Boston College

Financial Statements
May 31, 2008 and 2007

Boston College
Index
May 31, 2008 and 2007

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Report of Independent Auditors

To the Trustees of
Boston College

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Boston College at May 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Boston College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Boston College's 2007 financial statements, and in our report dated September 7, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 8, 2008

Boston College
Statement of Financial Position
As of May 31, 2008
(with summarized financial information as of May 31, 2007)

(in thousands)	2008	2007
Assets		
Short-term investments	$ 9,039	$ 6,968
Accounts receivable, net (Note B)	26,005	19,846
Contributions receivable, net (Note C)	149,151	129,345
Notes receivable, net (Note B)	43,902	43,172
Investments (Note D)	1,894,397	1,852,094
Funds held by trustees (Note D)	44,402	19,097
Other assets	11,170	7,704
Property, plant and equipment, net (Note E)	947,652	866,987
Total assets	$ 3,125,718	$ 2,945,213
Liabilities		
Accounts payable	$ 5,281	$ 5,828
Accrued liabilities	123,378	110,865
Deposits payable and deferred revenues	46,805	60,278
Bonds and mortgages payable (Note F)	613,747	523,706
U.S. Government loan advances	34,216	35,541
Total liabilities	823,427	736,218
Net Assets		
Unrestricted	1,324,729	1,311,670
Temporarily restricted (Note G)	442,092	437,407
Permanently restricted (Note G)	535,470	459,918
Total net assets	2,302,291	2,208,995
Total liabilities and net assets	$ 3,125,718	$ 2,945,213

The accompanying notes are an integral part of these financial statements.

Boston College
Statement of Activities
Year Ended May 31, 2008
(with summarized financial information for the year ended May 31, 2007)

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Operating					
Revenues and other support					
Tuition and fees before student aid	$ 425,480			$ 425,480	$ 400,616
Auxiliary enterprises before student aid	146,096			146,096	135,578
Sponsored research and training programs	46,703			46,703	43,251
Government financial aid programs	5,239			5,239	5,281
Sales and services	4,867			4,867	4,866
Other revenues	8,756			8,756	8,087
Nonoperating assets utilized or released from restrictions for operations	73,586			73,586	73,327
Total revenues and other support before student aid	710,727			710,727	671,006
Student aid applicable to tuition and fees	(106,055)			(106,055)	(100,446)
Student aid applicable to auxiliary enterprises	(3,988)			(3,988)	(3,403)
Net revenues	600,684			600,684	567,157
Expenses					
Instruction	217,434			217,434	212,770
Academic support	48,362			48,362	47,494
Research	31,443			31,443	28,912
Student services	41,309			41,309	38,264
Public service	2,704			2,704	2,567
General administration	103,912			103,912	94,322
Auxiliary enterprises	155,423			155,423	142,737
Total expenses	600,587			600,587	567,066
Increase in net assets from operating activities	97			97	91
Nonoperating					
Contributions	6,299	$ 46,224	$ 50,708	103,231	102,409
Realized and unrealized investment gains, net	20,692	22,195	15,311	58,198	237,746
Investment income, net	9,325	766	86	10,177	15,602
Other losses	(457)	(908)	(1,369)	(2,734)	(5,795)
Debt extinguishment charges (Note F)	(2,087)	-	-	(2,087)	-
Nonoperating assets utilized or released from restrictions for operations	(30,856)	(42,730)	-	(73,586)	(73,327)
Net assets reclassified or released from restrictions	10,046	(20,862)	10,816	-	-
Increase in net assets from nonoperating activities	12,962	4,685	75,552	93,199	276,635
Total increase in net assets	13,059	4,685	75,552	93,296	276,726
Net assets, beginning of year	1,311,670	437,407	459,918	2,208,995	1,932,269
Net assets, end of year	$ 1,324,729	$ 442,092	$ 535,470	$ 2,302,291	$ 2,208,995

The accompanying notes are an integral part of these financial statements.

Boston College
Statement of Cash Flows
Year Ended May 31, 2008
(with summarized financial information for the year ended May 31, 2007)

(in thousands)	2008	2007
Cash flows from operating activities		
Total increase in net assets	$ 93,296	$ 276,726
Adjustments to reconcile change in net assets to short-term investments (used in) provided by operating activities		
Depreciation, amortization and accretion	43,723	43,093
Net (gain)/loss on disposal of fixed assets	(124)	151
Loan cancellations	947	972
Contributions of property and equipment	(155)	(342)
Contributed securities	(11,751)	-
Realized and unrealized investment gains, net	(58,198)	(237,746)
Debt extinguishment charges	2,087	-
U.S. Government loan advances	(1,430)	-
Change in assets and liabilities		
Accounts receivable, net	(6,159)	(814)
Contributions receivable, net	(19,806)	(16,483)
Accounts payable and accrued liabilities	8,586	8,043
Deposits payable and deferred revenue	(13,473)	5,924
Other assets	(4,723)	(404)
Contributions to be used for long-term investment	(54,437)	(55,961)
Net short-term investments (used in) provided by operating activities	(21,617)	23,159
Cash flows from investing activities		
Proceeds from sales of investments	709,644	595,007
Purchases of investments	(681,998)	(620,987)
Student loans granted	(6,313)	(9,879)
Student loans collected	4,636	7,519
Purchases of property, plant and equipment	(120,688)	(57,511)
Change in funds held by trustees	(25,305)	17,726
Net short-term investments used in investing activities	(120,024)	(68,125)
Cash flows from financing activities		
Net proceeds from issuance of bonds payable	326,384	-
Payment to refinance bonds payable	(145,000)	-
Retirement of bonds payable	(79,365)	-
Payment of bonds and mortgages payable	(8,849)	(8,108)
Prepayment of debt	(4,000)	(4,500)
Change in U.S. Government loan advances	105	213
Contributions to be used for long-term investment	54,437	55,961
Net short-term investments provided by financing activities	143,712	43,566
Net change in short-term investments	2,071	(1,400)
Short-term investments, beginning of year	6,968	8,368
Short-term investments, end of year	$ 9,039	$ 6,968
Supplemental data		
Interest paid	$ 25,813	$ 24,145
Asset retirement obligations recognized	777	53
Net fixed asset recognized related to asset retirement obligation	920	125
Contributed securities	11,751	-

The accompanying notes are an integral part of these financial statements.

A. Accounting Policies

The significant accounting policies followed by Boston College (the "University") are set forth below and in other sections of these notes.

Basis of Presentation
The accompanying financial statements have been prepared on the accrual basis with net assets, revenues, expenses, gains, and losses classified into three categories based on the existence or absence of externally imposed restrictions. The net assets of the University are classified and defined as follows:

Unrestricted
Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Temporarily Restricted
Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the University.

Permanently Restricted
Reflects the historical cost of contributions (and in certain circumstances earnings from those contributions), subject to donor-imposed stipulations, which require the corpus to be invested in perpetuity to produce income for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Nonoperating activity includes all contributions, investment income, gains and losses on investments, the impact of the adoption of Statement of Financial Accounting Standards (SFAS) No. 158, unfulfilled promises to give, and debt extinguishment charges. All other activity is classified as operating revenue or expense.

To the extent contributions, investment income, and gains are used for operations, they are reclassified as "nonoperating assets utilized or released from restrictions for operations" in the statement of activities.

Expirations of temporary restrictions on net assets or other clarifications from donors are presented as "net assets reclassified or released from restrictions" in the statement of activities.

Contributions
Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenues in the year received. Contributions receivable are recorded at the present value of expected future cash flows, net of an allowance for estimated unfulfilled promises to give. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of noncash assets are recorded at fair market value.

Contributions and investment return with donor-imposed restrictions, which are reported as temporarily restricted revenues, are released to unrestricted net assets when an expense is incurred that satisfies the restriction.

Contributions restricted for the purchase of property, plant and equipment are reported as nonoperating temporarily restricted revenues and are released to unrestricted net assets upon acquisition of the assets or when the asset is placed into service.

Contributions received for which the designation is pending by the donor are classified as temporarily restricted net assets. Once a designation is made by the donor, the contributions are reclassified to the appropriate net asset category as part of "net assets reclassified or released from restrictions."

Endowment Income Spending
The University has an endowment income spending and distribution policy that aims to preserve the purchasing power of the endowment. Under this policy, as approved by the University's Board of Trustees, 5% of a three-year quarterly moving average of market values can be expended for operations.

Sponsored Activities
Revenues associated with research and other contracts and grants are recognized when related costs are incurred. Facilities and administrative cost recovery on U.S. Government contracts and grants is based upon a predetermined negotiated rate and is recorded as unrestricted revenue.

Fundraising Activities
Expenses incurred in carrying out the fundraising activities of the University, which amounted to $17,214,000 and $16,203,000 for the years ended May 31, 2008 and 2007, respectively, are included primarily in the general administration expense category on the statement of activities.

Short-Term Investments
Short-term investments consist of cash and cash equivalents, operating funds deposited in cash management accounts, and other investments with maturities at the time of purchase of 90 days or less, and are carried at market value. Cash and cash equivalents held in the investment portfolio are excluded from short-term investments.

Split-Interest Agreements
The University has split-interest agreements consisting primarily of charitable gift annuities, pooled income funds, and charitable remainder trusts, for which the University may or may not serve as trustee. Split-interest agreements which are included in investments amount to $19,472,000 and $19,994,000 as of May 31, 2008 and 2007, respectively. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a risk-free rate of return with rates that range from 3.75% to 9.61%. The liability of $8,334,000 and $7,975,000 as of May 31, 2008 and 2007, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions.

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, in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations*. 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 statement of activities.

New Accounting Pronouncements
The University adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* which addresses changes to accounting for pensions and other postretirement benefit plans, and FIN No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS No. 109, Accounting for Income Taxes.* The adoption of SFAS No. 158 and FIN No. 48 did not have a material effect on the financial statements.

The Financial Accounting Standards Board (FASB) has issued SFAS No. 157, *Fair Value Measurements,* SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* and Staff Position 117-1, *Endowments of Not-for-Profit Organizations.* The standards and staff position are effective for the University's fiscal year ending May 31, 2009, except for certain provisions of the standards which were deferred for an additional year. Management is still evaluating the impact of SFAS No. 157, SFAS No. 159 and Staff Position 117-1, but does not believe their adoption will have a material impact on the financial statements.

Use of Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Income Taxes
The University is a qualified tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

Prior Year Summarized Information
The financial statements include certain prior-year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's audited financial statements for the year ended May 31, 2007, from which the summarized information was derived.

B. Accounts and Notes Receivable

Accounts receivable and notes receivable are stated net of allowances for doubtful accounts. As of May 31, 2008 and 2007 the allowance related to accounts receivable is $1,293,000 and $1,216,000, respectively.

As of May 31, 2008 and 2007, the allowance related to notes receivable is $650,000. Notes receivable are principally amounts due from students under U.S. Government sponsored loan programs, which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

C. Contributions Receivable

Contributions receivable are summarized as follows as of May 31:

(in thousands)	2008	2007
Unconditional promises scheduled to be collected in:		
Less than one year	$ 52,554	$ 49,545
Between one year and five years	92,072	64,972
More than five years	38,544	49,455
Less discount and allowance for unfulfilled promises to give	(34,019)	(34,627)
Contributions receivable, net	$ 149,151	$ 129,345

A present value discount of $16,543,000 and $16,583,000 as of May 31, 2008 and 2007, respectively, has been calculated using a discount factor based on the applicable U.S. Treasury Note rates that approximate the expected timing of future contribution payments.

Conditional promises of $9,652,000 and $8,965,000 as of May 31, 2008 and 2007, respectively, are not recorded in the financial statements.

D. Investments

Investments are stated at market value and include accrued income. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers or appraisers. The University believes that these valuations are a reasonable estimate of fair value as of May 31, 2008 and 2007, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Included in the investment balances and investment return amounts, which follow, are funds held by trustees consisting principally of investments in United States Government obligations. These funds are maintained by the University to meet the requirements of certain licensing, secured note, and bond agreements, and as of May 31, 2008, include $25,233,000 of construction funds held by trustees associated with the Boston College Series P bond issue that will be drawn down to fund various construction projects.

Investments, including funds held by trustees, consist of the following as of May 31:

(in thousands)	2008		2007	
	Cost	Market	Cost	Market
Money market funds	$ 102,210	$ 102,210	$ 205,054	$ 205,054
Fixed income	197,203	213,855	107,129	103,528
Equities	1,093,539	1,477,636	980,847	1,470,411
Real estate	126,652	145,098	77,751	92,198
	$ 1,519,604	$ 1,938,799	$ 1,370,781	$ 1,871,191

Included in fixed income, equities, and real estate are alternative investments (as described in the American Institute of Certified Public Accountants' document "A Practice Guide for Auditors: Alternative Investments – Audit Considerations") with a market value of $860,566,000 and $721,462,000 as of May 31, 2008 and 2007, respectively.

Investment return for the year ended May 31, 2008 is comprised of the following:

(in thousands)

Investment income (net of investment advisory fees of $13,584)	$ 10,177
Realized and unrealized gains, net	58,198
Total investment return	$ 68,375

The University is committed to invest up to an additional $261,300,000 in private equity investments as of May 31, 2008.

The University participates in a securities lending program whereby individual securities are loaned to approved financial institutions with each loan collateralized by daily cash deposits based on the market value of the securities loaned. There were no securities on loan as of May 31, 2008 and 2007.

E. Property, Plant and Equipment

The physical plant assets of the University are stated at cost on the date of acquisition or at fair market or appraised value on the date of donation in the case of gifts. Physical plant assets consist of the following as of May 31:

(in thousands)	**2008**	**2007**
Land and improvements	$ 212,194	$ 154,518
Buildings	869,253	837,764
Equipment	176,981	163,403
Library books	129,160	124,333
Rare book and art collections	16,772	16,324
Purchase options	2,855	5,969
Plant under construction	35,852	17,629
Property, plant and equipment, gross	1,443,067	1,319,940
Accumulated depreciation/amortization	(495,415)	(452,953)
Property, plant and equipment, net	$ 947,652	$ 866,987

Annual provisions for depreciation of physical plant assets are computed on a straight-line basis over the expected useful lives of the individual assets, averaging 20 years for land improvements, 25-60 years for buildings, and 2-15 years for equipment. Depreciation for the years ended May 31, 2008 and 2007 amounted to $40,780,000 and $40,107,000, respectively, and are allocated to functional expense categories on the statement of activities based on square foot usage calculations.

Library books are amortized over 50 years. Amortization is $2,583,000 and $2,485,000 for the years ended May 31, 2008 and 2007, respectively. Rare book and art collections are reflected at historical cost and are not amortized.

Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts, and gains or losses are included in operations in the statement of activities. The University retired $933,000 and $2,620,000 in gross plant assets for the years ended May 31, 2008 and 2007, respectively.

Property, plant and equipment additions of $5,625,000 and $3,342,000 included in accounts payable are reflected as a noncash item in the statement of cash flows for the years ended May 31, 2008 and 2007, respectively.

The University recognized $319,000 and $302,000 of operating expenses relating to the accretion of liabilities recorded under FIN No. 47 for the years ended May 31, 2008 and 2007, respectively. Conditional asset retirement obligations of $7,138,000 and $6,041,000 as of May 31, 2008 and 2007, respectively, are included in accrued liabilities.

The University has commitments of $15,681,000 to complete various construction projects as of May 31, 2008.

On June 30, 2008, the University purchased property located in Brighton, MA for $67,000,000, which is not included in the University's property, plant and equipment as of May 31, 2008. The University plans to use the existing building for student housing.

F. Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following as of May 31:

(in thousands)	2008	2007
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Boston College Issues (fixed rate)		
Series K, 5.27 - 5.28%, due 2009 - 2015	$ 31,330	$ 68,695
Series L, 4.75 - 4.90%, due 2009 - 2032	110,190	111,370
Series M, 5.00 - 5.50%, due 2023 - 2036	134,285	145,000
Series N, 4.13 - 5.25%, due 2009 - 2038	104,895	110,125
Boston College Issue (variable rate)		
Series O, 5.79%, due 2013	2,500	6,500
Capital Asset Program, Variable Rate Demand Revenue Bonds		
Series C, 4.75%, due 2009 - 2010	1,293	2,039
Series D, 4.75%, due 2009 - 2013	27,837	28,980
Series E	-	42,000
Massachusetts Development Finance Agency (MDFA)		
Boston College Issue (fixed rate)		
Series P, 4.75 - 5.00%, due 2020-2043	176,980	-
Department of Education		
Library building bonds, 3.41%, due 2009 - 2023	8,610	9,025
Secured note, 3.00%, due 2009 - 2018	1,594	1,729
Bonds and mortgages payable, par	599,514	525,463
Net unamortized original bond issue premium (discount)	14,233	(1,757)
Bonds and mortgages payable	$ 613,747	$ 523,706

The Department of Education building bonds are collateralized by a mortgage on the O'Neill Library and the secured note is collateralized by funds held by trustees.

As of May 31, 2008, principal payments due on all long-term bonds and mortgages payable are as follows: 2009 - $9,205,000; 2010 - $8,786,000; 2011 - $9,332,000; 2012 - $9,903,000; 2013 - $34,012,000 and thereafter - $528,276,000.

As of May 31, 2008 and 2007, the estimated fair values of bonds and mortgages payable are $621,688,000 and $546,313,000, respectively. The fair value of bonds and mortgages payable is based on rates currently available for instruments with similar maturities.

Interest expense for the years ended May 31, 2008 and 2007 amounted to $27,628,000 and $24,032,000, respectively. Interest expense has been allocated to the functional expense categories on the statement of activities based on each functional area's corresponding use of the related space or equipment that was constructed or acquired through debt financing. The University capitalized interest of $1,823,000 and $374,000 for the years ended May 31, 2008 and 2007, respectively.

In July 2007, the University issued Massachusetts Development Finance Agency (MDFA) Series P Revenue Bonds in the amount of $176,980,000. The proceeds from this issue were used to retire $37,365,000 of outstanding MHEFA Series K Revenue Bonds, retire $42,000,000 of outstanding MHEFA Capital Asset Program Series E Revenue Bonds, partially finance an acquisition of

approximately 18.7 acres of property and buildings and fund project costs which included renovation and renewal projects for fiscal years 2006 -2008. The University recognized a debt extinguishment charge of $1,085,000 which has been reflected in the statement of activities. The University incurred costs of $1,251,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. The MDFA Series P Revenue Bonds were issued with an original issue premium of $3,952,000, which is being amortized over the life of the bonds.

In March 2008, the University converted $145,000,000 of variable rate MHEFA Series M Revenue Bonds to $134,285,000 of fixed rate MHEFA Series M Revenue Bonds. The University recognized a debt extinguishment charge of $1,002,000 which has been reflected in the statement of activities. The University incurred costs of $621,000 associated with the conversion which have been capitalized and are being amortized over the life of the bonds. The fixed rate MHEFA Series M Revenue Bonds were issued with an original issue premium of $11,167,000, which is being amortized over the life of the bonds.

G. Restricted Net Assets

Restricted net assets consist of the following as of May 31:

(in thousands)	2008	2007
Temporarily restricted		
Contributions and earnings for operating purposes	$ 27,397	$ 26,077
Contributions for the acquisition of buildings and equipment	28,239	30,983
Student loans	917	889
Split-interest agreements	7,897	8,477
Endowment funds	377,642	370,981
Total temporarily restricted	$ 442,092	$ 437,407
Permanently restricted		
Endowment funds	$ 533,670	$ 458,019
Split-interest agreements	1,800	1,899
Total permanently restricted	$ 535,470	$ 459,918

H. Retirement Program

All eligible full-time personnel may elect to participate in a defined contribution retirement program. Under the program, the University makes contributions, currently limited to 8-10% of the annual wages of participants, up to defined limits. Voluntary contributions by participants are made subject to IRS limitations. The limitation applicable to University contributions is on a combined plan basis. For the years ended May 31, 2008 and 2007, the University's contributions to the retirement program are $18,369,000 and $17,242,000 respectively.

I. Postretirement Health Care Benefits

The University provides certain health care benefits for retired employees who meet certain age and service requirements. Employees will become eligible for those benefits if they reach retirement while employed by the University. The plan does not hold assets and is funded as benefits are paid. The University's expected funding is $1,742,000 for fiscal 2009.

The University accounts for these benefits under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The estimated future cost of providing postretirement health care benefits is recognized on an accrual basis over the period of service during which benefits are earned.

The net periodic postretirement health care benefits cost and other changes in plan assets and benefit obligations recognized in unrestricted net assets were determined as follows for the years ended May 31:

(in thousands)	**2008**	**2007**
Service cost	$ 1,966	$ 2,107
Interest cost	2,410	2,519
Amortization of prior service cost	(499)	(499)
Amortization of loss	-	213
Net periodic postretirement benefits cost	3,877	4,340
Other changes recognized in unrestricted net assets due to adoption of SFAS No. 158	457	N/A
Total net periodic postretirement benefits cost and other changes recognized in unrestricted net assets	$ 4,334	$ 4,340

The prior service cost credit expected to be amortized as a component of net periodic postretirement benefits cost for fiscal 2009 is $499,000.

For measurement purposes, an 8.25% annual rate of increase in the per capita cost of covered health care benefits for post-65 benefits was assumed for fiscal 2009. The rate was assumed to decrease gradually to 5.00% for fiscal 2015 and remain at that level thereafter. A 9.00% annual rate of increase in the per capita cost of covered health care benefits for pre-65 benefits was assumed for fiscal 2009. The rate was assumed to decrease gradually to 5.00% for fiscal 2015 and remain at that level thereafter. A 7.50% annual rate of increase in the Medicare Part D subsidy integration threshold was assumed for fiscal 2009. The rate was assumed to decrease gradually to 5.00% for fiscal 2015 and remain at that level thereafter.

A one percentage point change in the assumed health care cost trend rates would have the following effect:

(in thousands)	**Increase**	**Decrease**
Effect on total of service and interest cost components	$ 755	$ (617)
Effect on postretirement benefits obligation	5,640	(4,748)

The discount rate used to determine the accumulated benefits obligation is 6.50% and 6.25% as of May 31, 2008 and 2007, respectively. The discount rate used to determine the net periodic postretirement benefits cost is 6.25% as of May 31, 2008 and 2007.

A reconciliation of the accumulated postretirement benefits obligation is as follows at May 31:

(in thousands)	2008	2007
Reconciliation of accumulated postretirement benefits obligation		
Benefits obligation, beginning of year	$ 43,848	$ 43,434
Service cost	1,966	2,107
Interest cost	2,410	2,519
Plan participant contributions	218	226
Actuarial loss	(2,741)	(2,751)
Benefits paid	(1,782)	(1,687)
Benefits obligation, end of year	$ 43,919	$ 43,848
Amounts recognized in statement of financial position consist of		
Accrued liabilities	$ 43,919	$ 41,150
Amounts recognized in unrestricted net assets consist of		
Prior service cost	$ (2,361)	N/A
Net actuarial (gain) loss	2,818	N/A
	$ 457	N/A

SFAS No. 158 provides that over- or underfunded portions of a postretirement benefit plan must be recognized on the statement of financial position. The adoption of SFAS No. 158 resulted in a net decrease of $457,000 in unrestricted net assets, which has been recorded in other losses on the statement of activities. The following illustrates the adjustment to record the funded status as of May 31, 2008.

(in thousands)	Before Adoption of SFAS 158	SFAS 158 Adjustments	After Adoption of SFAS 158
Accrued liabilities	$ 43,462	$ 457	$ 43,919

Expected benefit payments, net of participant contributions and expected Medicare retiree drug subsidy is as follows: 2009 - $1,742,000; 2010 - $2,155,000; 2011 - $2,329,000; 2012 - $2,525,000; 2013 - $2,723,000; and the five fiscal years thereafter - $16,629,000. The expected Medicare retiree drug subsidy is as follows: 2009 - $485,000; 2010 - $299,000; 2011 - $324,000; 2012 - $349,000; 2013 - $378,000; and the five fiscal years thereafter - $2,347,000.

J. Related Party

Boston College Ireland, Ltd. ("BCI") is a nonprofit entity established as an institute of education in the Republic of Ireland. The University has an investment in the real estate used by BCI for educational and rental purposes. The value of the investment as of May 31, 2008 and 2007 amounted to $10,203,000 and $11,044,000, respectively, and is included in the University's real estate investments.

The University has mortgages, loans and notes due from various related parties of $20,815,000 and $18,896,000 as of May 31, 2008 and 2007, respectively.

K. Commitments and Contingencies

The University has several legal cases pending that have arisen in the normal course of its operations. The University believes that the outcome of these cases will have no material adverse effect on the financial position of the University.

The University leases facilities and campus transportation under various operating lease agreements, the last of which expires in 2013. The University incurred operating lease expenses of $4,928,000 and $4,062,000 for the years ended May 31, 2008 and 2007, respectively. At May 31, 2008, the minimum aggregate commitments for all current operating leases are as follows: 2009 - $4,689,000; 2010 - $4,417,000; 2011 - $4,484,000; 2012 - $4,552,000; 2013 - $621,000.