Northeastern University
Consolidated Financial Statements
June 30, 2018 and 2017

Northeastern University
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June 30, 2018 and 2017

Report of Independent Auditors

To the Board of Trustees of
Northeastern University

We have audited the accompanying consolidated financial statements of Northeastern University and its subsidiaries ("Northeastern University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities for the year ended June 30, 2018 and of cash flows for the years ended June 30, 2018 and 2017.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to Northeastern University'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 Northeastern University'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 Northeastern University and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets for the year ended June 30, 2018 and their cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and of cash flows (not presented herein) for the year then ended, and in our report dated October 23, 2017, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 15, 2018

Northeastern University
Consolidated Statements of Financial Position
June 30, 2018 and 2017

(in thousands of dollars)	2018	2017
Assets		
Cash and cash equivalents	$ 239,389	$ 301,599
Accounts and other receivables, net	56,489	50,246
Prepaids and other assets (Note 4)	32,301	35,910
Pledges receivable, net (Note 5)	88,264	85,799
Student and other loans receivable, net	30,023	32,799
Deposits with trustees (Note 3)	-	23,268
Investments (Notes 3 and 6)	1,113,170	976,500
Property, plant and equipment, net (Note 7)	1,431,637	1,364,007
Total assets	$ 2,991,273	$ 2,870,128
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 155,515	$ 147,564
Accounts payable on construction projects	28,869	33,241
Deferred revenue and student deposits	63,630	69,901
Refundable advances	36,227	36,128
Interest rate swap agreement (Notes 3 and 9)	36,458	48,814
Capital lease obligation (Note 8)	24,222	25,521
Bonds and notes payable (Notes 3 and 9)	852,363	878,305
Total liabilities	1,197,284	1,239,474
Net assets		
Endowment and similar funds (Note 14)	472,991	452,583
Net investment in plant	542,288	450,284
Other unrestricted	263,937	257,155
Total unrestricted	1,279,216	1,160,022
Endowment and similar funds (Note 14)	164,325	144,319
Other temporarily restricted	105,770	89,894
Total temporarily restricted (Note 13)	270,095	234,213
Permanently restricted endowment and similar funds (Notes 13 and 14)	244,678	236,419
Total net assets	1,793,989	1,630,654
Total liabilities and net assets	$ 2,991,273	$ 2,870,128

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

Northeastern University
Consolidated Statement of Activities
Year Ended June 30, 2018
(with summarized financial information for the year ended June 30, 2017)

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
Operating					
Revenues and other support					
Tuition and fees	$ 1,258,181	$ -	$ -	$ 1,258,181	$ 1,136,911
Less: Financial aid	(338,994)	-	-	(338,994)	(315,985)
Net student-related revenues	919,187	-	-	919,187	820,926
Contributions available for operations	5,092	26,332	-	31,424	14,861
Grants and contracts	108,337	-	-	108,337	92,431
Indirect cost recovery	31,223	-	-	31,223	27,823
Auxiliary enterprises	146,161	-	-	146,161	138,949
Endowment spending available for operations (Note 14)	14,676	10,725	-	25,401	24,297
Other investment return available for operations	7,366	-	-	7,366	4,450
Other	37,377	-	-	37,377	37,902
Total operating revenues	1,269,419	37,057	-	1,306,476	1,161,639
Net assets released for operations	22,450	(22,450)	-	-	-
Total operating revenues and other support	1,291,869	14,607	-	1,306,476	1,161,639
Expenses					
Instruction	448,227	-	-	448,227	416,942
Research	154,730	-	-	154,730	122,924
Academic support	193,094	-	-	193,094	179,582
Student services	131,300	-	-	131,300	121,876
Institutional support	140,979	-	-	140,979	130,602
Auxiliary enterprises	127,756	-	-	127,756	119,497
Other	3,182	-	-	3,182	3,901
Total operating expenses (Notes 7 and 9)	1,199,268	-	-	1,199,268	1,095,324
Increase in net assets from operating activities	92,601	14,607	-	107,208	66,315
Nonoperating					
Contributions	5,218	28,591	6,872	40,681	28,545
Contributions available for operations	(5,092)	(26,332)	-	(31,424)	(14,861)
Endowment and other investment return (Note 6)	42,094	29,870	723	72,687	104,768
Endowment spending available for operations (Note 14)	(14,676)	(10,725)	-	(25,401)	(24,297)
Other investment return available for operations	(7,366)	-	-	(7,366)	(4,450)
Change in annuity and life income funds	-	128	-	128	(1,640)
Net realized and change in unrealized gain on interest rate swap agreement (Note 9)	6,822	-	-	6,822	14,672
Net assets released from restrictions and other transfers	(407)	(257)	664	-	-
Change in net assets	119,194	35,882	8,259	163,335	169,052
Net assets at beginning of year	1,160,022	234,213	236,419	1,630,654	1,461,602
Net assets at end of year	$ 1,279,216	$ 270,095	$ 244,678	$ 1,793,989	$ 1,630,654

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

Northeastern University
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

(in thousands of dollars)	2018	2017
Cash flows from operating activities		
Cash received from student-related revenues	$ 1,063,692	$ 976,787
Cash received from sponsored programs	125,994	101,801
Cash received from donors	20,848	18,970
Proceeds from sale of contributed securities	2,861	1,379
Cash received from endowment and other investment income	1,602	382
Cash received from auxiliary enterprises other than student housing	6,656	6,392
Cash received from other income	36,434	36,913
Cash paid to employees and vendors	(1,086,942)	(1,002,304)
Interest and other payments	(46,645)	(42,365)
Net cash provided by operating activities	124,500	97,955
Cash flows from investing activities		
Acquisition of property, plant and equipment	(135,193)	(144,809)
Decrease in deposits with trustees	23,268	751
Proceeds from sale or maturities of investments	226,667	221,703
Purchases of investments	(292,988)	(253,868)
Student loans and other loans issued	(3,648)	(5,737)
Proceeds from student and other loans	5,741	6,074
Proceeds from sale of property	1,813	-
Net cash used in investing activities	(174,340)	(175,886)
Cash flows from financing activities		
Increase in refundable advances	99	1,355
Interest and dividends restricted for long-term investments	723	632
Payment to annuitants and life income funds	(967)	(1,052)
Contributions for long-term investments	8,354	12,639
Proceeds from sale of restricted contributed securities	4,952	3,065
Payments on capital lease obligation	(1,299)	(1,239)
Payments on bonds and notes payable	(24,232)	(23,028)
Net cash used in financing activities	(12,370)	(7,628)
Decrease in cash and cash equivalents	(62,210)	(85,559)
Cash and cash equivalents		
Beginning of the year	301,599	387,158
End of the year	$ 239,389	$ 301,599

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

1. Background

Founded in 1898, Northeastern University ("the University" or "Northeastern") is one of the largest private urban universities in the United States. It is a world leader in experiential education, an academic approach that integrates academic study and professional work to ensure a more powerful learning experience. The University is also a leader in the production of use-inspired research that meets societal needs. Northeastern grants associate, bachelor, master and doctoral degrees. The University attracts students from all 50 states within the United States and more than 125 countries.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the University are set forth below.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with the reporting standards for not-for-profit organizations and include the University and its subsidiaries, primarily a research institute.

Generally Accepted Accounting Principles ("GAAP") require classification of net assets and revenues, expenses, gains and losses into three categories, based on the existence or absence of donor or legal restrictions. The categories, unrestricted, temporarily restricted and permanently restricted net assets, are defined as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by management or 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 original amount of gifts and, in some cases, the income generated from these gifts, which are required by the donor 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. Net realized and change in unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Unconditional promises to give ("Pledges") are recognized as temporarily or permanently restricted revenues in the period received. Pledges are recorded at the present value of expected future cash flows. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts of noncash assets are recorded at their market value at the date of contribution.

The University has received beneficial interests in irrevocable charitable remainder trusts, for which the University does not serve as the trustee. For these trusts, the University recorded its beneficial interest in those assets as contributions revenue and pledges receivable at the present value of the expected future cash inflows. Trusts are recorded at the date the University has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets are recorded as a nonoperating change in the valuation of pledges receivable of either temporarily or permanently restricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets in the statement of activities. Gifts with donor-imposed restrictions, which are reported as temporarily restricted revenues, are released to unrestricted net assets when used for an expenditure that satisfies the donor-imposed restriction. Gifts restricted for the purchase of land, buildings and equipment are reported as temporarily restricted nonoperating revenues and are released to unrestricted net assets when the assets are placed into service.

Net tuition and fees reflect student financial aid funded by the University's operating budget, restricted endowment funds, and federal and state student assistance programs. Compensation of students for services provided and tuition benefits for employees are presented as expenses. Tuition and fees collected but not earned are reported as deferred revenue and student deposits.

Revenues associated with research and other contracts and grants are recognized when related costs are incurred. Indirect cost recoveries by the University on U.S. Government contracts and grants are based upon a negotiated rate and are recorded as unrestricted revenue.

Federally funded operating grants and contracts for the year ended June 30, 2018 and 2017 were $122,110,000 and $101,283,000, respectively, including indirect costs of $28,783,000 and $25,194,000, respectively.

Auxiliary enterprises include the operation of student housing and dining services, the daycare center and managed properties.

Nonoperating activities include all contributions, endowment and other investment return, change in annuity and life income funds, realized and changes in unrealized gains or losses on interest rate swap agreements, and net assets released from restrictions and other transfers during the period used for current operations. Nonoperating revenues also include the portion of the endowment return/(loss) in connection with the University's spending policy in excess of the amount appropriated and other investment return. Contributions available for operations received and spent in the same year are presented as reductions to nonoperating revenues and are reclassified to operating revenues. All other activities are classified as operating.

Expenses incurred in carrying out the fundraising activities of the University, amounted to $22,234,000 and $20,531,000 for the years ended June 30, 2018 and 2017, respectively.

Certain 2017 amounts have been reclassified to conform to the current year presentation.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of

America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Cash and Cash Equivalents
Cash and cash equivalents consist primarily of cash management accounts, money market funds and bonds with maturities when purchased of three months or less.

Most of the University's banking activity, including cash and cash equivalents, is conducted with several national banks with investment grade credit ratings. From time to time in the regular course of business deposit amounts exceed federal insurance limits. It is the University's policy to monitor these banks' financial strength and deposit balances on a daily basis and no losses have been experienced to date.

Accounts and Loans Receivable
Accounts receivable are stated net of allowance for doubtful accounts of $10,979,000 and $7,860,000 at June 30, 2018 and 2017, respectively. Loans receivable are stated net of allowance for doubtful accounts of $687,000 at June 30, 2018 and 2017. Loans receivable are principally amounts due from students under Federally Sponsored Loan Programs, which are subject to significant restrictions; accordingly, it is not practical to determine the fair value of such amounts.

The University records an allowance for doubtful accounts for student and other loans receivables including those under the Federal Perkins Loan Program. Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain nonrepayment situations. Management believes that this allowance at June 30, 2018 and 2017 is adequate to absorb credit losses inherent in the portfolio as of that date.

Deposits with Trustees
These funds were established in accordance with the resolutions and loan agreements related to the issuance of the Massachusetts Development Finance Agency Series 2014A bonds. These funds were to be used for construction of the Interdisciplinary Science and Engineering Complex and other projects and were invested in U.S Treasuries, Federal agency bonds and money market funds.

Investments
Investments include cash and cash equivalents which are designated for long-term investment by the University. They also include fixed income and equity portfolios with broadly defined investment strategies. Managers of these portfolios may utilize hedging strategies, invest in securities denominated in foreign currencies, or invest in options, futures, forward contracts, or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty to the transactions. The University also invests in a number of limited partnerships which sell securities short and which use leverage.

All investments are carried at estimated fair value.

Gains and losses upon sale of certain investments are calculated using average cost at trade date.

Property, Plant and Equipment
Property, plant and equipment are stated at cost on the date of acquisition, net of accumulated depreciation. Plant assets donated to the University are stated at fair market value on the date of the gift, net of subsequent accumulated depreciation.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	30 years
Furniture, equipment and books	5–20 years

Depreciation is calculated for software using the straight-line method over the following estimated useful lives:

Software	4–7 years

Expenditures for maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized.

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 statement of activities.

The University recognized $1,196,000 and $1,172,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2018 and 2017, respectively. Conditional asset retirement obligations of $23,438,000 and $22,843,000 at June 30, 2018 and 2017, respectively, are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Net Investment in Plant
Net investment in plant includes the net book value of all capital assets offset by outstanding liabilities associated with those capital assets. Capital assets include prepaid assets, and property, plant and equipment (net of accumulated depreciation). Outstanding liabilities include the conditional asset retirement obligation, accounts payable associated with construction projects, premiums, unamortized debt issuance costs and discounts on bonds and notes payables, capital lease obligation and outstanding bonds and notes payable, including amounts of the associated interest rate swap agreement.

Endowment
The endowment includes both donor-restricted funds and funds designated by the Board of Trustees (“the Board”) to function as endowments. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions in accordance with the laws of the Commonwealth of Massachusetts.

The Board has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (“UPMIFA” or “Act”) for donor-restricted endowment funds as requiring the preservation of the original value of gifts, as of the gift date, to donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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, if any. Collectively these amounts are referred to as the historic dollar value of the fund.

In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources available; and investment policies.

Unrestricted net assets include funds designated by the Board to function as endowments and the income from certain donor-restricted endowment funds, and any accumulated investment return thereon, which pursuant to donor intent may be expended based on trustee or management designation. Temporarily restricted net assets include funds appropriated for expenditure pursuant to endowment and investment spending policies, certain expendable endowment gifts from donors, and any retained income and appreciation on donor-restricted endowment funds, which are restricted by the donor to a specific purpose or by law. When the temporary restrictions on these funds have been met, the funds are reclassified to unrestricted net assets.

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. To achieve 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 (realized and unrealized gains) and current yield (interest and dividends). The University expects its endowment funds, over time, to provide an average real rate of return of approximately 4% annually.

The University’s endowment spending policy is calculated using 4% of a sixty-month moving average of the endowment fund’s market value. This amount is distributed to the appropriate funds and treated as operating revenue in the statement of activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains. The amount distributed each year is subject to the Board’s approval. During both fiscal years 2018 and 2017, the full payout amount was distributed.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment fund deficits exist, they are classified as a reduction of unrestricted net assets. The balances at June 30, 2018 and 2017 are included in Note 14. These deficits usually result from unfavorable market fluctuations that occur shortly after the investment of recently established endowments.

Tax Status
The University and its subsidiaries are tax-exempt organizations as described in section 501(c)(3) of the Internal Revenue Code.

GAAP requires that the University evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The University has analyzed the tax positions taken and has concluded that as of June 30, 2018, there are no significant uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the University in several ways, including a new excise tax on executive compensation, increases to unrelated business taxable income ("UBTI") by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the University with calculating income and excise tax liabilities. The University continues to evaluate the impact of tax reform on the organization.

Use of Estimates
The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures.

New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*. The ASU introduces a single framework for revenue recognition under which revenue recognized is reflective of the consideration to which the entity expects to be entitled in exchange for goods and services. The ASU is effective for the University beginning in fiscal year 2019.

In June 2018, The FASB issued ASU No.2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU amends the new revenue recognition standard and long-standing contribution accounting guidance and is expected to shift the majority of grants from an exchange to a nonexchange recognition model. The ASU is effective for the University beginning in fiscal year 2019.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. The ASU is effective for the University beginning in fiscal year 2020.

In August, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities including changes to the classification of net assets and liquidity disclosures. The ASU is effective for the University beginning fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for the University beginning fiscal year 2020.

3. Fair Value Measurements

The University values its financial assets and liabilities at fair value in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and delineates the disclosures required about fair value measurements. Financial assets consist primarily of the endowment and other investments. Additionally, GAAP allows the University the use of estimates to fair value alternative investments at the measurement date using net asset values (“NAV”) reported by the investment managers without further adjustment, provided that the University does not expect to sell the alternative investments at a value other than the NAV. The University performs due diligence procedures on its alternative investments to determine if the values recorded are appropriate.

GAAP clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, this standard establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.

Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Valuations using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018, and indicates the fair value hierarchy utilized to determine such fair value:

		Fair Value Measurements at the End of the Reporting Period Using		
(in thousands)	**6/30/2018**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Beneficial interest in charitable remainder trust investments	$ 4,153	$ -	$ -	$ 4,153
Endowment Investments				
Cash equivalents	78,342	78,342	-	-
Fixed income	60,041	60,041	-	-
Domestic equity	107,931	107,931	-	-
International equity	160,348	160,348	-	-
Other investments	20,067	20,067	-	-
Private equity at NAV (a)	143,048	-	-	-
Hedge funds at NAV (a)	254,959	-	-	-
Other alternative investments at NAV (a)	23,020	-	-	-
Total endowment investments	847,756	426,729	-	-
Other investments				
Fixed income	246,515	246,515	-	-
Domestic equity	1,899	1,899	-	-
Auction rate securities and other	17,000	-	-	17,000
Total other investments	265,414	248,414	-	17,000
Total investments	1,113,170	675,143	-	17,000
Total assets	$ 1,117,323	$ 675,143	$ -	$ 21,153
Interest rate swap agreements – liability	$ (36,458)	$ -	$ (36,458)	$ -
Total liabilities	$ (36,458)	$ -	$ (36,458)	$ -

a) Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Excluded from the fair value hierarchy at June 30, 2018 are $143,048,000 of private equity, $254,959,000 of hedge funds and $23,020,000 of other equities for which fair value is measured at NAV per share using the practical expedient.

The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017, and indicates the fair value hierarchy utilized to determine such fair value:

		Fair Value Measurements at the End of the Reporting Period Using		
(in thousands)	**6/30/2017**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Beneficial interest in charitable remainder trust investments	$ 4,240	$ -	$ -	$ 4,240
Deposit with trustees	23,268	23,268	-	-
Endowment Investments				
Cash equivalents	14,833	14,833	-	-
Fixed income	60,320	60,320	-	-
Domestic equity	154,822	154,822	-	-
International equity	142,756	142,756	-	-
Other investments	16,464	16,464	-	-
Private equity at NAV (a)	121,609	-	-	-
Hedge funds at NAV (a)	262,479	-	-	-
Other alternative investments at NAV (a)	22,589	-	-	-
Total endowment investments	795,872	389,195	-	-
Other investments				
Fixed income	162,543	162,543	-	-
Domestic equity	864	864	-	-
Auction rate securities and other	17,221	-	-	17,221
Total other investments	180,628	163,407	-	17,221
Total investments	976,500	552,602	-	17,221
Total assets	$ 1,004,008	$ 575,870	$ -	$ 21,461
Interest rate swap agreements – liability	$ (48,814)	$ -	$ (48,814)	$ -
Total liabilities	$ (48,814)	$ -	$ (48,814)	$ -

b) Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Excluded from the fair value hierarchy at June 30, 2017 are $121,609,000 of private equity, $262,479,000 of hedge funds and $22,589,000 of other equities for which fair value is measured at NAV per share using the practical expedient.

All financial instruments are valued using a market approach involving identical or comparable assets or liabilities except for auction rate securities and the University's beneficial interest in charitable remainder trusts, which are valued using an income approach.

At June 30, 2018, the change in the fair value of financial instruments valued using significant unobservable inputs (Level 3) is shown below:

(in thousands of dollars)	Auction Rate Securities and Other	Beneficial Interest in Charitable Remainder Trust	Total
Fair value recorded at June 30, 2016	$ 17,221	$ 4,546	$ 21,767
Unrealized losses	-	(306)	(306)
Fair value recorded at June 30, 2017	17,221	4,240	21,461
Sale	(221)	-	(221)
Unrealized losses	-	(87)	(87)
Fair value recorded at June 30, 2018	$ 17,000	$ 4,153	$ 21,153

The fair values of marketable domestic and international equities and fixed income instruments are determined generally based on quoted market prices in active markets. Alternative investments include private equity funds, hedge funds and other alternative investments. Private equity investments may consist of commitments in a limited partnership that invests in private companies or properties. Hedge funds may include investments that are publicly traded and may be subject to redemption restrictions.

At June 30, 2018, redemption terms for investments consist of the following:

(in thousands of dollars) Redemption Terms	Within 30 Days	31-60 Days Prior Written Notice	61-90 Days Prior Written Notice	91-180 Days Prior Written Notice	181-365 Days Prior Written Notice	1-5 Years	6-10 Years	Total
Cash equivalents	$ 78,342	$ -	$ -	$ -	$ -	$ -	$ -	$ 78,342
Fixed income	306,556	-	-	-	-	-	-	306,556
Domestic equity	109,830	-	-	-	-	-	-	109,830
International equity	160,348	-	-	-	-	-	-	160,348
Private equity	-	-	-	-	-	-	143,048	143,048
Hedge funds	66,243	724	10,849	34,209	72,750	69,951	233	254,959
Other alternative investments	-	23,020	-	-	-	-	-	23,020
Other investments	20,067	-	-	-	-	-	17,000	37,067
	$ 741,386	$ 23,744	$ 10,849	$ 34,209	$ 72,750	$ 69,951	$ 160,281	$ 1,113,170

The University is the beneficiary of various charitable remainder trusts held and administered by outside trustees. A receivable is recorded at the present value of the amount held by the trustees that is due to the University, which is calculated using the life expectancy of the beneficiaries. Valuations are reviewed annually by management by updating life expectancy of the beneficiaries, discount rates and the fair value of the underlying investments. The discount rates used for the years ended June 30, 2018 and 2017 ranges from 2.14% to 2.91% based on 10 year daily treasury yield curve rates.

The University's auction rate securities at June 30, 2018 and 2017 were determined to have a fair value of $17,000,000, and were reflective of a $3,000,000 discount. The auction rate securities are valued using the income approach, specifically a discounted cash flow analysis. This valuation methodology includes utilizing unobservable inputs such as offered quotes and comparability adjustments to arrive at the estimated fair value. The University performs ongoing due diligence to determine that the auction rate securities' fair value is reasonable.

Deposits with trustees are carried at fair value.

The estimated fair value of the interest rate swap agreement is based on an independent third party valuation. The fair value of swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date. The University has performed due diligence on the fair value of its interest rate swap agreement to determine fair value at June 30, 2018 and 2017.

4. Prepaids and Other Assets

Five universities in the Commonwealth of Massachusetts formed The Massachusetts Green High Performance Computing Center, Inc., ("MGHPCC") and MGHPCC Holyoke, Inc. in May 2010 and April 2011, respectively, to construct and operate a research computing center located in Holyoke, Massachusetts. Both MGHPCC and MGHPCC Holyoke, Inc. are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code. Each respective university has agreed to contribute $10,000,000 in total. The University has contributed $10,000,000 which is included in the University's statement of financial position within prepaids and other assets. The MGHPCC became fully operational in January 2013, at which time the University began amortizing the asset over the 10 year expected useful life.

5. Pledges Receivable

Pledges receivable as of June 30 are expected to be realized in the following time periods:

(in thousands of dollars)	**2018**	**2017**
One year or less	$ 30,492	$ 23,140
Between one and five years	48,438	48,123
Greater than five years	23,592	29,815
	102,522	101,078
Less: Discount	(9,396)	(10,417)
Allowance for doubtful pledges	(4,862)	(4,862)
	$ 88,264	$ 85,799

At June 30, 2018, the University has a $2,500,000 conditional pledge that is not reflected in the consolidated financial statements due to its conditional nature.

6. Investments

Investments, stated at fair value, held by the University at June 30 were as follows:

(in thousands of dollars)	2018	2017
Cash equivalents	$ 78,342	$ 14,833
Fixed income	306,556	222,863
Domestic equity	109,830	155,686
International equity	160,348	142,756
Private equity	143,048	121,609
Hedge funds	254,959	262,479
Other alternative investments	23,020	22,589
Other investments	37,067	33,685
	$ 1,113,170	$ 976,500

The unfunded commitments, consisting of commitments that the University has made to various private equity investments at June 30, 2018 are listed below. These funds may be called for a period to extend between one and fifteen years.

(in thousands of dollars)	2018
Venture capital	$ 103,613
Real estate	17,938
Energy & commodities	12,550
	$ 134,101

Endowment and other investment return is comprised of:

(in thousands of dollars)	2018	2017
Realized and change in unrealized gains (losses)		
Endowment investments	$ 54,334	$ 89,042
Other investments	(731)	653
Investment yield		
Endowment investments	11,718	10,623
Other investments	7,366	4,450
	$ 72,687	$ 104,768
Unrestricted	$ 42,094	$ 75,007
Temporarily restricted	29,870	29,129
Permanently restricted	723	632
	$ 72,687	$ 104,768

Direct investment management fees paid were $1,900,000 and $1,798,000 for the years ended June 30, 2018 and 2017, respectively.

7. Property, Plant and Equipment

Property, plant and equipment at June 30 consisted of the following:

(in thousands of dollars)	2018	2017
Land	$ 28,554	$ 28,554
Building and improvements	1,756,507	1,680,540
Capitalized lease	38,410	38,410
Furniture and equipment	287,735	262,554
Library books	57,069	54,649
Construction in progress	34,395	8,075
	2,202,670	2,072,782
Less: Accumulated depreciation	(771,033)	(708,775)
	$ 1,431,637	$ 1,364,007

Depreciation expense amounted to $63,741,000 and $60,859,000 for the years ended June 30, 2018 and 2017, respectively, and is allocated in the consolidated statement of activities to functional expenses based on specific use of the related facilities. Operation, maintenance and security of plant expense totaled $83,633,000 and $76,987,000 for the years ended June 30, 2018 and 2017, respectively, and is allocated to functional expense categories in the consolidated statement of activities based on salary expense.

8. Capitalized Lease

The University commenced the residence hall lease in July 2001. The rent, over the 30-year term of the lease, is equal to the actual debt service plus customary fees payable with respect to the $31,130,000 principal amount of the bonds issued to finance the building. The annual lease commitments for future years, principal plus interest, range from $2,613,000 in 2019 to $2,576,000 in 2032.

Approximate future annual principal requirements as of June 30, 2018 are as follows:

(in thousands of dollars)	Principal Payments
Year	
2019	$ 1,365
2020	1,433
2021	1,505
2022	1,581
2023	1,661
2024-2032	16,677
	$ 24,222

9. Bonds and Notes Payable

Bonds and notes payable consists of the following at June 30:

(in thousands of dollars)

Name	Rate	Maturity	2018	2017
Massachusetts Development Finance Agency				
Series R (par value, $89,615)	4.50%-5.00%	2033	$ 68,315	$ 71,070
Series T -1 (par value, $63,260)	2.00%-5.00%	2037	61,460	61,910
Series T -2 (par value, $66,315)	3.00%-5.00%	2037	64,515	64,965
Series T -3 (par value, $70,000)	Variable	2019	68,225	68,650
Series Y-1 (par value, $38,280)	5.00%-5.62%	2029	26,910	28,480
Series Y-2 (par value, $25,545)	5.00%-5.50%	2024	9,935	11,080
Series 2010A (par value, $251,635)	3.00%-5.00%	2035	189,230	199,220
Series 2012 (par value, $54,385)	4.00%-5.00%	2035	54,385	54,385
Series 2014A (par value, $150,000)	4.37%-5.25%	2044	150,000	150,000
Taxable Revenue Bonds				
Series 2010B (par value, $75,460)	3.35%-6.43%	2035	61,010	63,235
Series 2014B (par value, $100,000)	0.098%-5.28%	2032	85,730	90,555
Other Notes Payable	2.50%	2020	319	513
			840,034	864,063
Add: Unamortized Premium on Bonds			16,932	18,886
Less: Unamoritized Discount on Bonds			(2,903)	(3,059)
Less: Unamortized Issuance Cost on Bonds			(1,700)	(1,585)
			$ 852,363	$ 878,305

Approximate future annual principal requirements are below:

(in thousands of dollars)	**Principal Payments**
Year	
2019	$ 25,074
2020	26,169
2021	27,240
2022	28,555
2023	29,975
Thereafter	703,021
	$ 840,034

The tables above reflect the contractual maturities of the debt agreements which were effective as of June 30, 2018.

On July 3, 2018, the University issued $70,415,000 in US Bank National Association taxable bonds Series 2018B for the purpose of financing the Innovation Campus located on the Burlington campus in Burlington, Massachusetts, various renovations on their main campus in Boston, Massachusetts, and other future capital projects. Principal payments commence in 2044 with final tender in October 2048.

On July 25, 2018, the Massachusetts Development Finance Agency ("MDFA") Series 2018A bonds were issued in the amount of $61,005,000. The proceeds will be used to refund MDFA Series R bond for $68,315,000. The MDFA Series 2018A bonds were issued with an original issuance premium of $9,261,000. Principal payments commence in 2019 with final tender in October 2033.

Interest expense totaled $37,775,000 and $32,875,000 for the years ended June 30, 2018 and 2017, respectively. Interest expense has been allocated to each functional expense category in the consolidated statement of activities based on specific identification. Total amounts paid in 2018 and 2017 were $45,109,000 and $46,228,000, respectively, to meet interest costs including settlement costs on the related interest rate swap agreement. Interest expense capitalized totaled $5,246,000 for the year ended June 30, 2017. There is no interest expense capitalized in 2018.

The University entered into an interest rate swap agreement on December 22, 2006 to manage the interest cost and variable rate risk associated with its Series T3 outstanding debt. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of the agreement, the University pays a fixed rate, determined at inception, to a third party who in turn pays the University a variable rate on these respective notional principal amounts.

The University records the interest rate swap at fair value. Net payments or receipts under the swap agreement along with the change in fair value of the swap are included in the nonoperating section on the consolidated statement of activities.

The University has adopted guidance related to the *Disclosures about Derivative Instruments and Hedging Activity*. Under this guidance, the University is required to disclose the location and amounts of derivatives within the consolidated financial statements. The tables below depict the impact the derivative has on both the consolidated statements of financial position and consolidated statements of activities.

(in thousands of dollars)	June 30, 2018 Fair Value	June 30, 2017 Fair Value
Interest rate swap agreement (liability)	$ (36,458)	$ (48,814)

Net realized and unrealized loss on the interest rate swap recorded in the consolidated statement of activities as nonoperating was as follows for the years ended June 30, 2018 and 2017:

(in thousands of dollars)	2018	2017
Realized loss	$ (5,534)	$ (6,723)
Change in unrealized loss	12,356	21,395
	$ 6,822	$ 14,672

The following schedule presents the notional principal amounts and fair value of the University's interest rate swap agreement at June 30, 2018:

(in thousands of dollars)

Bond Issue	Counterparty	Trade Type	Notional Amount	Date Expiration October 1,	Fair Value at June 30, 2018
MDFA Series T	AIG	Swap	$ 204,625	2037	$ (36,458)

There is no collateral posting requirement for the University related to the swap with AIG.

The University maintained lines of credit with two banks in the aggregate amount of $50,000,000 for years ended June 30, 2018 and 2017. There were no amounts outstanding on the lines of credit at June 30, 2018 and 2017.

10. Retirement Plan

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute an amount of their eligible compensation up to the Internal Revenue Service published limit toward the purchase of contracts with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and/or Fidelity Management Trust Company. After two years of employment, the University contributes 10% of each participant's eligible compensation to each participant's account providing that the participant contributes a minimum of 5% of eligible compensation to the plan. The cost of the University's contribution to this plan was $31,505,000 and $29,210,000 for the years ended June 30, 2018 and 2017, respectively.

11. Post-Retirement Medical Plan

The University sponsors a post-retirement medical plan under which faculty and staff who are 55 years of age and have at least 10 years of service can participate. Under the plan, retirees can contribute 50% of the premium for the medical plan selected. The plan is provided for pre-Medicare coverage and such coverage terminates at age 65. Spouses and dependent children may elect coverage under the plan by contributing 100% of the premium. Spouses are eligible until they are able to participate in Medicare and dependent children until age 26.

For the year ended June 30, 2018 and 2017, net periodic post-retirement medical benefits cost includes the following:

(in thousands of dollars)	2018	2017
Service cost	$ 803	$ 752
Interest cost	447	360
	$ 1,250	$ 1,112

Changes in the post-retirement medical benefit obligations are as follows:

(in thousands of dollars)	**2018**	**2017**
Benefit obligations at beginning of year	$ 14,303	$ 13,697
Service cost	803	752
Interest cost	447	360
Participant contributions	583	569
Actuarial loss (gain)	(1,828)	330
Benefits paid	(1,516)	(1,405)
Benefit obligations at end of year	$ 12,792	$ 14,303

These costs are allocated to the functional expense categories in the statement of activities based on salary expense. The accrued post-retirement benefit obligation in the table above is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The plan does not hold assets and is funded as benefits are paid.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 6.50% for the year ending June 30, 2018, graded down ratably until reaching an ultimate medical trend rate of 3.50% for fiscal year 2022 and thereafter. The discount rate used to determine the accumulated benefit obligation is 3.82% and 3.23% as of June 30, 2018 and 2017, respectively. The discount rate used to determine the net periodic post-retirement benefit cost is 3.23% and 2.71% for the years ended June 30, 2018 and 2017, respectively. The cumulative amount within unrestricted net assets related to unamortized gains is $619,000 as of June 30, 2018.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effect:

(in thousands of dollars)	**2018**	**2017**
Impact of 1% increase in health care cost trend		
on interest cost plus service cost during the past year	$ 151	$ 142
on accumulated post-retirement benefit obligation	1,009	1,138
Impact of 1% decrease in health care cost trend		
on interest cost plus service cost during the past year	(132)	(124)
on accumulated post-retirement benefit obligation	(905)	(1,020)

Expected future benefit payments and cash contributions to the plan are as follows:

(in thousands of dollars)	**Future Benefit Payments**
Year	
2019	$ 952
2020	1,013
2021	957
2022	960
2023	1,015
2024-2028	6,013
	$ 10,910

12. Self-Insurance

The University is self-insured for certain employee health benefits, workers' compensation, a portion of property and casualty coverage and a student health plan. The self-insurance reserve balance is $2,752,000 at June 30, 2018 and 2017, and is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

13. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are composed of the following general classes of uses or purpose at June 30:

	2018		**2017**	
(in thousands of dollars)	**Temporarily Restricted**	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
Instruction and academic administration	$ 101,106	$ 108,812	$ 87,972	$ 106,252
Research	17,468	19,364	17,045	18,871
Scholarships, fellowship and other aid	110,779	107,157	102,649	102,067
Capital construction and maintenance	9,162	1,313	8,434	1,313
Life income funds	8,522	3,025	6,935	3,137
Other	23,058	5,007	11,178	4,779
	$ 270,095	$ 244,678	$ 234,213	$ 236,419

14. Endowment and Similar Net Assets

Endowment and similar net assets composition by type of fund as of June 30, 2018:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 164,325	$ 244,678	$ 409,003
Board-designated endowment funds	472,991	-	-	472,991
	$ 472,991	$ 164,325	$ 244,678	$ 881,994

Endowment and similar net assets composition by type of fund as of June 30, 2017:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 144,319	$ 236,419	$ 380,738
Board-designated endowment funds	452,583	-	-	452,583
	$ 452,583	$ 144,319	$ 236,419	$ 833,321

Changes in Endowment and similar net assets for the fiscal year ended June 30, 2018:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment and similar net assets at July 1, 2017	$ 452,583	$ 144,319	$ 236,419	$ 833,321
Investment income	6,573	5,145	-	11,718
Net appreciation (realized and change in unrealized)	30,450	25,086	723	56,259
Total endowment return	37,023	30,231	723	67,977
Contributions	126	524	6,872	7,522
Endowment spending for operations and reinvestment	(14,676)	(10,725)	-	(25,401)
Other expenses and transfers	(2,065)	(24)	664	(1,425)
Endowment and similar net assets at June 30, 2018	$ 472,991	$ 164,325	$ 244,678	$ 881,994

Changes in Endowment and similar net assets for the fiscal year ended June 30, 2017:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment and similar net assets at July 1, 2016	$ 396,243	$ 124,950	$ 227,656	$ 748,849
Investment income	6,035	4,567	21	10,623
Net appreciation (realized and change in unrealized)	65,182	25,357	611	91,150
Total endowment return	71,217	29,924	632	101,773
Contributions	1,021	1,997	7,752	10,770
Endowment spending for operations and reinvestment	(14,482)	(9,815)	-	(24,297)
Other expenses and transfers	(1,416)	(2,737)	379	(3,774)
Endowment and similar net assets at June 30, 2017	$ 452,583	$ 144,319	$ 236,419	$ 833,321

Endowment and similar net assets classified as unrestricted net assets include unrestricted gifts from donors and other funds designated by the University as quasi-endowment for the long-term support of the University, including any accumulated income and appreciation. Temporarily restricted endowment net assets include accumulated income and appreciation on permanently restricted endowment funds, life income, annuities and trust funds (net of actuarial liability). Permanently restricted endowment and similar net assets consist of those funds designated by donors to be invested in perpetuity to provide a permanent source of income. Endowment and similar net assets are primarily used to fund scholarships and professorships.

15. Lease Commitments and Contingencies

The University is subject to certain legal proceedings and claims which arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position.

The University leases property, plant and equipment under leases classified as operating. The annual operating minimum lease commitments for property rentals are approximated below:

(in thousands of dollars)	**Minimum Lease Commitments**
Year	
2019	$ 42,017
2020	35,102
2021	35,839
2022	35,345
2023	35,113
Thereafter	243,242
	$ 426,658

Total rental expense, including computer software licenses, for the University was $55,954,000 and $48,039,000 for the years ended June 30, 2018 and 2017, respectively.

The University has entered into contracts for various construction, maintenance and renovation projects for which a balance of $77,652,000 is committed at June 30, 2018.

In December 2016, the University exercised their option under an existing operating lease, which gave the University the right to purchase land and improvements located on Botolph Street, Boston, MA. The building is utilized to house students, classrooms and conference space. The purchase option was $142,766,000 and the University secured their obligation with a $5,000,000 deposit into an escrow account. Subsequently, in October 2017, the University entered into an amendment to their original lease which released the University's obligation to purchase the building and instead extended the original lease term by 36 months.

16. Cash Flow Statement

The University has presented cash flows from operating activities in the statement of cash flows using the direct method. The following table reconciles total changes in net assets to net cash provided by or used in operating activities.

(in thousands of dollars)	2018	2017
Cash flows from operating activities		
Change in net assets	$ 163,335	$ 169,052
Adjustments to reconcile total changes in net assets to net cash provided by operating activities		
Depreciation and amortization	62,029	59,000
Accretion expense	1,196	1,172
Loan cancellations	392	2,107
Bad debt expense	3,144	2,992
Loss on disposals of property, plant, and equipment	650	1,222
Contributions in kind	(1,201)	(931)
Contributed securities	(7,813)	(4,444)
Proceeds from sale of contributed securities	2,861	1,379
Contributions for long-term investments	(8,354)	(12,639)
Interest and dividends restricted for long-term investments	(723)	(632)
Net realized and change in unrealized gain on investments	(70,362)	(104,065)
Unrealized gain on interest rate swap agreement	(12,356)	(21,395)
Changes in assets and liabilities		
Decrease in receivables and prepaid assets	(9,749)	(14,273)
Increase in accounts payable and accrued liabilities	7,722	5,169
(Decrease)/increase in deferred revenue and student deposits	(6,271)	14,241
Net cash provided by operating activities	$ 124,500	$ 97,955

17. Subsequent Events

The University has assessed the impact of subsequent events through October 15, 2018, the date the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or additional disclosure in the notes to the audited consolidated financial statements other than the event disclosed in Footnote 9.