Boston University
One Silber Way
Boston, Massachusetts 02215

BOSTON UNIVERSITY

August 15, 2017

Nora J. Mann, Esq.
Director, Determination of Need Program
Massachusetts Department of Public Health
250 Washington Street, 6th Floor
Boston, MA 02108

Dear Ms. Mann,

The Henry M. Goldman School of Dental Medicine (the "School"), one of the 17 schools and colleges of Boston University (the "University"), submits this request for a waiver of the requirements of "Factor 4" in relation to the School's Determination of Need ("DoN") application submitted on July 31, 2017 for renovations to its clinic facility at 100 East Newton Street in Boston ("Project"). Specifically, the University requests a waiver from the requirement of an independent CPA analysis at 105 CMR 100.210(A)(4)(a).

Under Factor 4, the DoN applicant must provide evidence that it has sufficient funds available for capital and ongoing operating costs necessary to support the proposed project without negative impacts or consequences to the applicant's existing patients. For the reasons set forth below, the School asserts that obtaining an independent CPA analysis would be unnecessary, inappropriate, and overly burdensome given the source of the funding for the Project and insignificant anticipated operating cost increases.

1. **Funding for the Project**

   As a preliminary matter, the School is fundamentally different from other health care providers, as its primary source of revenues is student tuition and fees (59% in fiscal 2016), whereas revenue from patient care constitutes less than 12.8% of its total revenue. More to the point, all funding for the Project, with an estimated cost of $37.1 million, will come from unrestricted University funds, not from debt or future tuition or patient care revenue streams. The primary source of revenues of the University is tuition, fees, and room and board (64% in fiscal 2016), whereas revenue from patient care constitutes less than 0.8% of its total revenue. In accordance with best practice, the Project estimate of $37.1 million is based on the detailed cost modeling of two independent contractors working with the Project architect (SmithGroupJJR): Turner Construction Company, a construction management firm supporting pre-construction design and estimating efforts, and Faithful & Gould, a professional construction cost estimating firm. As reflected in the University's audited financial statements for the year ended June 30, 2016, incorporating the signed unqualified opinion of the University's independent financial statement auditors, KPMG, the University's net assets at June 30, 2016 were approximately $3 billion, with unrestricted cash and short term investments of $466 million.

   The University's financial strength and stability, and its ability to make this expenditure without negative impacts or consequences to the School's existing patients, is sufficiently supported by its audited financial statements for 2016, including an unqualified audit opinion from its auditors. These audited financial statements provide sufficient support to show that the University's cash reserves and accumulated unrestricted net assets are more than sufficient to fund the Project. Further evidence of the University's capacity to manage capital improvement projects such as this one is supported by its credit ratings: the University's rating is A1 from Moody's, recently upgraded to reflect a positive outlook in the fall of 2016, and its rating from Standard & Poors is A+.

2. **Funding for Operating Costs**
For the following two reasons, operating costs of the renovated space are expected to increase only modestly (10%) due to the Project:

- The Project is not expected to result in any material increase of the School's outpatient load capacity. The Project will add 6 chairs to the School's total number of chairs, a 3.6% increase to a total of 175 for the School. Additional space and chairs are being allocated to the Pre-Doctoral Treatment Center to facilitate changes in the educational program, and to allow endodontic, emergency and radiology services to be provided in the Pre-Doctoral Treatment Center, rather than in dedicated chairs on another floor. Thus, the overall capacity for patient care in the School is not anticipated to materially increase. As such, the School's clinical staffing is not changing.

- Because the renovation will expand the space, custodial costs are expected to increase modestly. However, renovations will also result in a more energy efficient building, reducing utility costs, which significantly offset the increase in custodial costs.

To the extent operating costs increase slightly, the added costs will be incorporated into the costs of operating the School's educational programs. Therefore, these slightly increased operating costs will not result in increased patient fees and will have no other negative impact on the School's existing patients. As described in more detail in the School's DoN application, the School must remain competitive on fees in order to attract sufficient patients to fulfill its educational mission, and due to its primary educational mission and non-clinical sources of funding, the School has not and does not expect its patient fees to cover clinical operations costs. As reflected in the University's audited financial statements for the year ended June 30, 2016, results of operation reported a $128.9 million gain for the fiscal year, and net cash provided by operations was over $200 million. This sufficiently demonstrates the University's financial strength and its ability to absorb minimal increases in operating costs at the School.

In summary, the School's Project is unlike a typical DoN project, where capacity, technology, and protocols are changing, and cost models are complex and must be carefully scrutinized. Instead, existing University funds will be used to fund the Project's initial costs and any net operating cost increase will also be absorbed through University funds.

For the reasons set forth in this letter, the School requests that the Department of Public Health exercise its authority under M.G.L. ch. 111 § 25C(g) and 105 CMR § 100.815 to waive the requirement for an independent CPA analysis under 105 CMR 100.210(A)(4)(a) in connection with the Project. We have attached a letter from the University's Chief Financial Officer with the corresponding audited financial statements in further support of this waiver request.

Sincerely,

Martin J. Howard
Senior Vice President for Financial Affairs,
Chief Financial Officer, & Treasurer

Jeffrey W. Hutter, DMD, MEd
Dean
Henry M. Goldman School of Dental Medicine

Boston University Sr. Vice President for Financial Affairs, CFO & Treasurer

881 Commonwealth Avenue, 4th Floor
Boston, Massachusetts 02215
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BOSTON UNIVERSITY

August 8, 2017

Massachusetts Department of Public Health

Dear Staff of the Massachusetts Department of Public Health,

Attached is a copy of Boston University's audited financial statements for the year ended June 30, 2016, incorporating the signed opinion of the University's independent financial statement auditors, KPMG. The audit was completed in September of 2016. Audited financial statements for fiscal 2017 are expected to be available in September of 2017.

In support of the Determination of Need application for the Henry M. Goldman School of Dental Medicine, we consulted with KPMG regarding this regulation. As reflected in the audited financial statements included in this filing, the University's net assets at June 30, 2016 were approximately $3 billion, with unrestricted cash and short term investments of $466 million. Results of operations reported a $128.9 million gain for the fiscal year, and net cash provided by operations was over $200 million.

Costs of the Dental School project (the "Project") described in this Determination of Need filing are expected to total $37.1 million. The Project includes the expansion and renovation of the Dental School's Pre-Doctoral Treatment Center, and the acquisition of an additional cone beam computed tomographer at 100 E. Newton Street. This clinic has operated on this site since the 1967. The clinical space that is the subject of this Application is a general dental clinic, known as the Pre-Doctoral Treatment Center because care is provided by students enrolled in the School's DMD program under the supervision of Dental School faculty.

All funding for the Project will come from unrestricted University funds, with no impact on fees charged to patients served by the Dental clinic.

The primary purpose of the renovation is to enhance the University's dental education programs through reconfiguration of treatment spaces to accommodate patients, pre-doctoral students, and dental faculty, and increased access to technology for students and patients. Renovations will also result in a more energy efficient building, reducing utility costs. Because the renovation will expand the space, custodial costs are expected to increase modestly; to the extent these costs are not fully offset by utility cost savings, the added costs will be absorbed in the University's budget and not passed on to patients.

The Pre-Doctoral Treatment Center sets its fees for nearly all of its services in the lower 50th percentile of dental fees in the Commonwealth, which compensates patients for the need to spend more time in clinic than they would in a private clinic. This pricing model attracts patients and ensures a broad range of patients to support the clinical program. This practice will continue after the renovation is complete. The Project meaningfully contributes to advancing the Commonwealth's goals for cost containment, improved public health outcomes, and delivery system transformation. The School provides excellent care, at a low cost, and promotes the availability of basic dental services to persons with limited incomes. The Project is essential to continuation and enhancement of this mission.

Please accept these audited financial statements in support of Factor 4 in the Determination of Need application for this project.

Sincerely,

Martin J. Howard
Senior Vice President for Financial Affairs, CFO and Treasurer
Boston University

Boston University

Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 15, 2016

June 30, 2016 and 2015
($000)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 227,257	$ 250,792
Cash and cash equivalents-restricted	300,049	190,048
Short-term investments	248,979	343,370
Accounts and loans receivable, net	182,326	182,832
Pledges receivable, net	127,665	147,491
Prepaid expenses and other assets	31,440	33,813
Investment in residual asset note	46,827	50,542
Long-term investments	1,758,418	1,663,056
Property, plant, and equipment, net	2,279,000	2,185,496
Total assets	$ 5,201,961	$ 5,047,440
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 114,372	$ 107,692
Accounts payable and accrued expenses	93,820	108,063
Deferred revenue	94,161	84,694
Student deposits	99,523	97,065
Fair value of interest rate exchange agreements	421,820	297,603
Residual asset note obligation	46,827	50,542
Capital lease obligation	82,887	83,341
Other long-term obligations	69,724	71,379
Bonds and notes payable, net	1,280,823	1,306,857
Total liabilities	2,303,957	2,207,236
Net assets:		
Unrestricted	1,709,160	1,600,969
Temporarily restricted	569,997	658,406
Permanently restricted	618,847	580,829
Total net assets	2,898,004	2,840,204
Total liabilities and net assets	$ 5,201,961	$ 5,047,440

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2016 and 2015
($000)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student tuition and fees	$ 1,318,141	$	$	$1,318,141
Student aid	(332,221)			(332,221)
Net student tuition and fees	985,920			985,920
Sponsored programs-direct	228,327			228,327
Sponsored programs-indirect	78,792			78,792
External fringe benefit recoveries	42,929			42,929
Contributions	37,005			37,005
Sales and services	95,842			95,842
Spending formula amount and other investment income	51,097			51,097
Sponsored program income for student aid	14,589			14,589
Auxiliary enterprises	276,628			276,628
Student aid	(4,740)			(4,740)
Net auxiliary enterprises	271,888			271,888
Contributions used for operations	10,980			10,980
Total operating revenues	1,817,369			1,817,369
OPERATING EXPENSES				
Instruction and departmental research	854,965			854,965
Educational support activities	163,628			163,628
Sponsored programs	227,349			227,349
Libraries	27,157			27,157
Institutional support	208,754			208,754
Student support	9,812			9,812
Auxiliary enterprises	197,149			197,149
Total operating expenses	1,688,814			1,688,814
Change in net assets from operating activities	128,555			128,555
NONOPERATING REVENUES AND (EXPENSES)				
Contributions		11,818	33,088	44,906
Contributions used for operations		(10,980)		(10,980)
Reinvested endowment and other investment income	7,972	12,383	1,934	22,289
Net realized and unrealized gains (losses) on investments and other assets	101,608	(33,314)	552	68,846
Spending formula amount	(21,241)	(34,246)	(480)	(55,967)
Net realized and unrealized losses on interest rate exchange agreements	(156,616)			(156,616)
Post-retirement related changes other than net periodic cost	(443)			(443)
Net assets released from restrictions-building funds	35,659	(35,659)		
Other additions (deductions) and transfers, net	12,697	1,589	2,924	17,210
Net nonoperating gain (loss)	(20,364)	(88,409)	38,018	(70,755)
Change in net assets	108,191	(88,409)	38,018	57,800
Beginning net assets	1,600,969	658,406	580,829	2,840,204
Ending net assets	$ 1,709,160	$ 569,997	$ 618,847	$2,898,004

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2016 and 2015
($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-direct	224,360			224,360
Sponsored programs-indirect	79,763			79,763
External fringe benefit recoveries	42,820			42,820
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	822,314			822,314
Educational support activities	156,500			156,500
Sponsored programs	224,673			224,673
Libraries	25,724			25,724
Institutional support	200,353			200,353
Student support	9,976			9,976
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	7,120	11,302	1,195	19,617
Net realized and unrealized gains (losses) on investments and other assets	12,178	11,686	(711)	23,153
Spending formula amount	(19,352)	(31,324)	(753)	(51,429)
Net realized and unrealized losses on interest rate exchange agreements	(81,935)			(81,935)
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	(4,165)	4,308	1,740	1,883
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, 2016 and 2015
($000)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 57,800	$ 109,029
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	106,895	103,354
Amortization	(19)	(48)
Loss on disposal of property and equipment	3,141	1,549
Unrealized losses on interest rate exchange agreements	124,217	55,300
Settlements on swap replacement transactions, net	14,287	13,793
Net realized and unrealized gains on investments	(52,722)	(27,031)
Contributions and pledge payments restricted for long-term investment	(64,733)	(63,367)
Gifts of securities and property	(2,212)	(6,235)
Unrealized gain on currency exchange	(5,312)	(3,355)
Bond premium and issuance costs-redeemed debt	(7,464)	
Gain from liquidation of equity investment	(7,513)	
Changes in operating assets and liabilities:		
Decrease in accounts and loans receivable, net	506	5,809
Decrease (increase) in pledges receivable, net	19,826	(26,313)
Decrease in prepaid expenses and other assets	2,373	1,187
Increase in accrued payroll and related expenses	6,680	3,991
(Decrease) increase in accounts payable and accrued expenses	(7,143)	6,970
Increase (decrease) in other long-term obligations	1,052	(1,182)
Increase in deferred revenue	9,467	2,106
Increase in student deposits	2,458	10,623
Net cash provided by operating activities	201,584	186,180
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(724,385)	(1,267,741)
Proceeds from sales and maturities of investments	776,136	1,205,186
Purchases of property and equipment	(203,127)	(154,596)
Increase in cash and cash equivalents-restricted	(110,001)	(26,612)
Net cash used in investing activities	(261,377)	(243,763)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds	162,740	108,370
Payment of bonds, notes, and mortgages	(175,563)	(121,399)
Payment of bond issuance costs	(416)	(642)
Payment of capital lease obligations	(454)	(373)
Decrease in other long-term liabilities-annuity obligations	(2,707)	(1,472)
Contributions and pledge payments restricted for long-term investment	64,733	63,367
Proceeds from sale of restricted gifts of securities	2,212	6,235
Settlements on swap replacement transactions, net	(14,287)	(13,793)
Net cash provided by financing activities	36,258	40,293
Net decrease in cash and cash equivalents	(23,535)	(17,290)
Cash and cash equivalents beginning of year	250,792	268,082
Cash and cash equivalents end of year	$ 227,257	$ 250,792
SUPPLEMENTAL INFORMATION:		
Change in accounts payable for property, plant, and equipment	$ (7,100)	$ (835)
Interest paid in cash, net of capitalized interest of $5,741 in 2016 and $3,274 in 2015	$ 34,118	$ 42,105

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 2016 and 2015. 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, 2016 and 2015, in thousands of dollars, is as follows:

	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	$ 1,709,160	$ 569,997	$ 618,847	$ 2,898,004

	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

Collections:
The University's collections, which have been 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.

ASC 958-230 defines cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify. Prior to 2016, the University's policy was to classify certain U.S. treasury securities with original maturities over 90 days as cash equivalents. In 2016, the University began to classify such securities, which aggregated $247,125,000 as of June 30, 2016, as short-term investments. Accordingly, the accompanying 2015 Consolidated Statement of Financial Position has been adjusted to present $339,219,000 previously reported as cash equivalents as short-term investments, and the accompanying 2015 Consolidated Statement of Cash Flows has been adjusted to reflect changes in cash and cash equivalents based on this revised classification.

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 that are deemed to have a 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.

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 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 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 $2,738,000 in 2016 and $5,208,000 in 2015 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, 2016 and 2015 was $106,895,000 and $103,354,000, 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, 2016 and 2015 was $14,685,000 and $14,807,000, 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:
Student aid in the amount of $332,221,000 and $311,267,000 for the years ended June 30, 2016 and 2015, respectively, has been classified as a reduction of student tuition and fees. In addition, student aid in the amount of $4,740,000 and $4,670,000 for the years ended June 30, 2016 and 2015, 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 $9,812,000 and $9,976,000 for the years ended June 30, 2016 and 2015, respectively, has been presented as an operating expense. Student support includes fellow stipends, 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. 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, 2016 and 2015, these expenses are comprised of, in thousands of dollars:

	2016	2015
Operation and maintenance of plant	$ 105,536	$ 107,598
Interest on indebtedness	34,219	41,987
Depreciation	106,895	103,354

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 2015 balances previously reported have been reclassified to conform to the 2016 presentation.

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 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, 2016 and 2015, 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 $30 to $49 per square foot and weighted average capitalization rate of 7%. 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, 2016 and 2015 were as follows, in thousands of dollars:

	2016	2015
Cash and cash equivalents	$ 227,257	$ 250,792
Cash and cash equivalents-restricted	300,049	190,048
Short-term investments	248,979	343,370
Investment in residual asset note	46,827	50,542
Long-term investments	1,758,418	1,663,056
	2,581,530	2,497,808
Less assets not reported at fair value:		
Investment in residual asset note	(46,827)	(50,542)
Real estate partnerships accounted for under the equity method	(21,396)	(30,014)
Cash and investments at fair value	$2,513,307	$2,417,252

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2016 and 2015, in thousands of dollars:

As of June 30, 2016	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	$	$ 527,306	$	$	$ 527,306
Common and preferred equities:					
Domestic	114,370	71,416			185,786
International	146,598	41,390	63,984		251,972
	260,968	112,806	63,984		437,758
Fixed income:					
Domestic		691	1,241		1,932
International		7	84		91
U.S. government and agencies		340,949	191		341,140
		341,647	1,516		343,163
Alternatives:					
Hedge	523,306				523,306
Natural resources	66,536				66,536
Private	218,971			3,363	222,334
Real estate	69,397			318,643	388,040
	878,210			322,006	1,200,216
Split-interest agreements held by third parties				4,864	4,864
Total assets at fair value	$ 1,139,178	$ 981,759	$ 65,500	$ 326,870	$ 2,513,307

As of June 30, 2015	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	$	$ 440,840	$	$	$ 440,840
Common and preferred equities:					
Domestic	109,208	76,428			185,636
International	162,009	67,517	57,877		287,403
	271,217	143,945	57,877		473,039
Fixed income:					
Domestic		466	1,557		2,023
International		2	135		137
U.S. government and agencies		431,859	751		432,610
		432,327	2,443		434,770
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	$ 1,103,652	$ 1,017,112	$ 60,320	$ 236,168	$ 2,417,252

The following tables present a summary of the University's activity for the years ended June 30, 2016 and 2015 for investment classified in Level 3, in thousands of dollars:

2016	Alternatives Private	Real Estate	Split-interest agreements held by third parties	Total Assets at Level 3
Fair value, July 1, 2015	$ 3,363	$ 227,700	$ 5,105	$ 236,168
Purchases		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	$ 3,363	$ 318,643	$ 4,864	$ 326,870

2015	Alternatives Private	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

ASU 2015-10, *Technical Corrections and Improvements*, clarified one aspect of the definition of readily determinable fair value (RDFV), thereby affecting the measurement of and disclosure about certain equity investments. During 2016, based on this technical correction, management re-evaluated its investments historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund as to whether they have an RDFV. Based on that re-evaluation, certain accounting policy and NAV disclosures have been amended, and certain investments aggregating $57,877,000 previously accounted for using NAV as a practical expedient as of June 30, 2015 and previously excluded from the fair value hierarchy were determined to have an RDFV and have been included as Level 1 investments at that date.

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2016 and 2015, there were no transfers between Level 1 and Level 2. Transfers from Level 3 to NAV 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, 2016 and 2015, the aggregate notional exposure on long-term assets was $81,349,000 and $103,480,000, respectively. The associated unrealized gain (loss) on these assets was $1,761,000 and $(870,000), respectively, as of June 30, 2016 and 2015. 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, 2016 and 2015, the carrying value of the investment in residual asset note receivable and related obligation was $46,827,000 and $50,542,000, 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.

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, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 9,061	$ 7,654	$ 704	$ 17,419
Net realized and unrealized gains (losses) on investments and other assets	101,608	(33,314)	552	68,846
Total return on investments and other assets	110,669	(25,660)	1,256	86,265
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	(5,257)		(11)	(5,268)
	(148,419)	(34,246)	(491)	(183,156)
Excess (deficit) of investment return over spending formula amount	$ (37,750)	$ (59,906)	$ 765	$ (96,891)

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 (losses) on investments and other assets	12,178	11,686	(711)	23,153
Total return on investments and other assets	22,056	18,805	(269)	40,592
Less: spending formula	(19,352)	(31,324)	(753)	(51,429)
Less: change in value of designated non-core	(5,492)			(5,492)
Less: gain on sale of academic properties	(2,909)			(2,909)
Less: other non-endowment income	(5,100)			(5,100)
	(32,853)	(31,324)	(753)	(64,930)
Excess (deficit) of investment return over spending formula amount	$ (10,797)	$ (12,519)	$ (1,022)	$ (24,338)

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, 2016 and 2015 was $231,423,000 and $183,071,000, respectively. Of this amount, approximately 12% and 15% of commitments as of June 30, 2016 and 2015, 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, 2016	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 527,306	$	$	$	$	$ 527,306
Common and preferred equities:						
Domestic	70,646	815	72,748	26,919	14,658	185,786
International	105,353	105,989	39,583		1,047	251,972
	175,999	106,804	112,331	26,919	15,705	437,758
Fixed income:						
Domestic	1,707	225				1,932
International	84	7				91
U.S. government and agencies	341,140					341,140
	342,931	232				343,163
Alternatives:						
Hedge			220,833	207,753	94,720	523,306
Natural resources			16,121	8,060	42,355	66,536
Private					222,334	222,334
Real estate				316,468	71,572	388,040
			236,954	532,281	430,981	1,200,216
Split-interest agreements held by third parties					4,864	4,864
	$1,046,236	$ 107,036	$ 349,285	$ 559,200	$ 451,550	$2,513,307

*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.

As of June 30, 2015	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 440,840	$	$	$	$	$ 440,840
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
U.S. government and agencies	432,610					432,610
	434,492	278				434,770
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.

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 $412,561,000 and $382,398,000, as well as investments with rolling lockup periods totaling $38,990,000 and $17,859,000 as of June 30, 2016 and 2015, respectively.

3. Endowment Funds

Total endowment assets as of June 30, 2016 and 2015 are $1,654,531,000 and $1,644,117,000, 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, 2016 and 2015, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.5% and 3.4%.

At June 30, 2016 and 2015, respectively, approximately $3,731,000 and $234,000 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

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, 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	$ 621,369	$ 459,902	$ 511,915	$1,593,186

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	(21,241)	(34,246)	(480)	(55,967)
Undistributed investment income (losses)	(34,802)	(58,484)	1,995	(91,291)
Contributions	5,224	1,214	6,812	13,250
Pledge payments	142		37,369	37,511
Other additions (deductions), transfers, and net asset reclassifications	58,565	(3,667)	2,224	57,122
Endowment net assets at end of year	$ 621,369	$ 459,902	$ 511,915	$1,593,186

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
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 losses	(7,011)	(15,347)	(270)	(22,628)
Contributions	2,992	1,194	4,737	8,923
Pledge payments	1,301		39,657	40,958
Other additions (deductions), transfers, and net asset reclassifications	(2,340)	3,488	700	1,848
Endowment net assets at end of year	$ 592,240	$ 520,839	$ 463,515	$1,576,594

4. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2016 and 2015, in thousands of dollars, consist of the following:

	2016	2015
Accounts receivable, net:		
Students	$ 16,337	$ 17,807
Less: allowances	(6,737)	(7,100)
	9,600	10,707
Grants and contracts	59,002	58,150
Departmental sales, services, and other	48,870	48,265
Less: allowances	(11,004)	(10,939)
	96,868	95,476
Student loans	79,092	79,897
Less: allowances	(3,234)	(3,248)
	75,858	76,649
Total accounts receivable, net	$ 182,326	$ 182,832

Federally sponsored student loans receivable represented $44,578,000 and $44,945,000 as of June 30, 2016 and 2015, 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 obligation to repay the federal government for the Perkins loan advances is $39,254,000 and $38,952,000, as of June 30, 2016 and 2015, respectively, and is 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 5.21% at June 30, 2016 and 2015, to certain employees. The aggregate amount as of June 30, 2016 and 2015 is $7,886,000 and $7,256,000, respectively.

Pledges Receivable:
Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2016 and 2015, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2016	2015
In one year or less	$ 53,109	$ 50,760
Between one year and five years	68,722	95,867
More than five years	35,414	31,739
	157,245	178,366
Discount to present value (at rates ranging from 1.51% to 5.14%)	(17,980)	(19,275)
Less allowance for unfulfilled pledges	(11,600)	(11,600)
Pledges receivable	$ 127,665	$ 147,491

5. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation at June 30, 2016 and 2015, in thousands of dollars, consist of the following:

	2016	2015
Land	$ 99,991	$ 100,261
Buildings and improvements	2,827,903	2,728,435
Construction in progress	244,717	178,721
Software	56,224	55,722
Equipment	256,226	250,075
Library books	214,332	203,488
	3,699,393	3,516,702
Less: accumulated depreciation	(1,420,393)	(1,331,206)
Property, plant, and equipment, net	$ 2,279,000	$ 2,185,496

As of June 30, 2016 and 2015, buildings and improvements include $94,548,000 and $94,544,000 associated with office and research space under capital lease.

As of June 30, 2016 and 2015, capital expenditures of $206,374,000 and $203,879,000, 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, 2016 and 2015, and will be placed in service when the construction is complete and the project is ready for its intended use.

6. Other Long-Term Obligations

Other long-term obligations included in the Consolidated Statements of Financial Position at June 30, 2016 and 2015 were as follows, in thousands of dollars:

	2016	2015
Federal Perkins loan advances	$ 39,254	$ 38,952
Conditional asset retirement obligation	14,685	14,807
Annuities and split-interest agreements payable	12,485	13,620
Post-retirement obligation	3,300	4,000
	$ 69,724	$ 71,379

Prior to 2016, the University's policy was to classify asset retirement obligations and government loan advances related to Perkins loans as accounts payable and accrued expenses. In 2016, due to the long-term nature of these liabilities, the University reclassified these liabilities to other long-term obligations. Accordingly, the accompanying 2015 Consolidated Statement of Financial Position has been adjusted to present $53,759,000 previously reported as accounts payable and accrued expenses as other long-term obligations.

7. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2016 and 2015, 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, 2016	Interest Rate at June 30, 2015	Outstanding Principal 2016	Outstanding Principal 2015
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-1	n/a	n/a	5.00%		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 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
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
Boston Redevelopment Authority note (taxable)	6/15/21	0.00%	0.00%	5,725	6,870
Aetna loan (taxable)	9/15/18	10.20%	10.20%	2,332	3,114
Various notes payable (taxable)	various	various	various	2,503	3,562
Total fixed rate bonds and notes payable				594,145	765,684
Variable rate bonds payable:					
HEFA Series H	12/1/29	0.40%	0.05%	25,000	25,000
HEFA Series N (taxable)	10/1/34	0.41%	0.11%	30,005	30,385
MDFA Series U-1	10/1/40	0.99%	0.65%	50,000	50,000
MDFA Series U-2	10/1/40	0.72%	0.53%	50,000	50,000
MDFA Series U-3	10/1/40	0.39%	0.04%	50,000	50,000
MDFA Series U-5A	10/1/31	0.81%	0.05%	34,800	35,800
MDFA Series U-5B	10/1/31	0.81%	0.07%	36,300	37,300
MDFA Series U-6A	10/1/42	0.81%	0.47%	62,850	62,850
MDFA Series U-6C	10/1/42	0.36%	0.02%	52,545	52,545
MDFA Series U-6E	10/1/42	0.96%	0.62%	62,695	62,695
Royal Bank of Scotland (taxable)	8/15/29	1.05%	1.46%	29,968	36,924
MDFA Series Y	10/1/39	0.78%	0.44%	35,000	35,000
MDFA Series AA	10/1/39	0.96%	n/a	162,740	
Total variable rate bonds payable				681,903	528,499
Total bonds and notes payable				1,276,048	1,294,183
Plus: unamortized bond premium and discount, net				8,697	17,213
Less: unamortized bond issuance costs				(3,922)	(4,539)
Total bonds and notes payable, net				$ 1,280,823	$1,306,857

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 $46,225,000 and $48,579,000 as of June 30, 2016 and 2015, 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, 2016 and 2015.

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

Fiscal Year	Scheduled Principal Maturities
2017	$ 7,742
2018	8,732
2019	8,670
2020	81,733
2021	8,629
Thereafter	1,160,542
Total	$1,276,048

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2016, the University's debt portfolio includes variable rate demand bonds (VRDBs) of $157,550,000 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 May 2019. 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, 2016, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: $26,258,000, $52,517,000, $52,517,000, and $26,258,000 in 2017, 2018, 2019, and 2020, respectively. The University has used VRDBs backed by bank LOCs for over 30 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 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 and 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, the remaining unamortized bond premium and issuance costs of $4,069,000 for 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 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 redeem 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. As a result of the redemption, the remaining unamortized bond issuance costs of $1,308,000 for Series S were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended 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, 2016 and 2015. The current expiration date for all lines of credit is in April 2017. 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 an existing swaption contract related to its Series T-1 bonds, the University entered into two swaps 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 entered into a novation agreement to replace the counterparty on the existing swap contract. The novated swap fully hedges the interest rate risk of the University's Series AA variable rate bonds.

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. The swap fully hedges the interest rate risk of the University's Series Y variable rate bonds.

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 August 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, 2016 and 2015, in thousands of dollars:

Swap/Swaption Agreement	Notional Amount	Fair Value 6/30/16	Fair Value 6/30/15	Effective Date	Termination Date	University Pays	University Receives
Series H	$ 25,000	$ 11,082	$ 8,997	10/30/1997	12/01/2027	5.28%	SIFMA
Series N	22,890	10,918	9,291	10/30/1997	10/01/2027	6.79%	LIBOR
Series U1–3	150,000	73,849	51,736	10/01/2007	10/01/2040	3.97%	69% of 1-Mo. USD LIBOR
Series U5	71,100	19,556	16,278	10/30/2001	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	10,700	1,841	1,796	10/01/2002	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series U6	239,500	200,155	136,755	07/01/2008	10/01/2042	5.42%	SIFMA -1-Mo.
Royal Bank of Scotland	29,968	9,803	9,135	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Series Z	73,370	(1,770)	(1,232)	10/01/2014	10/01/2019	SIFMA	1.265%
Series Y	35,000	21,306	14,134	10/01/2014	10/01/2039	4.70%	SIFMA -1-Mo.
Series T swaption			66,052	10/01/2015			
Series AA-1	81,370	49,773		10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR -.027%*
Series AA-2	81,370	49,602		10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR +.024%**
Less: credit valuation adjustment		(24,295)	(15,339)				
		$421,820	$ 297,603				

*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

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 2016 and 2015, the University's net settlement payments on interest rate exchange agreements were $32,399,000 and $26,635,000, respectively. These net settlement costs 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 $354,440,000 at June 30, 2016, are considered financing activities. During 2016 and 2015, respectively, $14,287,000 and $13,793,000 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, 2016 and 2015, the University was required to post collateral of $295,116,000 and $163,604,000, 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.

8. Pension and Other Employee Benefits

Defined Contribution Plan:

The University funds retirement plan contributions to Teachers Insurance and Annuity Association (TIAA), 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 $68,056,000 and $65,625,000 in fiscal years 2016 and 2015, respectively.

Other Post-Retirement Benefit Plans:

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 2016 and 2015, net of interest cost totaled $700,000 and $900,000, 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 2016 and 2015, this amortization resulted in a net credit to operating expense of $443,000 and $2,543,000, respectively. The University's accrued post-retirement benefit obligation reflected in the Consolidated Statements of Financial Position totaled $3,300,000 and $4,000,000 as of June 30, 2016 and 2015, respectively.

9. 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, 2016:

	Operating	Capital
2017	$ 18,780	$ 4,021
2018	17,865	4,021
2019	18,123	4,021
2020	15,513	4,064
2021	13,382	4,064
Thereafter	74,925	180,664
	$ 158,588	$ 200,855
Less: Amounts representing interest		(117,968)
Capital lease obligation		$ 82,887

For 2016 and 2015, rent expense for educational facilities and office space was $24,052,000 and $25,391,000, 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 aggregate minimum lease payments of approximately $82,887,000 are 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 $84,161,000 and $105,362,000 and total liabilities of $34,626,000 and $37,366,000 as of June 30, 2016 and 2015, respectively. The total outstanding debt is equal to $30,500,000 and $32,588,000 as of June 30, 2016 and 2015, respectively. The University's share of the debt is $14,820,000 and $15,841,000 as of June 30, 2016 and 2015, respectively. The total minimum annual lease payments associated with these leases of approximately $7,488,000 and $7,523,000 for the years ended June 30, 2016 and 2015, 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. 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%. In accordance with the terms of the agreement, the obligation was paid in full on May 1, 2016. The balance of this obligation as of June 30, 2015 is $5,813,000, and is reflected in bonds and notes payable on the Consolidated Statements of Financial Position.

Total original construction costs were $206,374,000 and $203,879,000 as of June 30, 2016 and 2015, respectively. NIH has reimbursed $140,921,000 as of June 30, 2016 and 2015, respectively. When initially received by the University, NIH funding for NEIDL construction was recorded as an increase to temporarily restricted net assets, to be reclassed from restrictions when the assets are 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, 2016, the University has commitments of approximately $289,246,000, related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flows, federal government grants, and borrowings.

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, 2016 and 2015, the University recognized rental revenue of $515,000 related to the ground lease. The unamortized deferred rent as of June 30, 2016 and 2015 is $36,823,000 and $37,338,000, 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 2016 was approximately $9,368,000.

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.

10. Subsequent Events

The University has assessed the impact of subsequent events through September 15, 2016, the date the Consolidated Financial Statements were issued.