BOSTON UNIVERSITY CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

BOSTON UNIVERSITY

Boston University

Consolidated Financial Statements
June 30, 2019 and 2018

BOSTON UNIVERSITY

Letter from the Treasurer—Fiscal Year 2019:

I am pleased to present the audited financial statements for the fiscal year ending June 30, 2019. Boston University experienced another successful year of strong financial growth in continued support of our primary mission of teaching and research, ending the year with assets totaling more than $7 billion.

Boston University's notable financial performance was anchored by a net operating gain of $157.8 million, achieved through considerable care and success in the management of resources across the University. These results represent a significant source of capital funding for the University's operating and strategic priorities. One important use of this capital funding is the continuous renewal and replacement of approximately 15 million square feet of campus facilities with an average annual capital expenditure investment of $172 million over the last five years.

Sustained levels of philanthropic support continue to be a key contributor to the University's financial growth. An additional $266.7 million of commitments was added to the Campaign for Boston University during the last full fiscal year of the effort to raise $1.5 billion. The University's first-ever campaign concluded in September 2019, reporting a total of $1.85 billion in generous support that established more than 267 endowed scholarship funds, 57 endowed full professorships, and numerous transformative gifts for the major funding of campus capital projects over the past several years. The campaign not only provided critical long-term support, it established a foundation for more robust giving expectations going forward.

In a period of keen competition for external research support, new research awards grew by 19% to $579.4 million, reflective of the skills and accomplishments of our research enterprise.

University endowment assets increased to end the year at more than $2.3 billion, representing an 8% year-over-year increase, including a preliminary pooled endowment investment return of 5.3%, as well as other additions during the year.

Net assets of the University increased by $215.2 million for the year. Over a longer ten-year period from the end of fiscal year 2009, the University grew net assets at an average compound annual growth rate of 9.3% or a total of more than $2.4 billion, driven primarily by consistently strong operating results, endowment portfolio growth, and generous philanthropy. As a result, the level of net assets of the institution has shifted from 55% to 70% of the University's total capitalization.

Consistent with the University's record of operating results and increasing balance sheet strength, Standard & Poor's upgraded the University's credit rating to AA- in June 2019 to match the equivalent Aa3 rating level by Moody's. Both agencies noted Boston University's excellent strategic positioning and consistently healthy operations within a culture of strong governance demonstrating disciplined financial management and extensive planning.

We are grateful to our faculty, staff, students, and alumni for their commitment and support in helping us achieve a sustained level of strong financial performance. As a result, Boston University is well positioned to manage through the present uncertain economic climate and provide the necessary support for our strategic priorities.

Martin J. Howard
Senior Vice President, CFO and Treasurer

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 (the University), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 entity'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 entity'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, 2019 and 2018, 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

Emphasis of Matters

As discussed in note 1 to the consolidated financial statements, in 2019, the University adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended; ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to these matters.

KPMG LLP

Boston, Massachusetts
September 20, 2019

June 30, 2019 and 2018
($000)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 187,190	$ 148,749
Cash and cash equivalents-restricted	181,455	130,913
Short-term investments	899,426	748,869
Accounts and loans receivable, net	233,526	223,626
Pledges receivable, net	226,307	234,920
Prepaid expenses and other assets	36,579	41,580
Investment in residual asset note	62,366	36,212
Right-of-use assets-operating leases	103,817	120,624
Long-term investments	2,369,215	2,146,940
Property, plant, and equipment, net	2,724,857	2,665,587
Total assets	$ 7,024,738	$ 6,498,020
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	$ 117,831	$ 121,769
Accounts payable and accrued expenses	123,799	120,485
Deferred revenue	73,812	63,068
Student deposits	120,783	113,931
Residual asset note obligation	26,665	36,212
Operating lease obligations	106,643	122,029
Finance lease obligations	132,528	134,459
Other long-term obligations	62,736	67,858
Deferred ground lease revenue	97,554	98,715
Fair value of interest rate exchange agreements	343,162	269,626
Bonds and notes payable, net	1,684,078	1,429,921
Total liabilities	2,889,591	2,578,073
Net assets:		
Without donor restrictions	2,415,508	2,244,941
With donor restrictions	1,719,639	1,675,006
Total net assets	4,135,147	3,919,947
Total liabilities and net assets	$ 7,024,738	$ 6,498,020

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2019 and 2018
($000)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Student tuition and fees, net of student aid of $433.9 million in 2019	$ 1,164,248	$	$ 1,164,248
Sponsored programs-direct	304,614		304,614
Sponsored programs-indirect	97,854		97,854
External fringe benefit recoveries	39,951		39,951
Contributions	43,049		43,049
Sales and services	107,409		107,409
Spending formula amount and other investment income	97,786		97,786
Sponsored program income for student aid	16,345		16,345
Auxiliary enterprises, net of student aid of $15.9 million in 2019	288,576		288,576
Contributions used for operations	10,821		10,821
Total operating revenues	2,170,653		2,170,653
OPERATING EXPENSES			
Salaries and wages	925,524		925,524
Employee benefits	273,213		273,213
Supplies and services	524,553		524,553
Utilities, rent, and repairs	99,207		99,207
Depreciation	128,846		128,846
Interest	61,461		61,461
Total operating expenses	2,012,804		2,012,804
Change in net assets from operating activities	157,849		157,849
NONOPERATING ACTIVITIES			
Contributions		44,312	44,312
Contributions used for operations		(10,821)	(10,821)
Fair value of net assets from acquisition			
Reinvested endowment and other investment income	15,316	17,547	32,863
Net realized and unrealized gains on investments and other assets	95,320	66,066	161,386
Spending formula amount	(33,087)	(46,246)	(79,333)
Net realized and unrealized gains (losses) on interest rate exchange agreements	(97,914)		(97,914)
Net assets released from restrictions-building funds and other	31,077	(31,077)	
Other additions (deductions) and transfers, net	2,006	4,852	6,858
Net nonoperating activities	12,718	44,633	57,351
Change in net assets	170,567	44,633	215,200
Beginning net assets	2,244,941	1,675,006	3,919,947
Ending net assets	$ 2,415,508	$ 1,719,639	$ 4,135,147

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2019 and 2018
($000)

2018 Without Donor Restrictions	2018 With Donor Restrictions	2018 Total	
			OPERATING REVENUES
$ 1,099,682	$	$ 1,099,682	Student tuition and fees, net of student aid of $385.5 million in 2018
263,159		263,159	Sponsored programs-direct
89,070		89,070	Sponsored programs-indirect
38,251		38,251	External fringe benefit recoveries
40,504		40,504	Contributions
114,009		114,009	Sales and services
72,671		72,671	Spending formula amount and other investment income
14,793		14,793	Sponsored program income for student aid
273,623		273,623	Auxiliary enterprises, net of student aid of $13.4 million in 2018
12,568		12,568	Contributions used for operationss
2,018,330		2,018,330	**Total operating revenues**
			OPERATING EXPENSES
871,102		871,102	Salaries and wages
252,726		252,726	Employee benefits
479,940		479,940	Supplies and services
105,512		105,512	Utilities, rent, and repairs
122,632		122,632	Depreciation
43,321		43,321	Interest
1,875,233		1,875,233	**Total operating expenses**
143,097		143,097	**Change in net assets from operating activities**
			NONOPERATING ACTIVITIES
	85,292	85,292	Contributions
	(12,568)	(12,568)	Contributions used for operations
	163,272	163,272	Fair value of net assets from acquisition
13,543	17,623	31,166	Reinvested endowment and other investment income
63,057	84,973	148,030	Net realized and unrealized gains on investments and other assets
(30,076)	(40,957)	(71,033)	Spending formula amount
20,516		20,516	Net realized and unrealized gains (losses) on interest rate exchange agreements
32,203	(32,203)		Net assets released from restrictions-building funds and other
6,445	377	6,822	Other additions (deductions) and transfers, net
105,688	265,809	371,497	**Net nonoperating activities**
248,785	265,809	514,594	**Change in net assets**
1,996,156	1,409,197	3,405,353	Beginning net assets
$ 2,244,941	$ 1,675,006	$ 3,919,947	**Ending net assets**

See accompanying notes to consolidated financial statements.

For the years ended June 30, 2019 and 2018
($000)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 215,200	$ 514,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	128,846	122,632
Amortization of debt premium and issuance costs, net	(1,422)	(1,476)
Amortization of right-of-use assets-financing	2,384	2,384
Amortization of right-of-use assets-operating	17,363	23,151
Fair value of net assets from acquisition		(163,272)
Loss on disposal of property and equipment	1,200	964
Unrealized losses (gains) on interest rate exchange agreements	73,536	(48,574)
Settlements on swap replacement transactions, net	9,520	11,263
Net realized and unrealized gains on investments	(179,357)	(155,248)
Contributions and pledge payments restricted for long-term investment	(52,924)	(61,325)
Gifts of securities and property	(2,959)	(10,095)
Unrealized (gains) losses on currency exchange	(998)	485
Bond issuance costs-redeemed debt	15	
Loss from extinguishment of debt		369
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and loans receivable, net	18,042	(3,576)
Decrease (increase) in pledges receivable, net	8,613	(23,966)
Decrease (increase) in prepaid expenses and other assets	5,001	(13,411)
(Decrease) increase in accrued payroll and related expenses	(3,938)	1,058
Increase in accounts payable and accrued expenses	617	1,644
Decrease in operating lease obligations	(15,942)	(21,747)
Increase (decrease) in deferred revenue	10,744	(3,083)
Increase in student deposits	6,852	11,479
Decrease in other long-term obligations	(897)	(1,256)
Decrease in deferred ground lease revenue	(1,161)	(1,162)
Net cash provided by operating activities	238,335	181,832
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,396,540)	(2,090,318)
Proceeds from sales and maturities of investments	2,143,541	1,827,951
Purchases of property and equipment	(192,514)	(193,909)
Cash contribution from acquisition		40,846
Cash contribution from acquisition-restricted		3,028
(Increase) decrease in cash and cash equivalents-restricted	(50,542)	137,513
Net cash used in investing activities	(496,055)	(274,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bonds and notes	300,000	34,506
Payment of bonds, notes, and mortgages	(42,623)	(45,746)
Payment of bond issuance costs	(815)	(38)
Payment of finance lease obligations	(1,931)	(1,753)
Decrease in other long-term liabilities-annuity obligations	(4,225)	(521)
Contributions and pledge payments restricted for long-term investment	52,924	61,325
Proceeds from sale of restricted gifts of securities	2,351	6,337
Settlements on swap replacement transactions, net	(9,520)	(11,263)
Net cash provided by financing activities	296,161	42,847
Net increase (decrease) in cash and cash equivalents	38,441	(50,210)
Cash and cash equivalents beginning of year	148,749	198,959
Cash and cash equivalents end of year	$ 187,190	$ 148,749

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 three principal campuses, the Charles River Campus in the Back Bay, the Fenway Campus in Boston, and the Medical Campus in the South End, offering students more than 300 areas of study in 17 schools and colleges.

In December 2017, the University entered into a merger agreement with Wheelock College. As a result of the merger, the University's School of Education was renamed the Boston University Wheelock College of Education & Human Development, combining the doctoral programs and research capabilities of the University's School of Education with the early childhood expertise of Wheelock College's School of Education, Child Life and Family Studies.

Effective June 1, 2018, Wheelock College merged with and into the University, with the University as the surviving corporation. All of Wheelock College's assets, liabilities, and net assets were transferred to the University on that date. The endowment-related funds will be maintained in accordance with Massachusetts State Law.

Summary of Significant Accounting Policies:

Basis of Presentation:

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

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

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

Net Asset Classification:

Net assets, revenues, and investment returns are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified as follows:

- Net assets without donor restrictions are not subject to donor stipulations restricting their use, but may be designated for a specific purpose by the University or may be limited by contractual agreements with outside parties.
- Net assets with donor restrictions are subject to donor stipulations that expire by the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Net assets classified as with donor restrictions that expire by the passage of time, previously presented as temporarily restricted net assets, totaled $880,982,000 and $879,256,000 as of June 30, 2019 and 2018 respectively.

The composition of net assets as of June 30, 2019 and 2018, in thousands of dollars, is as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
General purpose	$ 762,248	$ 317,044	$ 1,079,292
Scholarships	91,778	437,239	529,017
Professorships	98,349	385,749	484,098
Awards, prizes, fellowships, and other	23,755	92,764	116,519
Research	14,946	53,202	68,148
Annuities		15,463	15,463
Total endowment and annuity funds	991,076	1,301,461	2,292,537
Other funds:			
General and plant funds	1,249,509	98,565	1,348,074
Building and gift funds	87,371	36,106	123,477
Pledges		226,307	226,307
Student loan funds	22,287	35,121	57,408
Unexpended endowment distributions	65,265	22,079	87,344
Total other funds	1,424,432	418,178	1,842,610
Total net assets	$ 2,415,508	$ 1,719,639	$ 4,135,147

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
General purpose	$ 657,531	$ 326,458	$ 983,989
Scholarships	87,497	408,743	496,240
Professorships	96,084	370,535	466,619
Awards, prizes, fellowships, and other	20,713	87,176	107,889
Research	13,134	36,315	49,449
Annuities		23,997	23,997
Total endowment and annuity funds	874,959	1,253,224	2,128,183
Other funds:			
General and plant funds	1,205,731	92,269	1,298,000
Building and gift funds	84,138	39,920	124,058
Pledges		234,920	234,920
Student loan funds	21,929	34,014	55,943
Unexpended endowment distributions	58,184	20,659	78,843
Total other funds	1,369,982	421,782	1,791,764
Total net assets	$ 2,244,941	$ 1,675,006	$ 3,919,947

Collections:
The University's collections, acquired through purchases and contributions since the University's inception, are not recognized as assets on the Consolidated Statements of Financial Position. Purchases of collection items are recorded as decreases in net assets without donor restrictions 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-restricted represent collateral posted with counterparties under the terms of certain derivative agreements.

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

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

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

The majority of the University's long-term investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient. Fair values of investments in funds similar to mutual funds, deemed to have readily determinable fair value, are measured at published NAV.

The NAVs or their equivalents, as estimated and reported by the general partners or investment managers, are reviewed, monitored, 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 other 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.

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

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held and administered by others. For annuity contracts, the contributed assets are included in investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University, and liabilities are recorded at the present value of estimated future payments to the donors and beneficiaries. 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 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 $5,181,000 in 2019 and $3,416,000 in 2018 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, based on 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, 2019 and 2018 was $128,846,000 and $122,632,000, 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, the impairment loss recognized is the amount by which the asset's net carrying value exceeds its estimated fair value.

Leasing:
The University determines if an arrangement is a lease at inception. The University has both leases under which it is obligated as a lessee and leases for which it is a lessor. Operating leases as a lessee are included in right-of-use assets-operating leases and operating lease obligations in the Consolidated Statements of Financial Position. Finance leases as a lessee are included in property, plant, and equipment and finance lease obligations in the Consolidated Statements of Financial Position.

Right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

Rental income arising from operating leases as a lessor is included in operating revenue in auxiliary enterprises in the Consolidated Statements of Activities.

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, 2019 and 2018 was $13,496,000 and $13,993,000, respectively, and is included in other long-term obligations in the Consolidated Statements of Financial Position.

Revenue from Contracts with Customers:
Under Accounting Standards Codification (ASC) Topic 606, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services (i.e., the transaction price).

Revenue from student education, residence, and dining services is reflected net of reductions from institutional student aid and is recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of residence and dining charges. Disbursements made directly to students for living or other costs are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as student deposits to the extent services will be rendered in the following fiscal year.

The composition of net student tuition and fee revenue was as follows for the years ended June 30, 2019 and 2018, in thousands of dollars:

	2019	2018
Undergraduate	$ 695,329	$ 675,095
Postgraduate	441,139	398,432
Other	27,780	26,155
Total	$ 1,164,248	$ 1,099,682

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2019 and 2018, in thousands of dollars:

	2019	2018
Residence and dining services, net of student aid	$ 204,217	$ 192,824
Arena, parking, and retail operations	84,359	80,799
Total	$ 288,576	$ 273,623

Sales and services include revenues from clinical operations, public broadcasting, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

Revenue from Sponsored Programs:
Grants and contracts awarded by federal and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The University has elected the simultaneous release policy available under ASU 2018-08, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. 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 and foundation 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. Total revenue from grants and contracts recognized in net assets without donor restrictions was $418,813,000 and $367,022,000 for the years ended June 30, 2019 and 2018, respectively. Payments received from sponsors in advance of conditions being met are reported as deferred revenue, which totaled $58,127,000 and $47,716,000 as of June 30, 2019 and 2018, respectively. Conditional awards from federal and other sponsors outstanding as of June 30, 2019 were $269,024,000.

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 at fair value. Contributions other than cash are recorded at fair value at the date of contribution. Contributions whose restrictions are met in the same fiscal year as their receipt are reported as contributions without donor restrictions. Contributions with donor-imposed restrictions are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when an expenditure is incurred that satisfies the restriction or the designated time elapses. Pledges receivable are carried at estimated net present value, net of allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Income Taxes:
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. The University's federal net operating loss carryforwards as of June 30, 2019 are $21,188,000, which expire in various years from 2024 to 2036. Because management believes it is more likely than not that unrelated business activities will generate sufficient taxable income in the future in which all or part of these operating loss carryforwards will become deductible, a deferred tax asset totaling $2,857,000 and $3,432,000 has been recorded as of June 30, 2019 and June 30, 2018, respectively. No provision for federal income taxes due was recorded as of June 30, 2019 or 2018. The University has no material uncertain tax positions.

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, and certain other activities.

Supplemental Disclosure of Cash Flow Information:
The following information is intended to supplement the Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018.

Interest paid in cash, net of capitalized interest of $1,235,000 in 2019 and $6,079,000 in 2018, respectively, was $58,834,000 and $43,508,000 for the years ended June 30, 2019 and 2018, respectively.

Noncash investing and financing activities for the year ended June 30, 2018 included property, plant and equipment, investments, and other assets of $150,870,000 received and bonds payable of $36,839,000 assumed from the merger with Wheelock College. Additional noncash investing activity included the decrease in accounts payable for property, plant and equipment of $814,000 and $3,848,000 for the years ended June 30, 2019 and 2018, respectively.

The following table summarizes the cash paid for amounts included in the measurement of lease liabilities, under ASC 842, for operating and finance leases as a lessee for the years ended June 30, 2019 and 2018, in thousands of dollars:

	2019	2018
Operating cash flows from finance leases	$ 5,468	$ 5,539
Operating cash flows from operating leases	18,767	26,096
Financing cash flows from finance leases	1,931	1,753

Recent Accounting Pronouncements:
In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 reduces the number of net asset categories from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $879,307,000 and permanently restricted net assets of $795,750,000 as of June 30, 2018. Additionally, required quantitative and qualitative disclosures regarding liquidity and availability of resources were expanded, and expenses must be reported by both their natural and functional classifications in one location. The University adopted ASU 2016-14 in fiscal year 2019 and applied the changes retrospectively.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU using the full retrospective method did not materially change the timing or amount of revenue recognized by the University. The ASU requires that tuition, fees and auxiliary student revenues be presented in the Consolidated Statements of Activities at the transaction price, i.e., net of any institutional student aid. Previously, such revenues were presented at published rates, followed by a reduction for institutional student aid. The University's 2018 Consolidated Statements of Activities has been revised to conform to the 2019 presentation.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes both a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* that requires, among other things, a lessee to recognize a right-of-use asset representing an entity's right to use the underlying asset for the lease term and a liability for lease payments on the statement of financial position, regardless of classification of a lease as an operating or finance lease. As permitted by the ASU, for leases with a term of twelve months or less as a lessee, the University has elected not to recognize lease assets and liabilities and account for the lease similar to existing guidance for operating leases. The University early-adopted ASU 2016-02 in fiscal year 2019 using the comparative method. Right-of-use assets and related lease obligations of $198,130,000 were recognized as of July 1, 2017 and are included in the Consolidated Statements of Financial Position. The guidance did not materially impact the University's results of operations.

Reclassifications:
Certain 2018 balances previously reported have been reclassified to conform to the 2019 presentation.

2. Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on debt, and capital construction costs not financed by debt are as follows, in thousands of dollars:

	2019	2018
Financial assets, at year-end	$ 4,159,485	$ 3,670,229
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Donor restricted endowment	1,301,461	1,253,224
Pledges receivable due in greater than one year	214,971	226,932
Restricted cash and cash equivalents	170,028	118,116
Student loans due in greater than one year	61,376	69,728
Residual asset note receivable	62,366	36,212
Board designations:		
Quasi-endowment funds	991,076	874,959
Add: approved endowment spending distribution for next fiscal year	83,463	76,605
Financial assets available to meet cash needs for general expenditures within one year	$ 1,441,670	$ 1,167,663

The University's cash flows have seasonal variations attributable primarily to the timing of tuition billing and contributions received. The University has various sources of liquidity including cash and cash equivalents, marketable debt securities, and access to $140,000,000 of committed one-year lines of credit with six financial institutions. To manage liquidity, the University maintains a working capital portfolio conservatively invested corresponding to the amounts and duration of projected liquidity needs. Although the University does not intend to spend from board designated endowment funds other than amounts appropriated for operations, the University's quasi-endowment funds, as well as accumulated gains and losses with donor restrictions, could be made available, if necessary, with approval from the Board of Trustees, subject to liquidity of the underlying investments and to the extent allowed by law.

3. 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 funds held in trust by others. Investments are reported at estimated fair value.

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

The University's interests in commingled investment funds are generally reported at the NAV reported by the fund managers and determined to be reasonable by the University. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019 and 2018, the University had no plans or intentions to sell investments at amounts different from NAV.

Although the University's alternative fund managers generally adhere to fair value accounting in determining NAV, 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 $15 to $58 per square foot and weighted average capitalization rates of 6.5%. 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, 2019 and 2018 were as follows, in thousands of dollars:

	2019	2018
Cash and cash equivalents	$ 187,190	$ 148,749
Cash and cash equivalents-restricted	181,455	130,913
Short-term investments	899,426	748,869
Investment in residual asset note	62,366	36,212
Long-term investments	2,369,215	2,146,940
	3,699,652	3,211,683
Less: assets not reported at fair value:		
Investment in residual asset note	(62,366)	(36,212)
Real estate partnerships accounted for under the equity method	(25,468)	(24,069)
Total cash and investments at fair value	$ 3,611,818	$ 3,151,402

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2019 and 2018, in thousands of dollars:

As of June 30, 2019	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	$	$ 368,645	$	$	$ 368,645
Common and preferred equities:					
Domestic	114,784	50,937			165,721
International	302,274	63,479	74,840		440,593
	417,058	114,416	74,840		606,314
Fixed income:					
Domestic		826	1,239		2,065
International		19	180		199
U.S. government and agencies		1,085,490	1,441		1,086,931
		1,086,335	2,860		1,089,195
Alternatives:					
Hedge	610,814				610,814
Natural resources	88,015				88,015
Private	482,653			333	482,986
Real estate	63,360			289,961	353,321
	1,244,842			290,294	1,535,136
Funds held in trust by others				12,528	12,528
Total assets at fair value	$ 1,661,900	$ 1,569,396	$ 77,700	$ 302,822	$ 3,611,818

As of June 30, 2018	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	$	$ 279,662	$	$	$ 279,662
Common and preferred equities:					
Domestic	91,212	90,893			182,105
International	275,941	64,080	71,062		411,083
	367,153	154,973	71,062		593,188
Fixed income:					
Domestic		774	1,620		2,394
International		8	180		188
U.S. government and agencies		862,071	107		862,178
		862,853	1,907		864,760
Alternatives:					
Hedge	618,498				618,498
Natural resources	114,562				114,562
Private	340,955			333	341,288
Real estate	61,968			265,184	327,152
	1,135,983			265,517	1,401,500
Funds held in trust by others				12,292	12,292
Total assets at fair value	$ 1,503,136	$ 1,297,488	$ 72,969	$ 277,809	$ 3,151,402

The following tables present a summary of the University's activity for the years ended June 30, 2019 and 2018 for investment classified in Level 3, in thousands of dollars:

2019	Alternatives: Private	Alternatives: Real Estate	Funds Held in Trust by Others	Total Assets at Level 3
Fair value, July 1, 2018	$ 333	$ 265,184	$ 12,292	$ 277,809
Additions		15,899	79	15,978
Sales or redemptions		(3,548)	(46)	(3,594)
Unrealized gains		12,426	203	12,629
Fair value, June 30, 2019	$ 333	$ 289,961	$ 12,528	$ 302,822

2018	Alternatives: Private	Alternatives: Real Estate	Funds Held in Trust by Others	Total Assets at Level 3
Fair value, July 1, 2017	$ 2,237	$ 330,344	$ 8,395	$ 340,976
Additions		11,991	3,666	15,657
Sales or redemptions	(404)	(81,200)		(81,604)
Unrealized gains (losses)	(1,500)	4,049	231	2,780
Fair value, June 30, 2018	$ 333	$ 265,184	$ 12,292	$ 277,809

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2019 and 2018, there were no transfers between Level 1 and Level 2, and no transfers between Level 2 and Level 3.

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, 2019 and 2018, the aggregate notional exposure on long-term assets was $78,045,000 and $122,661,000, respectively. The associated unrealized gain (loss) on these assets was $1,860,000 and ($3,770,000), respectively, as of June 30, 2019 and 2018. 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, 2019 and 2018, the carrying value of the investment in residual asset note receivable is $62,366,000 and $36,212,000, 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 value of the note obligation is 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, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income	$ 38,869	$ 12,448	$ 51,317
Net realized and unrealized gains on investments and other assets	95,320	66,066	161,386
Total return on investments and other assets	134,189	78,514	212,703
Less: spending formula	(33,087)	(46,246)	(79,333)
Less: change in value of designated non-core	(12,426)		(12,426)
Less: other non-endowment income	(66,281)	(250)	(66,531)
	(111,794)	(46,496)	(158,290)
Excess of investment return over spending formula amount	$ 22,395	$ 32,018	$ 54,413

For the year ended June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income	$ 21,504	$ 11,300	$ 32,804
Net realized and unrealized gains on investments and other assets	63,057	84,973	148,030
Total return on investments and other assets	84,561	96,273	180,834
Less: spending formula	(30,076)	(40,957)	(71,033)
Less: change in value of designated non-core	(4,065)		(4,065)
Less: other non-endowment income	(12,904)	(68)	(12,972)
	(47,045)	(41,025)	(88,070)
Excess of investment return over spending formula amount	$ 37,516	$ 55,248	$ 92,764

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, 2019 and 2018 was $422,620,000 and $368,802,000, respectively. Of this amount, approximately 5% and 8% of commitments as of June 30, 2019 and 2018, respectively, was 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, 2019	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 368,645	$	$	$	$	$ 368,645
Common and preferred equities:						
Domestic	50,005	1,025	62,880	51,811		165,721
International	138,292	159,291	49,549	41,212	52,249	440,593
	188,297	160,316	112,429	93,023	52,249	606,314
Fixed income:						
Domestic	2,008	57				2,065
International	180	19				199
U.S. government and agencies	1,086,931					1,086,931
	1,089,119	76				1,089,195
Alternatives:						
Hedge			232,703	228,318	149,793	610,814
Natural resources			5,375	6,184	76,456	88,015
Private			126	95	482,765	482,986
Real estate				287,785	65,536	353,321
			238,204	522,382	774,550	1,535,136
Funds held in trust by others					12,528	12,528
	$1,646,061	$ 160,392	$ 350,633	$ 615,405	$ 839,327	$3,611,818

*Cash and cash equivalents includes $169,566,000 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, 2018	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	$ 279,662	$	$	$	$	$ 279,662
Common and preferred equities:						
Domestic	89,943	1,025	70,287	20,850		182,105
International	135,103	141,129	44,933	35,315	54,603	411,083
	225,046	142,154	115,220	56,165	54,603	593,188
Fixed income:						
Domestic	2,350	44				2,394
International	180	8				188
U.S. government and agencies	862,178					862,178
	864,708	52				864,760
Alternatives:						
Hedge		9	210,735	307,919	99,835	618,498
Natural resources			19,135	22,015	73,412	114,562
Private			236	177	340,875	341,288
Real estate				263,008	64,144	327,152
		9	230,106	593,119	578,266	1,401,500
Funds held in trust by others					12,292	12,292
	$1,369,416	$ 142,215	$ 345,326	$ 649,284	$ 645,161	$3,151,402

*Cash and cash equivalents includes $103,785,000 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 $761,856,000 and $571,975,000, as well as investments with rolling lockup periods totaling $77,471,000 and $73,186,000 as of June 30, 2019 and 2018, respectively.

4. Endowment Funds

Total endowment assets as of June 30, 2019 and 2018 are $2,311,388,000 and $2,143,074,000, 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 net assets without donor restrictions or with donor restrictions, depending on the nature of the endowment fund. For the fiscal years ended June 30, 2019 and 2018, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.6% and 3.9%.

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 net assets with donor restrictions (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. Original gift amounts consist of donor restricted gifts to the University's endowment to be held in perpetuity as well as gifts held in the endowment subject to donor time or purpose restrictions. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds 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, 2019, in thousands of dollars:

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total	Total Funds 2019
Quasi	$ 991,076	$	$	$	$ 991,076
Donor restricted					
Underwater funds		2,012	(12)	2,000	2,000
All other funds		662,523	636,938	1,299,461	1,299,461
Endowment net assets at end of year	$ 991,076	$ 664,535	$ 636,926	$ 1,301,461	$2,292,537

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2019, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 874,959	$ 1,253,224	$ 2,128,183
Reinvested income distribution	6,427	1,693	8,120
Realized and unrealized gains	55,482	78,264	133,746
Less: spending formula	(33,087)	(46,246)	(79,333)
Undistributed investment income	28,822	33,711	62,533
Contributions	3,907	7,908	11,815
Pledge payments	26	25,019	25,045
Net assets released from restrictions-other	21,818	(21,818)	
Other additions (deductions), transfers, and net asset reclassifications	61,544	3,417	64,961
Endowment net assets at end of year	$ 991,076	$ 1,301,461	$ 2,292,537

The following table represents endowment net asset composition by type of fund as of June 30, 2018, in thousands of dollars:

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total	Total Funds 2018
Quasi	$ 874,959	$	$	$	$ 874,959
Donor restricted					
Underwater funds		4,907	(51)	4,856	4,856
All other funds		648,394	599,974	1,248,368	1,248,368
Endowment net assets at end of year	$ 874,959	$ 653,301	$ 599,923	$ 1,253,224	$2,128,183

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2018, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 807,308	$ 1,093,844	$ 1,901,152
Reinvested income distribution	5,031	1,990	7,021
Realized and unrealized gains	67,592	96,205	163,797
Less: spending formula	(30,076)	(40,957)	(71,033)
Undistributed investment income	42,547	57,238	99,785
Contributions	3,253	8,535	11,788
Pledge payments	131	29,200	29,331
Other additions (deductions), transfers, and net asset reclassifications	21,720	64,407	86,127
Endowment net assets at end of year	$ 874,959	$ 1,253,224	$ 2,128,183

5. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2019 and 2018, in thousands of dollars, consist of the following:

	2019	2018
Accounts receivable, net:		
Students	$ 18,679	$ 18,155
Less: allowances	(7,398)	(7,360)
	11,281	10,795
Grants and contracts	68,767	69,130
Unsettled investment trades	50,385	22,442
Departmental sales, services, and other	50,826	60,475
Less: allowances	(9,109)	(8,944)
	160,869	143,103
Student loans	66,445	74,448
Less: allowances	(5,069)	(4,720)
	61,376	69,728
Total accounts receivable, net	$ 233,526	$ 223,626

Federally sponsored student loans receivable represented $32,286,000 and $39,244,000 as of June 30, 2019 and 2018, respectively, of total student loans receivable, which consist of amounts due from current and former students under various federal government loan programs, including Perkins and health professional programs offered to graduate and undergraduate students. The University's advances under Perkins and other federally funded student loan programs were $40,200,000 as of June 30, 2019 and 2018, and are included in other long-term obligations on the Consolidated Statements of Financial Position. The University has the right to assign loans disbursed under these programs to the federal government upon default by the borrower; therefore, no allowance has been provided for these loans.

Departmental sales, services, and other receivables include outstanding notes, mortgages, and advances bearing interest at rates up to 5.15% at June 30, 2019 and 2018, to certain employees. The aggregate amount as of June 30, 2019 and 2018 is $8,534,000 and $8,117,000, respectively.

Pledges Receivable:

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2019 and 2018, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2019	2018
In one year or less	$ 119,121	$ 71,151
Between one year and five years	104,567	152,824
More than five years	46,775	56,597
	270,463	280,572
Discount to present value (at rates ranging from 1.51% to 4.02%)	(25,356)	(27,922)
Less: allowance for unfulfilled pledges	(18,800)	(17,730)
Total pledges receivable	$ 226,307	$ 234,920

As of June 30, 2019 and 2018, 72% of the gross contributions receivable were due from eight and seven donors, respectively.

6. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation and amortization of right-of-use assets at June 30, 2019 and 2018, in thousands of dollars, consist of the following:

	2019	2018
Land	$ 241,543	$ 241,543
Buildings and improvements	3,469,243	3,356,279
Construction in progress	162,851	122,656
Software	57,558	57,412
Equipment	302,593	289,044
Library books	249,385	237,607
	4,483,173	4,304,541
Less: accumulated depreciation	(1,733,742)	(1,616,764)
Less: accumulated amortization of finance leases	(24,574)	(22,190)
Total property, plant, and equipment, net	$ 2,724,857	$ 2,665,587

As of June 30, 2019 and 2018, gross land, buildings and improvements and equipment include $148,346,000 associated with equipment and office, research, and retail space finance leases.

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

In October 2016, the University entered into an agreement to sell certain non-core real estate buildings and to lease the related land to the purchaser of the buildings. The total amount of the agreement was $144,000,000, with $140,000,000 paid at closing in fiscal 2017 and $4,000,000 paid in fiscal 2019. The $144,000,000 agreement amount included $80,000,000 for buildings and improvements, with the remaining $64,000,000 representing payment in advance for a 75 year ground lease.

Because this transaction included a sale-leaseback for a portion of the property and the University retained rights to revenue from the property in certain limited circumstances, accounting guidance in place at the time of the sale did not allow recognition of the sale. Under ASU 2014-09 *Revenue from Contracts with Customers,* which was adopted by the University in fiscal 2019, the criteria for revenue recognition in these circumstances has changed.

ASU 2014-09 ties the recognition of the sale in a sale-leaseback to the completion of substantially all the performance obligations by the seller to the buyer, and the full transfer of control of the property from the seller to the buyer.

Having met all performance obligations and transferred control to the buyer, the University has recognized this sale in fiscal 2018 when the sale occurred. The impact of the recognition of the sale was to remove building assets of $80,000,000 from the non-core real estate portion of long-term investments, and to remove $78,025,000 from other long-term obligations from the June 30, 2018 Consolidated Statement of Financial Position, as originally stated.

8. Other Long-Term Obligations

Other long-term obligations included in the Consolidated Statements of Financial Position at June 30, 2019 and 2018 were as follows, in thousands of dollars:

	2019	2018
Federal Perkins loan advances	$ 40,200	$ 40,200
Conditional asset retirement obligation	13,496	13,993
Annuities and split-interest agreements payable	7,340	11,565
Post-retirement obligation	1,700	2,100
Total other long-term obligations	$ 62,736	$ 67,858

9. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2019 and 2018, 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, 2019	Interest Rate at June 30, 2018	Outstanding Principal	
				2019	2018
Fixed rate bonds and notes payable:					
MDFA Series P, blended fixed rate	05/15/2059	5.63%	5.63%	$ 100,000	$ 100,000
MDFA Series W (taxable)	10/01/2045	5.20%	5.20%	100,470	100,470
MDFA Series X, blended fixed rate	10/01/2048	4.78%	4.78%	111,485	111,485
MDFA Series Z-1	08/01/2019	1.50%	1.50%	63,170	63,170
MDFA Series Z-2	08/01/2019	1.50%	1.50%	10,200	10,200
MDFA Series BB-1	10/01/2046	4.54%	4.54%	111,270	111,270
MDFA Series BB-2	10/01/2040	3.95%	3.95%	52,260	52,260
MDFA Series BB-3	10/01/2029	5.00%	5.00%	38,290	38,290
Series CC (taxable)	10/01/2048	4.06%	n/a	300,000	
Century notes (taxable)	07/15/2097	7.63%	7.63%	100,000	100,000
Boston Redevelopment Authority note (taxable)	06/15/2021	0.00%	0.00%	2,290	3,435
Aetna loan (taxable)	09/15/2018	10.20%	10.20%		514
Various notes payable (taxable)	various	various	various	910	1,297
Total fixed rate bonds and notes payable				990,345	692,391
Variable rate bonds and notes payable:					
HEFA Series H	12/01/2029	1.82%	1.53%	25,000	25,000
HEFA Series N (taxable)	10/01/2034	2.36%	2.06%	27,715	28,605
MDFA Series U-1	10/01/2040	2.16%	2.26%	50,000	50,000
MDFA Series U-2	10/01/2040	2.33%	2.09%	50,000	50,000
MDFA Series U-3	10/01/2040	1.78%	1.42%	50,000	50,000
MDFA Series U-5A	10/01/2031	2.46%	2.23%	30,400	32,100
MDFA Series U-5B	10/01/2031	2.46%	2.23%	31,700	33,500
MDFA Series U-6A	10/01/2042	2.39%	2.00%	62,850	62,850
MDFA Series U-6C	10/01/2042	1.80%	1.47%	52,545	52,545
MDFA Series U-6E	10/01/2042	1.87%	2.23%	62,695	62,695
Royal Bank of Scotland (taxable)	08/15/2029	1.26%	1.09%	23,695	26,373
MDFA Series Y	10/01/2039	2.34%	2.28%	35,000	35,000
MDFA Series AA	10/01/2039	2.30%	1.97%	162,740	162,740
Boston University term loan (taxable)	08/17/2018	n/a	2.33%		34,506
Total variable rate bonds and notes payable				664,340	705,914
Total bonds and notes payable				1,654,685	1,398,305
Plus: unamortized bond premium and discount, net				33,810	35,615
Less: unamortized bond issuance costs				(4,417)	(3,999)
Total bonds and notes payable, net				$ 1,684,078	$1,429,921

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 $42,550,000 and $43,775,000 as of June 30, 2019 and 2018, 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, 2019 and 2018.

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

Fiscal Year	Scheduled Principal Maturities
2020	$ 81,733
2021	8,629
2022	7,955
2023	8,274
2024	7,990
Thereafter	1,540,104
Total	$ 1,654,685

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2019, the University's debt portfolio includes variable rate demand bonds (VRDBs) of $217,955,000 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 2020 and June 2023. 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, 2019, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: $36,326,000, $72,652,000, $72,652,000, and $36,325,000 in fiscal years 2020, 2021, 2022, and 2023 respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In June 2018, the University entered a term loan in the amount of $34,506,000 with U.S. Bank N.A. The proceeds of the term loan, together with other funds, were used to defease $37,120,000 of outstanding principal of the Wheelock College Series C tax exempt bonds assumed by the University as a result of its merger with Wheelock College. Unamortized bond premium, bond discount, and issuance costs of $281,000 associated with the Wheelock College Series C Bonds were written off in other additions (deductions) and transfers in the Consolidated Statement of Activities for the year ended June 30, 2018.

In August 2018, the University issued $300,000,000 Series CC taxable bonds at a fixed interest rate of 4.061%. Final maturity of the bonds is through October 1, 2048. A portion of the Series CC bond proceeds were used to redeem a term loan in the amount of $34,506,000 issued in June 2018 to defease Wheelock College Series C, tax exempt bonds assumed as a result of the merger with Wheelock College.

Bank Lines:
The University has a total of $140,000,000 in committed one-year lines of credit with six financial institutions. There were no draws or outstanding loans under these lines of credit as of and for the years ended June 30, 2019 and 2018. The current expiration dates for all lines of credit are in April 2020. 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.

Below is a summary of the terms of the University's outstanding debt-related derivatives as of June 30, 2019 and 2018, in thousands of dollars:

Swap	Notional Amount	Fair Value 6/30/19	Fair Value 6/30/18	Effective Date	Termination Date	University Pays	University Receives
Series H	$ 25,000	$ 7,636	$ 6,409	10/03/2008	12/01/2027	5.28%	SIFMA
Series N	20,700	6,654	5,808	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1–3	75,000	27,858	21,287	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1–3	75,000	27,353	20,858	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5	62,100	11,638	9,852	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	149,750	103,045	81,156	10/03/2008	10/01/2042	5.42%	SIFMA
Series U6	89,750	61,514	48,383	07/01/2008	10/01/2042	5.42%	SIFMA
Series U6	10,700	599	706	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y	35,000	17,090	12,876	10/01/2014	10/01/2039	4.70%	SIFMA
Series Z	73,370	108	324	10/01/2014	08/01/2019	SIFMA	1.265%
Series AA-1	81,370	40,381	30,486	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR -.027%*
Series AA-2	81,370	39,673	30,353	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR +.024%**
Royal Bank of Scotland	23,695	5,729	6,237	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment		(6,116)	(5,109)				
Total		$ 343,162	$269,626				

*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 2019 and 2018, the University's net settlement payments on interest rate exchange agreements were $24,378,000 and $28,058,000, respectively. These net settlement costs have been reported in nonoperating activities in net realized and unrealized gains on interest rate agreements 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 $343,250,000 at June 30, 2019, are considered financing activities. During 2019 and 2018, respectively, $9,520,000 and $11,263,000 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, 2019 and 2018, the University was required to post collateral of $165,877,000 and $98,751,000, 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.

10. Pension and Other Employee Benefits

Defined Contribution Plan:
All employees who work at least 50% of a full-time schedule and have an appointment or an expected assignment duration of at least nine months are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plan. Contributions for the years ended June 30, 2019 and 2018, respectively, were $78,954,000 and $75,885,000.

Other Post-Retirement Benefit Plans:
During fiscal year 2009, the University initiated the process to discontinue a plan option that offers subsidized healthcare coverage to employees who retire from the University after age 55 until age 65, with at least ten consecutive years of participation in the Plan at the time they retire. Reflecting an extension of the termination date made in fiscal year 2010, the change applied to employees terminating from the University on or after September 1, 2009. Claims paid in 2019 and 2018, net of interest costs totaled $400,000 and $600,000, respectively. The University's accrued post-retirement benefit obligation reflected in the Consolidated Statements of Financial Position totaled $1,700,000 and $2,100,000 as of June 30, 2019 and 2018, respectively.

11. Leases

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 2034.

The components of lease expense are as follows, in thousands of dollars:

	2019	2018
Lease cost:		
Finance lease expense		
Amortization of right-of-use assets	$ 2,384	$ 2,384
Interest on lease obligations	5,468	5,539
Operating lease expense	19,782	27,500
Short-term lease expense	8,859	8,252
Total lease expense	$ 36,493	$ 43,675
Other Information:		
Losses on sale and leaseback transactions, net	$	$ 1,975
Right-of-use assets obtained in exchange for new operating lease obligations	556	
Weighted-average remaining lease term-finance leases	36 years	37 years
Weighted-average remaining lease term-operating leases	7.6 years	8.6 years
Weighted-average discount rate-finance leases	4.17%	4.17%
Weighted-average discount rate-operating leases	3.26%	3.26%

Payments due include options to extend finance leases through fiscal year 2066, in thousands of dollars, and are summarized below as of June 30, 2019:

Fiscal Year	Operating	Finance
2020	$ 16,982	$ 56,383
2021	16,005	4,189
2022	15,905	4,189
2023	13,630	4,064
2024	11,926	4,064
Thereafter	48,279	168,473
	122,727	241,362
Less: amounts representing interest	(16,084)	(108,834)
Total obligation	$ 106,643	$ 132,528

The University is the lessor in several long-term non-cancellable leases for commercial space through fiscal year 2040. Future minimum rental revenue due is summarized below as of June 30, 2019, in thousands of dollars:

Fiscal Year	Operating
2020	$ 5,460
2021	4,802
2022	4,338
2023	3,488
2024	2,833
Thereafter	33,730
Total	$ 54,651

12. Commitments and Contingencies

Deferred Ground Lease Revenue:

In December 2012, in connection with the sale of a non-core asset, the University entered into a 75-year ground agreement to lease the related 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 will be amortized on a straight-line basis over the term of the lease. For each of the years ended June 30, 2019 and 2018, the University recognized rental revenue of $515,000 related to the ground lease. The unamortized deferred ground lease revenue as of June 30, 2019 and 2018 is $35,278,000 and $35,793,000, respectively.

As described in Note 7, in October 2016, in connection with the sale of non-core assets, the University entered into four 99-year agreements to lease the related land to the purchaser of the buildings. The lease term is through 2115. In connection with this transaction, the University received a prepaid lease payment of $64,000,000 that will be amortized on a straight-line basis over the term of the lease. For the year ended June 30, 2019, the University recognized rental revenue of $646,000 related to the ground lease. The unamortized deferred rent as of June 30, 2019 and 2018 is $62,276,000 and $62,922,000, respectively.

Other:

As of June 30, 2019, the University has commitments of approximately $178,120,000 related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flows, federal government grants, and borrowings.

Effective July 1, 1996, the University entered into a support agreement with Boston Medical Corporation, which was formed from the merger of Boston City Hospital and Boston Medical Center Hospital. The University agreed to continue its support of clinical department operations at a level of support proportionately consistent to what was provided before the merger. The University's commitment for fiscal year 2019 was approximately $9,139,000.

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 any resulting liability would not have a material effect on the University's financial position.

13. Wheelock College

The transaction with Wheelock College discussed in Note 1 has been accounted for under *ASC 958-805*, *Not-for-Profit Entities: Mergers and Acquisitions*, which defines a combination of one or more not-for-profit activities as either a merger or an acquisition. The transaction has been treated as an acquisition for accounting purposes.

Assets received in the transaction totaled $207,987,000, with 96% of the balance consisting of endowment investments, perpetual trusts, and land, buildings, and equipment. Liabilities assumed totaled $44,715,000, including bonds payable of $36,839,000.

The University is required to establish and maintain appropriate academic or administrative space for the Boston University Wheelock College of Education & Human Development on the Wheelock Campus until the fifth anniversary of the merger on June 1, 2023. Accordingly, the property, plant, and equipment has been classified as with donor restrictions.

Concurrent to the merger, the University legally defeased Wheelock College's bond of $37,120,000 and recognized a loss on extinguishment of debt of $369,000.

14. Functional Classification of Expenses

The Consolidated Statements of Activities present expenses by natural classification. The University also summarizes expenses by functional classification. The University's primary program services are instruction and departmental research. Expenses for educational support and auxiliary enterprises are incurred in support of this primary program activity. Operation and maintenance of plant expenses are allocated to program and supporting activities based upon a periodic assessment of facilities usage. Other natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

Expenses presented by functional classification for the year ended June 30, 2019 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages	$ 559,734	$ 98,798	$ 139,466	$ 99,106	$ 28,420	$ 925,524
Employee benefits	166,402	29,132	28,890	41,273	7,516	273,213
Supplies and services	163,124	69,803	125,073	56,753	109,800	524,553
Utilities, rent, and repairs	48,861	4,515	2,654	11,856	31,321	99,207
Depreciation	81,586	8,535	3,926	7,602	27,197	128,846
Interest	31,065	357		11,635	18,404	61,461
Total operating expenses	$ 1,050,772	$ 211,140	$ 300,009	$ 228,225	$ 222,658	$ 2,012,804

Expenses presented by functional classification for the year ended June 30, 2018 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages	$ 523,679	$ 92,598	$ 132,723	$ 96,014	$ 26,088	$ 871,102
Employee benefits	150,072	28,484	28,432	38,944	6,794	252,726
Supplies and services	166,246	62,576	95,914	48,920	106,284	479,940
Utilities, rent, and repairs	54,429	4,710	2,073	11,265	33,035	105,512
Depreciation	75,609	8,629	1,690	10,053	26,651	122,632
Interest	27,868	393		1,778	13,282	43,321
Total operating expenses	$ 997,903	$ 197,390	$ 260,832	$ 206,974	$ 212,134	$ 1,875,233

15. Subsequent Events

In August 2019, the University issued $63,965,000 Series DD-1 and $21,800,000 Series DD-2 tax exempt fixed rate bonds. The bonds were issued at a premium, generating proceeds of $73,370,000 and $25,000,000, respectively, which were used to refinance Series Z-1, Series Z-2, and Series H bonds. An associated fixed receiver swap with a notional amount of $97,110,000 was entered into when the Series DD-1 and Series DD-2 bonds were issued to offset existing long dated fixed payer swaps.

The University has assessed the impact of subsequent events through September 20, 2019, the date the Consolidated Financial Statements were issued.

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