723,443</u>	<u>\$ 3,405,353</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose	\$ 441,492	\$ 126,557	\$ 123,251	\$ 691,300
Scholarships	68,779	155,764	166,803	391,346
Professorships	83,403	113,454	170,145	367,002
Awards, prizes, fellowships, and other	17,593	37,814	32,127	87,534
Research	10,102	5,389	19,589	35,080
Annuities		20,924		20,924
Total endowment funds	621,369	459,902	511,915	1,593,186
Other funds:				
General and plant funds	944,610			944,610
Building and gift funds	73,082	45,129		118,211
Pledges		49,178	78,487	127,665
Student loan funds	25,503	985	28,445	54,933
Unexpended endowment distributions	44,596	14,803		59,399
Total other funds	1,087,791	110,095	106,932	1,304,818
Total net assets	<u>\$ 1,709,160</u>	<u>\$ 569,997</u>	<u>\$ 618,847</u>	<u>\$ 2,898,004</u>

For the years ended June 30, 2017 and 2016

Collections:

The University's collections, 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.

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 consist primarily of short-term money market mutual funds and treasury bills with original maturities of 90 days or less that are not invested as part of the long-term investment assets. These amounts are carried at cost, which approximates fair value. Cash and cash equivalents that are part of the long-term pool are shown within investments as those funds generally are not used for daily operating purposes.

Cash and cash equivalents-restricted represent 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. Fair values of investments in funds similar to mutual funds, deemed to have readily determinable fair value, are measured at published NAV.

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.

For the years ended June 30, 2017 and 2016

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 information generated by relevant market transactions, 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.

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 are categorized in 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 agreements and contracts 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 investment income, 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 \$3,135,000 in 2017 and \$2,738,000 in 2016 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, 2017 and 2016 was \$112,903,000 and \$106,895,000, 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.

For the years ended June 30, 2017 and 2016

The asset retirement obligation at June 30, 2017 and 2016 was \$14,326,000 and \$14,685,000, respectively, and is included in other long-term obligations 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 and Support:

Student aid in the amount of \$344,110,000 and \$324,072,000 for the years ended June 30, 2017 and 2016, respectively, has been classified as a reduction of student tuition and fees revenue. In addition, student aid in the amount of \$11,441,000 and \$12,889,000 for the years ended June 30, 2017 and 2016, respectively, has been presented as a reduction of auxiliary enterprises (room and board) revenue.

In addition to student aid, student support in the amount of \$9,287,000 and \$9,812,000 for the years ended June 30, 2017 and 2016, respectively, has been presented as an operating expense. Student support includes University-funded work study and other incremental costs to support students.

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.

External Fringe Benefit Recoveries:

External fringe benefit recoveries includes payments from affiliated organizations for the cost of fringe benefits paid by the University under a common paymaster agreement.

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 or the designated time elapses. 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, 2017 and 2016, these expenses are comprised of, in thousands of dollars:

	2017	2016
Operation and maintenance of plant.	\$ 110,978	\$ 105,536
Interest on indebtedness	33,803	34,219
Depreciation	112,903	106,895

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.

Reclassifications:

Certain 2016 balances previously reported have been reclassified to conform to the 2017 presentation.

For the years ended June 30, 2017 and 2016

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, 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 determined to be 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, 2017 and 2016, 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 holdings, 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 relevant 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 \$28 to \$57 per square foot and weighted average capitalization rates of 7%. Significant changes in these inputs may result in a significantly lower or higher fair value measure.

For the years ended June 30, 2017 and 2016

Cash and investments included in the Consolidated Statements of Financial Position at June 30, 2017 and 2016 were as follows, in thousands of dollars:

	2017	2016
Cash and cash equivalents	\$ 198,959	\$ 227,257
Cash and cash equivalents-restricted	268,426	300,049
Short-term investments	520,393	248,979
Investment in residual asset note	42,685	46,827
Long-term investments	2,034,697	1,758,418
	<u>3,065,160</u>	<u>2,581,530</u>
Less assets not reported at fair value:		
Investment in residual asset note	(42,685)	(46,827)
Real estate partnerships accounted for under the equity method	<u>(22,726)</u>	<u>(21,396)</u>
Cash and investments at fair value	<u>\$2,999,749</u>	<u>\$2,513,307</u>

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2017 and 2016, in thousands of dollars:

As of June 30, 2017	Investments Measured at NAV	Investments Classified in the Fair Value Hierarchy			Total Fair Value
		Level 1	Level 2	Level 3	
Assets at fair value					
Cash and cash equivalents	\$	\$ 467,385	\$	\$	\$ 467,385
Common and preferred equities:					
Domestic	98,011	78,340			176,351
International	177,184	54,529	79,038		310,751
	<u>275,195</u>	<u>132,869</u>	<u>79,038</u>		<u>487,102</u>
Fixed income:					
Domestic		728	1,620		2,348
International		7	248		255
U.S. government and agencies		629,464	113		629,577
		<u>630,199</u>	<u>1,981</u>		<u>632,180</u>
Alternatives:					
Hedge	646,662				646,662
Natural resources	84,055				84,055
Private	275,243			2,237	277,480
Real estate	66,146			330,344	396,490
	<u>1,072,106</u>			<u>332,581</u>	<u>1,404,687</u>
Split-interest agreements held by third parties				8,395	8,395
Total assets at fair value	<u>\$ 1,347,301</u>	<u>\$ 1,230,453</u>	<u>\$ 81,019</u>	<u>\$ 340,976</u>	<u>\$ 2,999,749</u>

For the years ended June 30, 2017 and 2016

As of June 30, 2016	Investments Measured at NAV	Investments Classified in the Fair Value Hierarchy			Total Fair Value
		Level 1	Level 2	Level 3	
Assets at fair value					
Cash and cash equivalents	\$	\$ 527,306	\$	\$	\$ 527,306
Common and preferred equities:					
Domestic	99,713	72,107			171,820
International	130,457	40,617	63,984		235,058
	<u>230,170</u>	<u>112,724</u>	<u>63,984</u>		<u>406,878</u>
Fixed income:					
Domestic		691	1,323		2,014
International		7	84		91
U.S. government and agencies		340,949	191		341,140
		<u>341,647</u>	<u>1,598</u>		<u>343,245</u>
Alternatives:					
Hedge	534,161				534,161
Natural resources	66,536				66,536
Private	239,083			3,363	242,446
Real estate	69,228			318,643	387,871
	<u>909,008</u>			<u>322,006</u>	<u>1,231,014</u>
Split-interest agreements held by third parties				4,864	4,864
Total assets at fair value	<u>\$ 1,139,178</u>	<u>\$ 981,677</u>	<u>\$ 65,582</u>	<u>\$ 326,870</u>	<u>\$ 2,513,307</u>

The following tables present a summary of the University's activity for the years ended June 30, 2017 and 2016 for investment classified in Level 3, in thousands of dollars:

2017	Alternatives		Split-interest agreements held by third parties	Total Assets at Level 3
	Private	Real Estate		
Fair value, July 1, 2016	\$ 3,363	\$ 318,643	\$ 4,864	\$ 326,870
Additions		535	2,093	2,628
Sales or redemptions		(240)		(240)
Unrealized gains	(1,126)	11,406	1,438	11,718
Fair value, June 30, 2017	<u>\$ 2,237</u>	<u>\$ 330,344</u>	<u>\$ 8,395</u>	<u>\$ 340,976</u>

2016	Alternatives		Split-interest agreements held by third parties	Total Assets at Level 3
	Private	Real Estate		
Fair value, July 1, 2015	\$ 3,363	\$ 227,700	\$ 5,105	\$ 236,168
Additions		2,329		2,329
Sales or redemptions		(2,787)		(2,787)
Unrealized gains		94,111	(241)	93,870
Transfer from Level 3		(2,710)		(2,710)
Fair value, June 30, 2016	<u>\$ 3,363</u>	<u>\$ 318,643</u>	<u>\$ 4,864</u>	<u>\$ 326,870</u>

For the years ended June 30, 2017 and 2016

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. Transfers from Level 3 to NAV during the year ended June 30, 2016, 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, 2017 and 2016, the aggregate notional exposure on long-term assets was \$131,264,000 and \$81,349,000, respectively. The associated unrealized (loss) gain on these assets was \$(806,000) and \$1,761,000, respectively, as of June 30, 2017 and 2016. 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, 2017 and 2016, the carrying value of the investment in residual asset note receivable and related obligation was \$42,685,000 and \$46,827,000, 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 \$39,800,000 of cash flows scheduled for 2022–2025.

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.

For the years ended June 30, 2017 and 2016

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, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	\$ 15,490	\$ 12,741	\$ 490	\$ 28,721
Net realized and unrealized gains on investments and other assets	91,115	103,144	1,137	195,396
Total return on investments and other assets . . .	106,605	115,885	1,627	224,117
Less: spending formula	(26,684)	(37,321)	(459)	(64,464)
Less: change in value of designated non-core	(11,366)			(11,366)
Less: other non-endowment income	(9,885)		(22)	(9,907)
	(47,935)	(37,321)	(481)	(85,737)
Excess of investment return over spending formula amount	\$ 58,670	\$ 78,564	\$ 1,146	\$ 138,380
For the year ended June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	\$ 8,282	\$ 7,654	\$ 704	\$ 16,640
Net realized and unrealized gains on investments and other assets	101,608	(33,314)	552	68,846
Total return on investments and other assets . . .	109,890	(25,660)	1,256	85,486
Less: spending formula	(21,241)	(34,246)	(480)	(55,967)
Less: change in value of designated non-core	(99,145)			(99,145)
Less: gain on sale of academic properties	(22,776)			(22,776)
Less: other non-endowment income	(4,478)		(11)	(4,489)
	(147,640)	(34,246)	(491)	(182,377)
Excess (deficit) of investment return over spending formula amount	\$ (37,750)	\$ (59,906)	\$ 765	\$ (96,891)

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, 2017 and 2016 was \$302,142,000 and \$231,423,000, respectively. Of this amount, approximately 10% and 12% of commitments as of June 30, 2017 and 2016, 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.

For the years ended June 30, 2017 and 2016

Liquidity:

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

As of June 30, 2017	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	\$ 467,385	\$	\$	\$	\$	\$ 467,385
Common and preferred equities:						
Domestic	77,571	800	65,124	32,856		176,351
International	133,546	132,001	26,969	18,235		310,751
	<u>211,117</u>	<u>132,801</u>	<u>92,093</u>	<u>51,091</u>		<u>487,102</u>
Fixed income:						
Domestic	2,280	68				2,348
International	248	7				255
U.S. government and agencies .	629,577					629,577
	<u>632,105</u>	<u>75</u>				<u>632,180</u>
Alternatives:						
Hedge			258,878	243,090	144,694	646,662
Natural resources.			19,041	9,520	55,494	84,055
Private			949	1,553	274,978	277,480
Real estate				248,168	148,322	396,490
			<u>278,868</u>	<u>502,331</u>	<u>623,488</u>	<u>1,404,687</u>
Split-interest agreements held by third parties					8,395	8,395
	<u>\$1,310,607</u>	<u>\$ 132,876</u>	<u>\$ 370,961</u>	<u>\$ 553,422</u>	<u>\$ 631,883</u>	<u>\$2,999,749</u>

*Cash and cash equivalents includes \$191,903,000 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, 2016	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	\$ 527,306	\$	\$	\$	\$	\$ 527,306
Common and preferred equities:						
Domestic	71,431	722	72,748	26,919		171,820
International	104,579	105,989	24,490			235,058
	<u>176,010</u>	<u>106,711</u>	<u>97,238</u>	<u>26,919</u>		<u>406,878</u>
Fixed income:						
Domestic	1,789	225				2,014
International	84	7				91
U.S. government and agencies .	341,140					341,140
	<u>343,013</u>	<u>232</u>				<u>343,245</u>
Alternatives:						
Hedge			234,991	168,179	130,991	534,161
Natural resources.			16,121	8,060	42,355	66,536
Private			935	1,301	240,210	242,446
Real estate				316,468	71,403	387,871
			<u>252,047</u>	<u>494,008</u>	<u>484,959</u>	<u>1,231,014</u>
Split-interest agreements held by third parties					4,864	4,864
	<u>\$1,046,329</u>	<u>\$ 106,943</u>	<u>\$ 349,285</u>	<u>\$ 520,927</u>	<u>\$ 489,823</u>	<u>\$2,513,307</u>

*Cash and cash equivalents includes \$299,588,000 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.

For the years ended June 30, 2017 and 2016

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.

Except for the non-core real estate deferred sale, described in Note 6, 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-core real estate subject to deferred sale and non-redeemable assets totaling \$593,688,000 and \$450,833,000, as well as investments with rolling lockup periods totaling \$38,195,000 and \$38,990,000 as of June 30, 2017 and 2016, respectively.

3. Endowment Funds

Total endowment assets as of June 30, 2017 and 2016 are \$1,957,021,000 and \$1,654,531,000, 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, 2017 and 2016, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.8% and 3.5%.

At June 30, 2017 and 2016, respectively, approximately \$54,000 and \$3,731,000 of unrealized losses on donor-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

For the years ended June 30, 2017 and 2016

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, 2017, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted.	\$ (54)	\$ 541,632	\$ 552,212	\$1,093,790
Institution designated.	807,362			807,362
Endowment net assets at end of year.	<u>\$ 807,308</u>	<u>\$ 541,632</u>	<u>\$ 552,212</u>	<u>\$1,901,152</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2017, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 621,369	\$ 459,902	\$ 511,915	\$1,593,186
Reinvested income distribution	6,757	1,217	810	8,784
Realized and unrealized gains	85,354	115,885	1,605	202,844
Less: spending formula	<u>(26,684)</u>	<u>(37,321)</u>	<u>(459)</u>	<u>(64,464)</u>
Undistributed investment income.	65,427	79,781	1,956	147,164
Contributions	3,298	1,112	9,117	13,527
Pledge payments	316		30,218	30,534
Other additions (deductions), transfers, and net asset reclassifications	116,898	837	(994)	116,741
Endowment net assets at end of year.	<u>\$ 807,308</u>	<u>\$ 541,632</u>	<u>\$ 552,212</u>	<u>\$1,901,152</u>

For the years ended June 30, 2017 and 2016

The following table represents endowment net asset composition by type of fund as of June 30, 2016, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted.	\$ (3,731)	\$ 459,902	\$ 511,915	\$ 968,086
Institution designated.	625,100			625,100
Endowment net assets at end of year.	<u>\$ 621,369</u>	<u>\$ 459,902</u>	<u>\$ 511,915</u>	<u>\$1,593,186</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2016, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year . . .	\$ 592,240	\$ 520,839	\$ 463,515	\$1,576,594
Reinvested income distribution	2,948	1,422	1,230	5,600
Realized and unrealized gains (losses)	(16,509)	(25,660)	1,245	(40,924)
Less: spending formula	<u>(21,241)</u>	<u>(34,246)</u>	<u>(480)</u>	<u>(55,967)</u>
Undistributed investment income (losses).	<u>(34,802)</u>	<u>(58,484)</u>	<u>1,995</u>	<u>(91,291)</u>
Contributions	5,224	1,214	6,812	13,250
Pledge payments	142		37,369	37,511
Other additions (deductions), transfers, and net asset reclassifications	<u>58,565</u>	<u>(3,667)</u>	<u>2,224</u>	<u>57,122</u>
Endowment net assets at end of year.	<u>\$ 621,369</u>	<u>\$ 459,902</u>	<u>\$ 511,915</u>	<u>\$1,593,186</u>

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2017 and 2016, in thousands of dollars, consist of the following:

	2017	2016
Accounts receivable, net:		
Students.	\$ 15,591	\$ 16,337
Less: allowances	<u>(6,397)</u>	<u>(6,737)</u>
	9,194	9,600
Grants and contracts.	65,234	59,002
Departmental sales, services, and other.	48,056	48,870
Less: allowances	<u>(11,659)</u>	<u>(11,004)</u>
	101,631	96,868
Student loans.	77,279	79,092
Less: allowances	<u>(3,037)</u>	<u>(3,234)</u>
	74,242	75,858
Total accounts receivable, net	<u>\$ 185,067</u>	<u>\$ 182,326</u>

For the years ended June 30, 2017 and 2016

Federally sponsored student loans receivable represented \$43,337,000 and \$44,578,000 as of June 30, 2017 and 2016, 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's advances under Perkins and other federal funded student loan programs were \$39,254,000, as of June 30, 2017 and 2016, and are included in other long-term obligations on the Consolidated Statements of Financial Position. 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.

Departmental sales, services, and other receivables include outstanding notes, mortgages, and advances bearing interest at rates up to 5.15% at June 30, 2017 and 2016, to certain employees. The aggregate amount as of June 30, 2017 and 2016 is \$7,464,000 and \$7,886,000, respectively.

Pledges Receivable:

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2017 and 2016, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2017	2016
In one year or less	\$ 38,792	\$ 53,109
Between one year and five years	179,226	68,722
More than five years	35,184	35,414
	<u>253,202</u>	<u>157,245</u>
Discount to present value (at rates ranging from 1.51% to 5.14%) . .	(26,248)	(17,980)
Less allowance for unfulfilled pledges	(16,000)	(11,600)
Pledges receivable	<u>\$ 210,954</u>	<u>\$ 127,665</u>

On June 30, 2017, the University received a significant pledge of \$115,000,000, of which \$100,000,000 will be an addition to the University's endowment. Income from this endowment fund will be used to support the University's investments in interdisciplinary research at the intersection of life science and engineering. This gift is included in pledges receivable on the Consolidated Statement of Financial Position as of June 30, 2017, at an estimated present value amount of \$104,800,000.

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2017 and 2016, in thousands of dollars, consist of the following:

	2017	2016
Land	\$ 99,991	\$ 99,991
Buildings and improvements	3,036,432	2,827,903
Construction in progress	243,839	244,717
Software	56,224	56,224
Equipment	278,159	256,226
Library books	225,873	214,332
	<u>3,940,518</u>	<u>3,699,393</u>
Less: accumulated depreciation	(1,530,393)	(1,420,393)
Property, plant, and equipment, net	<u>\$ 2,410,125</u>	<u>\$ 2,279,000</u>

As of June 30, 2017 and 2016, buildings and improvements include \$94,548,000 associated with office and research space under capital lease.

As of June 30, 2017 and 2016, capital expenditures of \$208,942,000 and \$206,374,000, 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, 2017 and 2016, and will be placed in service when the construction is complete and the project is ready for its intended use.

For the years ended June 30, 2017 and 2016

6. Sale and Ground Lease of Non-Core Real Estate

In October 2016, the University entered into an agreement to sell certain non-core real estate buildings and to lease the related land to the purchaser of the buildings. The total amount of the agreement was \$144,000,000, with \$140,000,000 due at closing and \$4,000,000 to be paid in October 2018.

Recognition of the sale has been deferred, as required by ASC 840, *Leases*, since the University retained rights to additional ground rent should future signage revenue and permitted floor area exceed thresholds established in the agreement, and because the University is leasing back a portion of the building from the purchaser. Buildings with a fair market value of \$80,000,000 as of June 30, 2017 will remain in long-term investments in the Consolidated Statement of Financial Position until the sale is recognized. The prepaid lease payment of \$64,000,000 has been deferred and will be recognized as revenue over the life of the ground leases. The portion of the payment relating to the sale of the buildings, \$76,000,000 net of closing costs, has been recorded as a deposit in other long-term liabilities in the Consolidated Statement of Financial Position as of June 30, 2017. As required by ASC 840, *Leases*, the \$4,000,000 due in October 2018 has not been recognized as a receivable in the Consolidated Statement of Financial Position as of June 30, 2017.

Property leased back by the University from the purchaser consisted of 273,000 rentable square feet subject to a two-year lease, followed by a 15-year lease for 65,000 rentable square feet. The leases are classified as operating leases. Annual operating lease payments each year from 2018 to 2022 and in the aggregate for the remaining term of the leases are \$4,929,000, \$3,135,000, \$2,594,000, \$2,672,000, \$2,752,000, and \$37,263,000, respectively.

7. Other Long-Term Obligations

Other long-term obligations included in the Consolidated Statements of Financial Position at June 30, 2017 and 2016 were as follows, in thousands of dollars:

	2017	2016
Deposit relating to sale of non-core real estate, net	\$ 74,025	\$ 39,254
Federal Perkins loan advances	39,254	14,685
Conditional asset retirement obligation	14,326	12,485
Annuities and split-interest agreements payable	11,846	3,300
Post-retirement obligation	2,700	142,151
Other long-term obligations	<u>\$ 142,151</u>	<u>\$ 69,724</u>

For the years ended June 30, 2017 and 2016

8. Indebtedness*Bonds and Notes Payable:*

The principal amounts of bonds and notes payable at June 30, 2017 and 2016, 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, 2017	Interest Rate at June 30, 2016	Outstanding Principal	
				2017	2016
Fixed rate bonds and notes payable:					
MDFA Series P, blended fixed rate	5/15/59	5.63%	5.63%	\$ 100,000	\$ 100,000
MDFA Series T-2 (taxable)	10/1/30	n/a	5.27%		4,260
MDFA Series U-4	10/1/40	n/a	5.65%		50,000
MDFA Series V-1	10/1/29	n/a	5.00%		44,000
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%	1.50%	63,170	63,170
MDFA Series Z-2	10/1/19	1.50%	1.50%	10,200	10,200
MDFA Series BB-1	10/1/46	4.54%	n/a	111,270	
MDFA Series BB-2	10/1/40	3.95%	n/a	52,260	
MDFA Series BB-3	10/1/29	5.00%	n/a	38,290	
Century notes (taxable)	7/15/97	7.63%	7.63%	100,000	100,000
Boston Redevelopment Authority note (taxable)	6/15/21	0.00%	0.00%	4,580	5,725
Aetna loan (taxable)	9/15/18	10.20%	10.20%	1,468	2,332
Various notes payable (taxable)	various	various	various	1,776	2,503
Total fixed rate bonds and notes payable . .				694,969	594,145
Variable rate bonds payable:					
HEFA Series H	12/1/29	0.90%	0.40%	25,000	25,000
HEFA Series N (taxable)	10/1/34	1.20%	0.41%	29,585	30,005
MDFA Series U-1	10/1/40	1.11%	0.99%	50,000	50,000
MDFA Series U-2	10/1/40	1.13%	0.72%	50,000	50,000
MDFA Series U-3	10/1/40	0.89%	0.39%	50,000	50,000
MDFA Series U-5A	10/1/31	1.21%	0.81%	33,700	34,800
MDFA Series U-5B	10/1/31	1.21%	0.81%	35,200	36,300
MDFA Series U-6A	10/1/42	1.31%	0.81%	62,850	62,850
MDFA Series U-6C	10/1/42	0.89%	0.36%	52,545	52,545
MDFA Series U-6E	10/1/42	1.21%	0.96%	62,695	62,695
Royal Bank of Scotland (taxable)	8/15/29	0.77%	1.05%	27,568	29,968
MDFA Series Y	10/1/39	1.18%	0.78%	35,000	35,000
MDFA Series AA	10/1/39	1.34%	0.96%	162,740	162,740
Total variable rate bonds payable				676,883	681,903
Total bonds and notes payable				1,371,853	1,276,048
Plus: unamortized bond premium and discount, net				37,420	8,697
Less: unamortized bond issuance costs				(4,291)	(3,922)
Total bonds and notes payable, net				\$ 1,404,982	\$ 1,280,823

For the years ended June 30, 2017 and 2016

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 \$45,000,000 and \$46,225,000 as of June 30, 2017 and 2016, 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 all debt covenants as of June 30, 2017 and 2016.

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

Fiscal Year	Scheduled Principal Maturities
2018	\$ 8,713
2019	8,670
2020	81,733
2021	8,629
2022	7,955
Thereafter	<u>1,256,153</u>
Total	<u>\$1,371,853</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2017, the University's debt portfolio includes variable rate demand bonds (VRDBs) of \$157,130,000 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 June 2018 and June 2021. 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, 2017, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$26,188,000, \$52,377,000, \$52,377,000, and \$26,188,000 in fiscal years 2018, 2019, 2020, and 2021, respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In October 2015, the University issued its Series AA tax exempt variable rate bonds in the amount of \$162,740,000. The proceeds from the Series AA bonds were used to redeem Series T-1 bonds on their October 1, 2015 call date. The new bonds have an amortization schedule and a final maturity date identical to the Series T-1 bonds. As a result of the redemption, unamortized bond issuance costs of \$4,069,000 related to Series T-1 were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended June 30, 2016.

In November 2016, the University issued its \$111,270,000 Series BB-1 tax exempt fixed rate bonds with a final maturity in October 2046. The bonds were issued at a premium, generating proceeds of \$125,604,000, which will be used to fund designated capital expenditures and to pay bond issuance costs.

In November 2016, the University issued its \$52,260,000 Series BB-2 and \$38,290,000 Series BB-3 tax exempt fixed rate bonds. The bonds were issued at a premium, generating proceeds of \$56,962,000 and \$49,274,000, respectively, which were used to advance refund \$50,000,000 of Series U-4 and \$44,000,000 of Series V-1 bonds. The effect of the refunding was a non-operating loss from extinguishment of debt of \$11,744,000 included in other additions (deductions) and transfers, net in the Consolidated Statement of Activities in fiscal year 2017. Future debt service savings of approximately \$22,299,000 are expected due to the more favorable terms of the new Series BB-2 and BB-3 bonds compared with the refunded bonds. The refunded Series U-4 and Series V-1 bonds were legally defeased and, as such, are not reflected in bonds and notes payable, net at June 30, 2017. As a result of the advance refunding, unamortized issuance costs of \$226,000 and \$214,000 for Series U-4 and Series V-1 were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended June 30, 2017.

In March 2017, the University fully redeemed its Series T-2 taxable fixed rate bonds totaling \$4,260,000. As a result of the redemption, unamortized issuance costs of \$78,000 for Series T-2 were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended June 30, 2017.

For the years ended June 30, 2017 and 2016

Bank Lines:

The University has \$140,000,000 in committed one-year 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, 2017 and 2016. The current expiration date for all lines of credit is in April 2018. The University plans to renew the lines of credit upon expiration.

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 existing rights under a swaption contract related to its Series T-1 bonds, the University entered into a swap with a notional amount of \$162,740,000 effective October 1, 2015. Under the terms of the swap, the University pays a fixed rate of 4.95% and receives the SIFMA index from October 1, 2015 through October 1, 2039. The University subsequently entered into novation agreements to replace the existing swap counterparty with two new counterparties. The novated swaps fully hedge the interest rate risk of the University's Series AA variable rate bonds.

Below is a summary of the terms of the University's outstanding debt-related derivatives as of June 30, 2017 and 2016, in thousands of dollars:

Swap	Notional Amount	Fair Value		Effective Date	Termination Date	University Pays	University Receives
		6/30/17	6/30/16				
Series H	\$ 25,000	\$ 8,116	\$ 11,082	10/03/2008	12/01/2027	5.28%	SIFMA
Series N	22,160	7,873	10,918	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1-3	75,000	26,942	37,076	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1-3	75,000	26,471	36,773	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5	68,900	13,720	19,556	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	149,750	95,161	125,432	10/03/2008	10/01/2042	5.42%	SIFMA
Series U6	89,750	56,719	74,723	07/01/2008	10/01/2042	5.42%	SIFMA
Series U6	10,700	1,202	1,841	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y	35,000	15,593	21,306	10/01/2014	10/01/2039	4.70%	SIFMA
Series Z	73,370	(247)	(1,770)	10/01/2014	08/01/2019	SIFMA	1.265%
Series AA-1	81,370	37,095	49,773	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR -.027%*
Series AA-2	81,370	37,075	49,602	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR +.024%**
Royal Bank of Scotland	27,568	7,539	9,803	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment		(15,059)	(24,295)				
		<u>\$318,200</u>	<u>\$ 421,820</u>				

*Until April 1, 2020: thereafter SIFMA

**Until April 1, 2021: thereafter SIFMA

SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index

LIBOR—London Interbank Offered Rate

For the years ended June 30, 2017 and 2016

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 third-party 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 2017 and 2016, the University's net settlement payments on interest rate exchange agreements were \$31,630,000 and \$32,399,000, respectively. These net settlement costs have been reported in nonoperating activities in other additions (deductions) and transfers, net 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 \$351,510,000 at June 30, 2017, are considered financing activities. During 2017 and 2016, respectively, \$12,987,000 and \$14,287,000 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, 2017 and 2016, the University was required to post collateral of \$186,914,000 and \$295,116,000, 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.

9. Pension and Other Employee Benefits

Defined Contribution Plan:

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 are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plan. Contributions for the years ended June 30, 2017 and 2016, respectively, were \$70,310,000 and \$68,056,000.

Other Post-Retirement Benefit Plans:

During fiscal year 2009, the University initiated the process to discontinue a plan option that offers subsidized healthcare coverage to employees who retire from the University after age 55 until age 65, with 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. Claims paid in 2017 and 2016, net of interest costs totaled \$600,000 and \$700,000 respectively. The University's accrued post-retirement benefit obligation reflected in the Consolidated Statements of Financial Position totaled \$2,700,000 and \$3,300,000 as of June 30, 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016

10. 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, 2017:

<u>Fiscal Year</u>	<u>Operating</u>	<u>Capital</u>
2018	\$ 30,256	\$ 4,021
2019	23,656	4,021
2020	20,092	4,064
2021	17,960	4,064
2022	17,617	4,064
Thereafter	97,907	176,600
	<u>\$ 207,488</u>	<u>\$ 196,834</u>
Less: Amounts representing interest		<u>(114,420)</u>
Capital lease obligation		<u>\$ 82,414</u>

For 2017 and 2016, rent expense for educational facilities and office space was \$31,524,000 and \$24,052,000, respectively. Certain of these leases provide an option to purchase the properties at fair value.

The University's capital lease obligations are related to a biomedical research facility at 670 Albany Street in Boston.

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 \$83,407,000 and \$84,161,000 and total liabilities of \$36,030,000 and \$34,626,000 as of June 30, 2017 and 2016, respectively. The total outstanding debt is equal to \$32,532,000 and \$30,500,000 as of June 30, 2017 and 2016, respectively. The University's share of the debt is \$15,645,000 and \$14,820,000 as of June 30, 2017 and 2016, respectively. The total minimum annual lease payments associated with these leases of approximately \$7,502,000 and \$7,488,000 for the years ended June 30, 2017 and 2016, respectively, are included in the lease commitment 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. In March of 2012 the University received clearance from the Massachusetts Executive Office of Energy and Environmental Affairs to conduct research at NEIDL at BSL-2 allowing research to begin in 60% of the facility. In November 2014, the University received final clearance from the Boston Public Health Commission (BPHC) for research at NEIDL at BSL-3 and research began in an additional 21% of the facility. The use of the building for BSL-4 research in the remaining 19% of the building is subject to pending regulation approval.

The University and Boston Medical Center each committed \$28,300,000 toward construction of the NEIDL, and each initially held a 50% equity interest in the project with the right to share equally in the future operating activities. 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. As required by the agreement, the University repaid Boston Medical Center's equity obligation in full, completing repayment on May 1, 2016.

For the years ended June 30, 2017 and 2016

Total original construction costs were \$208,942,000 and \$206,374,000 as of June 30, 2017 and 2016, respectively. NIH has reimbursed \$140,921,000 as of June 30, 2017 and 2016. When initially received by the University, NIH funding for NEIDL construction was recorded in temporarily restricted net assets, to be reclassified to unrestricted net assets as assets are placed in service. In 2015 and 2012, a pro-rata share of NIH funding, \$29,531,000 and \$86,507,000 respectively, was reclassified from temporarily restricted net assets to unrestricted net assets.

Deferred Ground Lease Revenue:

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 related 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 will be amortized on a straight-line basis over the term of the lease. For the years ended June 30, 2017 and 2016, the University recognized rental revenue of \$515,000 related to the ground lease. The unamortized deferred rent as of June 30, 2017 and 2016 is \$36,308,000 and \$36,823,000, respectively.

As described in Note 6, in October 2016, in connection with the sale of non-core assets, the University entered into four 99-year ground agreements to lease the land to the purchaser of the building. The lease term is through 2115. In connection with this transaction, the University received a prepaid lease payment of \$64,000,000 that will be amortized on a straight-line basis over the term of the lease. For the year ended June 30, 2017, the University recognized rental revenue of \$431,000 related to the ground lease. The unamortized deferred rent as of June 30, 2017 is \$63,569,000.

Both ground lease prepayments are included in deferred ground lease revenue in the Consolidated Statements of Financial Position.

Other:

As of June 30, 2017, the University has commitments of approximately \$307,017,000, related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flows, federal government grants, and borrowings.

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 2017 was approximately \$9,935,000.

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.

11. Subsequent Events

The University has assessed the impact of subsequent events through September 14, 2017, the date the Consolidated Financial Statements were issued.

THE CORPORATION

THE FOUNDERS	Lee Claflin	Isaac Rich	Jacob Sleeper
THE ASSOCIATE FOUNDERS	Augusta E. Corbin Chester C. Corbin Albert V. Danielsen Edward H. Dunn Rafik B. al-Hariri Charles Hayden	Arthur G. B. Metcalf Stephen P. Mugar Anne A. Ramsey John R. Robinson Roswell R. Robinson	Alden Speare Dewey David Stone Harry K. Stone Gerald Tsai, Jr. An Wang
THE TRUSTEES Kenneth J. Feld <i>Chairman</i> J. Kenneth Menges, Jr. <i>Vice Chairman</i> Richard D. Reidy <i>Vice Chairman</i> Robert A. Brown <i>President</i>	William D. Bloom Richard D. Cohen Jonathan R. Cole Shamim A. Dahod Sudarshana Devadhar J. Robb Dixon Ahmass L. Fakahany Maurice R. Ferré Sandra A. Frazier Carol N. Fulp Ryan K. Roth Gallo Richard C. Godfrey	SungEun Han-Andersen Bahaa R. Hariri John P. Howe III Stephen R. Karp Rajen A. Kilachand Andrew R. Lack Peter J. Levine Kevin Merida Carla E. Meyer Ruth A. Moorman Alicia C. Mullen Peter T. Paul	Jacques P. Perold C. A. Lance Piccolo Allen Questrom Sharon G. Ryan S. D. Shibulal Hugo X. Shong Bippy M. Siegal Kenneth Z. Slater Malek Sukkar Nina C. Tassler Andrea L. Taylor Stephen M. Zide
THE OVERSEERS Ruth A. Moorman <i>Chairman</i> William A. Kamer <i>Vice Chairman</i>	Warren J. Adelson Maureen A. Alphonse-Charles Gayle R. Berg Cassandra M. Clay Cynthia R. Cohen Gerard H. Cohen Shadi Daher Nathaniel Dalton Maya Ezratti Bruce J. Feirstein Sidney J. Feltenstein Michael D. Fricklas	Edwin D. Fuller Kathleen L. Healy David E. Hollowell Esther A. H. Hopkins Karen Elliott House Christine S. Hunter David R. Jones Steven M. Karbank Linda Sloane Kay Robert A. Knox Leif C. Kvaal Stewart F. Lane	Philip Libin Kenneth P. Morrison Rebecca Norlander Stuart W. Pratt Jay Roewe Richard C. Shipley Marshall M. Sloane James Stergios Marcy Syms Lisa Ann Wong Lucy Landesman Halperin Zaro
THE TRUSTEES EMERITI	Terry L. Andreas Christopher A. Barreca Robert J. Brown Frederick H. Chicos Howard L. Clark, Jr. Susanne Cutler Edson D. de Castro Richard B. DeWolfe Dexter A. Dodge Patricia K. Donahoe Sidney J. Feltenstein	Norman E. Gaut Gerald L. Gitner Vartan Gregorian Leon C. Hirsch Esther A. H. Hopkins Karen Elliott House James M. Howell Richard R. Joaquim Luci Baines Johnson Robert A. Knox Alan M. Leventhal	William F. Macauley Edward I. Masterman JoAnn McGrath Melvin B. Miller Stuart W. Pratt John R. Robinson Richard C. Shipley Marshall M. Sloane John F. Smith, Jr. Laura Walsh Strandskov Robert E. Yellin
THE UNIVERSITY ADMINISTRATION			
<i>President</i> Robert A. Brown, B.S., M.S., Ph.D. <i>University Provost & Chief Academic Officer</i> Jean Morrison, B.A., M.S., Ph.D. <i>Provost of the Medical Campus</i> Karen H. Antman, B.S., M.D.	<i>Chief Investment Officer</i> Lila C. Hunnewell, B.A., M.B.A. <i>Senior Vice President, Chief Financial Officer, and Treasurer</i> Martin J. Howard, B.A., M.B.A., C.P.A., C.F.A., C.F.P. <i>Senior Vice President for External Affairs</i> Stephen P. Burgay, B.A., J.D.	<i>Senior Vice President for Development & Alumni Relations</i> Scott G. Nichols, B.A., M.S., Ed.D. <i>Senior Vice President for Operations</i> Gary W. Nicksa, B.S.B.A., M.S.T., C.P.A.	<i>Senior Vice President, Senior Counsel, and Secretary of the Board</i> Todd L. C. Klipp, B.A., J.D. <i>Vice President and General Counsel</i> Erika Geetter, B.A., J.D.