Boston College

Consolidated Financial Statements

May 31, 2018 and 2017

Boston College
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May 31, 2018 and 2017

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Report of Independent Auditors

To the Trustees of Boston College:

We have audited the accompanying consolidated financial statements of Boston College and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated statements of activities for the year ended May 31, 2018 and of cash flows for the years ended May 31, 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 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 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 the 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 the 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston College and its subsidiaries as of May 31, 2018 and 2017 and the changes in their net assets for the year ended May 31, 2018 and their cash flows for the years ended May 31, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of May 31, 2017, and the related consolidated statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated September 29, 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 May 31, 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
September 28, 2018

Boston College
Consolidated Statements of Financial Position
As of May 31, 2018 and 2017

(in thousands)	2018	2017
Assets		
Cash and cash equivalents	$ 9,227	$ 11,686
Accounts receivable, net (Note B)	38,426	40,104
Contributions receivable, net (Note C)	174,517	203,002
Notes and other receivables, net (Note B)	42,279	48,978
Investments (Note D)	2,969,984	2,887,969
Funds held by trustees (Note D)	5,802	6,311
Other assets	7,134	6,964
Property, plant and equipment, net (Note F)	1,604,149	1,488,709
Total assets	$ 4,851,518	$ 4,693,723
Liabilities		
Accounts payable	$ 5,745	$ 6,848
Accrued liabilities	242,452	207,123
Deposits payable and deferred revenues	32,276	30,733
Bonds and mortgages payable, net (Note G)	1,092,504	1,122,171
U.S. Government loan advances	19,152	36,520
Total liabilities	1,392,129	1,403,395
Net Assets		
Unrestricted (Note H)	1,672,187	1,581,067
Temporarily restricted (Note H)	762,304	707,466
Permanently restricted (Note H)	1,024,898	1,001,795
Total net assets	3,459,389	3,290,328
Total liabilities and net assets	$ 4,851,518	$ 4,693,723

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

Boston College
Consolidated Statement of Activities
Year Ended May 31, 2018
(With Summarized Financial Information for the Year Ended May 31, 2017)

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Operating					
Revenues and other support					
Tuition and fees before student aid	$ 641,241	$ -	$ -	$ 641,241	$ 612,647
Auxiliary enterprises before student aid	175,824	-	-	175,824	167,696
Sponsored research and other programs	52,524	-	-	52,524	52,261
Government financial aid programs	4,709	-	-	4,709	5,109
Sales and services	5,125	-	-	5,125	5,070
Other revenues	14,275	-	-	14,275	11,921
Nonoperating assets utilized or released from restrictions for operations	140,971	-	-	140,971	126,459
Total revenues and other support before student aid	1,034,669	-	-	1,034,669	981,163
Student aid applicable to tuition and fees	(192,692)	-	-	(192,692)	(175,789)
Student aid applicable to auxiliary enterprises	(6,345)	-	-	(6,345)	(6,406)
Net revenues	835,632	-	-	835,632	798,968
Expenses					
Instruction	322,070	-	-	322,070	308,687
Academic support	81,679	-	-	81,679	72,388
Research	43,960	-	-	43,960	43,474
Student services	64,630	-	-	64,630	65,604
Public service	4,466	-	-	4,466	4,548
General administration	130,718	-	-	130,718	128,014
Auxiliary enterprises	187,967	-	-	187,967	176,116
Total expenses	835,490	-	-	835,490	798,831
Increase in net assets from operating activities	142	-	-	142	137
Nonoperating					
Contributions	5,708	56,431	22,790	84,929	121,311
Realized and unrealized investment gains, net	95,268	149,951	611	245,830	278,203
Investment income, net	9,003	1,419	(32)	10,390	6,843
Other losses, net	(28,705)	(1,651)	(903)	(31,259)	(914)
Nonoperating assets utilized or released from restrictions for operations	(37,978)	(102,993)	-	(140,971)	(126,459)
Net assets reclassified or released from restrictions	47,682	(48,319)	637	-	-
Increase in net assets from nonoperating activities	90,978	54,838	23,103	168,919	278,984
Total increase in net assets	91,120	54,838	23,103	169,061	279,121
Net assets					
Beginning of year	1,581,067	707,466	1,001,795	3,290,328	3,011,207
End of year	$ 1,672,187	$ 762,304	$ 1,024,898	$ 3,459,389	$ 3,290,328

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

Boston College
Consolidated Statements of Cash Flows
Years Ended May 31, 2018 and 2017

(in thousands)	**2018**	**2017**
Cash flows from operating activities		
Total increase in net assets	$ 169,061	$ 279,121
Adjustments to reconcile change in net assets to cash and cash equivalents used in operating activities		
Depreciation, amortization and accretion	95,446	66,846
Allowance for uncollectible contributions	(165)	(210)
Discount on contributions	(3,390)	(4,120)
Net loss (gain) on retirement or disposal of property, plant and equipment	355	(8,210)
Loss on recognition of asset retirement obligation	178	638
Contributions of property and equipment	(1,307)	(1,289)
Loan cancellations	903	908
Contributed securities	(12,231)	(22,935)
Proceeds from sale of contributed securities	3,659	3,514
Realized and unrealized investment gains, net	(246,128)	(277,526)
Loss on debt extinguishment	-	1,272
Changes in assets and liabilities		
Accounts receivable, net	1,678	(13)
Notes and other receivables	385	366
Contributions receivable	32,040	8,210
Accounts payable and accrued liabilities	21,836	(4,166)
Deposits payable and deferred revenue	1,543	1,500
Other assets	(170)	677
Contributions to be used for long-term investment	(64,526)	(77,309)
Net cash and cash equivalents used in operating activities	(833)	(32,726)
Cash flows from investing activities		
Proceeds from sales of investments	2,046,667	1,012,060
Purchases of investments	(1,881,078)	(1,202,505)
Student loans granted	(876)	(2,442)
Student loans collected	6,287	6,718
Purchases of property, plant and equipment	(200,127)	(98,394)
Proceeds from sale of property, plant and equipment	105	5,106
Change in funds held by trustees	509	2,145
Net cash and cash equivalents used in investing activities	(28,513)	(277,312)
Cash flows from financing activities		
Proceeds from issuance of debt	-	245,000
Payment of bonds and mortgages payable	(27,367)	(26,256)
Change in U.S. Government loan advances	(17,368)	267
Payments to beneficiaries of split interest agreements	(1,476)	(2,072)
Proceeds from sale of contributed securities	8,572	19,421
Contributions to be used for long-term investment	64,526	77,309
Net cash and cash equivalents provided by financing activities	26,887	313,669
Net (decrease) increase in cash and cash equivalents	(2,459)	3,631
Cash and cash equivalents		
Beginning of year	11,686	8,055
End of year	$ 9,227	$ 11,686
Supplemental data		
Interest paid, net of amounts capitalized	$ 44,254	$ 38,745
Change in asset retirement obligations recognized	62	(3,818)
Net fixed asset recognized related to asset retirement obligation	(223)	(27)
Contributed securities	12,231	22,935
Proceeds from issuance of debt	-	183,313
Use of proceeds to refund debt	-	(183,313)

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

A. Accounting Policies

The accompanying consolidated financial statements include certain other entities under the financial control of Boston College, including Boston College Ireland, Ltd. ("BCI") which is a non-profit entity established as an institute of education in the Republic of Ireland.

Boston College and entities included herein are referred to individually and collectively as the "University."

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

Basis of Presentation

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

Unrestricted

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

Temporarily Restricted

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

Permanently Restricted

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

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

Nonoperating Activity

Nonoperating activity consists primarily of contributions, unfulfilled promises to give, life income adjustments, realized and unrealized gains and losses on investments, investment income, and other gains and losses on: postretirement healthcare benefits, sale or disposal of property, foreign currency translation, the recognition of asset retirement obligations, and debt extinguishment. All other activity is classified as operating revenue or expense.

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

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

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

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

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

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

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

Fundraising Activities
Expenses incurred in carrying out the fundraising activities of the University, which amounted to $25,027,000 and $23,341,000 for the years ended May 31, 2018 and 2017, respectively, are included primarily in the general administration expense category on the consolidated statement of activities.

Cash and Cash Equivalents and Investments
Cash and cash equivalents consist of operating funds deposited in cash management accounts, and other investments with maturities at the time of purchase of 90 days or less, and are carried at market value. Cash and cash equivalents held in the investment portfolio are included in investments.

Investment transactions are recorded on the trade date and dividend income is recorded on the ex-dividend date.

Split-Interest Agreements
The University has split-interest agreements consisting primarily of charitable gift annuities, pooled income funds, charitable remainder trusts, and charitable lead trusts. Split-interest agreements which are included in investments amount to $36,059,000 and $35,425,000 as of May 31, 2018 and 2017, respectively. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted with rates that range from 1.2% to 9.6%. The liability of $13,192,000 and $14,031,000 as of May 31, 2018 and 2017, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions.

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

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

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The full impact of the Act will not be known until further regulatory guidance is provided. The University continues to evaluate the impact of tax reform on the organization.

Prior Year Summarized Information
The consolidated financial statements include certain prior year summarized comparative information, but do 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 audited financial statements for the year ended May 31, 2017, from which the summarized information was derived.

Subsequent Events
The University has assessed the impact of subsequent events through September 28, 2018, the date the audited consolidated financial statements were issued, and concluded there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.

Recent 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's 2019 fiscal year.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new lease guidance establishes a model under which lessees record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. The ASU is effective for the University's 2020 fiscal year.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for- profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The ASU is effective for the University's 2019 fiscal year.

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's 2019 fiscal year.

The University is evaluating the impact of each of these new standards on its consolidated financial statements.

B. Accounts, Notes and Other Receivables

Accounts receivable and notes receivable are stated net of allowances for doubtful accounts. As of May 31, 2018 and 2017, the allowance related to accounts receivable is $3,335,000 and $4,271,000, respectively.

Notes and other receivables consist of amounts due from students under U.S. Government and University sponsored loan programs and from the Weston Jesuit Community, Inc. under a ground lease agreement. As of May 31, 2018 and 2017, the amount due under the loan programs is $27,338,000 and $33,651,000, respectively. The notes receivable due from students under loan programs are subject to significant restrictions and, accordingly, it is not practicable to determine the fair value of such amounts. As of May 31, 2018 and 2017, the allowance related to student notes receivable is $1,140,000.

C. Contributions Receivable

Contributions receivable are summarized as follows as of May 31:

(in thousands)	2018	2017
Unconditional promises scheduled to be collected in		
Less than one year	$ 91,226	$ 92,734
Between one year and five years	101,876	131,858
More than five years	18,475	19,025
Less: Discount and allowance for unfulfilled promises to give	(37,060)	(40,615)
Contributions receivable, net	$ 174,517	$ 203,002

A present value discount of $13,811,000 and $17,201,000 as of May 31, 2018 and 2017, respectively, has been calculated using discount factors that approximate the risk and expected timing of future contribution payments.

The University has reflected contributions received during fiscal 2018 and 2017 at fair value as determined in accordance with fair value accounting guidance.

Conditional promises of $71,923,000 and $75,635,000 as of May 31, 2018 and 2017, respectively, are not recorded in the consolidated financial statements.

D. Investments

Investments are stated at fair value and include accrued income. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers or appraisers. Management has established procedures in place to evaluate and monitor third party valuations, including regular communication with fund managers, the review of partnership financial statements and monthly performance metrics, prior to investment and on a regular basis going forward. The University believes that these valuations are a reasonable estimate of fair value as of May 31, 2018 and 2017, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

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

	2018		2017	
(in thousands)	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Equities	$ 1,441,835	$ 2,160,432	$ 1,365,754	$ 1,968,394
Fixed income	664,064	683,784	751,542	788,292
Real assets	135,220	131,570	129,012	137,594
	$ 2,241,119	$ 2,975,786	$ 2,246,308	$ 2,894,280

Equities include common stock, mutual funds, commingled funds and limited partnership interests. Fixed income includes money market funds, commingled funds, limited partnership interests, treasury and agency securities. Real assets include limited partnership interests and real estate.

A three level hierarchy of valuation inputs has been established based on the extent to which the inputs are observable in the marketplace. Level I is considered observable based on inputs such as quoted prices in active markets. Level II is considered observable based on inputs other than quoted prices in active markets, and Level III is considered unobservable.

As of May 31, 2018, the University's investments include $992,139,000 of Level I equities, $570,286,000 of Level I fixed income securities, $10,013,000 of Level II fixed income securities and $4,278,000 of Level III fixed income securities. Excluded from the fair value hierarchy at May 31, 2018 are $1,168,293,000 of equities, $99,207,000 of fixed income and $98,356,000 of real assets for which fair value is measured at net asset value per share using the practical expedient. Also excluded from the fair value hierarchy at May 31, 2018 are $33,214,000 of real estate investments valued at cost.

As of May 31, 2017, the University's investments include $889,886,000 of Level I equities, $647,127,000 of Level I fixed income securities, $10,007,000 of Level II fixed income securities and $4,098,000 of Level III fixed income securities. Excluded from the fair value hierarchy at May 31, 2017 are $1,078,508,000 of equities, $127,060,000 of fixed income and $103,794,000 of real assets for which fair value is measured at net asset value per share using the practical expedient. Also excluded from the fair value hierarchy at May 31, 2017 are $33,800,000 of real estate investments valued at cost.

As of May 31, 2018, $21,768,000, $10,013,000 and $4,278,000 of split interest agreements are included in Level I, Level II and Level III, respectively. As of May 31, 2017, $21,320,000, $10,007,000 and $4,098,000 of split interest agreements are included in Level I, Level II and Level III, respectively.

The fair values of limited partnerships are represented by the net asset value of each partnership. The objective of these investments is to generate long term returns significantly higher than public equity markets on a risk adjusted basis. Redemption terms for those investments valued at net asset value consist of the following as of May 31:

	2018			
(in thousands)	**Equities**	**Fixed Income**	**Real Assets**	**Total**
Redemption terms				
Within 30 days	$ 271,617	$ 70,169	$ -	$ 341,786
Quarterly				
30-90 days prior written notice	100,836	-	-	100,836
Semi-annually, annually				
30-180 days prior written notice	429,192	29,038	-	458,230
1-5 years	239,116	-	46,265	285,381
6-10 years	127,532	-	52,091	179,623
	1,168,293	99,207	98,356	1,365,856
Level I securities	992,139	570,286	-	1,562,425
Other investments	-	14,291	33,214	47,505
Total investments	$ 2,160,432	$ 683,784	$ 131,570	$ 2,975,786

	2017			
(in thousands)	**Equities**	**Fixed Income**	**Real Assets**	**Total**
Redemption terms				
Within 30 days	$ 227,894	$ 55,684	$ -	$ 283,578
Quarterly				
30-90 days prior written notice	107,955	-	-	107,955
Semi-annually, annually				
30-180 days prior written notice	401,382	71,376	-	472,758
1-5 years	262,796	-	56,381	319,177
6-10 years	78,481	-	47,413	125,894
	1,078,508	127,060	103,794	1,309,362
Level I securities	889,886	647,127	-	1,537,013
Other investments	-	14,105	33,800	47,905
Total investments	$ 1,968,394	$ 788,292	$ 137,594	$ 2,894,280

The University is committed to invest up to an additional amount of $370,600,000 and $252,700,000 as of May 31, 2018 and 2017, respectively.

The University recognized net realized and unrealized gains of $245,830,000 and $278,203,000 and investment income of $10,390,000 and $6,843,000, net of investment advisory fees of $21,639,000 and $20,660,000, for the years ended May 31, 2018 and 2017, respectively.

E. Endowment

The net assets associated with the University's endowment funds are classified in accordance with relevant state law as interpreted by the Board of Trustees. These classifications are unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include Board-designated funds, and any accumulated income and appreciation thereon. Temporarily restricted net assets include contributions not yet designated by donors and accumulated appreciation on temporarily and permanently restricted funds. Permanently restricted net assets include contributions designated by donors to be invested in perpetuity to produce income for general or specific purposes.

The long-term performance objective of the endowment portfolio is to attain an average annual total return that exceeds the University's spending rate plus inflation within acceptable levels of risk over a full market cycle. 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 and current yield.

The University has a spending policy for its donor restricted endowment, as approved by the University's Board of Trustees, that aims to provide a stable and predictable source of funding for the University's academic and strategic initiatives and also to protect the real value of the endowment over time. Under this policy the amount that can be expended for current operations is a weighted average based on two components; prior year spending adjusted for an inflationary factor, and 5% of a twelve quarter moving average of market values.

As of May 31, 2018 and 2017, there were no endowment funds with a market value less than historical value.

F. Property, Plant and Equipment

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

(in thousands)	**2018**	**2017**
Land and improvements	$ 322,520	$ 287,091
Buildings	1,638,549	1,573,993
Equipment	237,548	246,883
Library books	213,959	205,268
Rare book and art collections	27,639	26,528
Purchase options	2,855	2,855
Plant under construction	146,540	58,702
Property, plant and equipment, gross	2,589,610	2,401,320
Accumulated depreciation	(985,461)	(912,611)
Property, plant and equipment, net	$ 1,604,149	$ 1,488,709

Annual provisions for depreciation of physical plant assets are computed on a straight-line basis over the expected useful lives of the individual assets, averaging 20 years for land improvements, 25-60 years for buildings, 2-15 years for equipment and 10 or 50 years for library books. Rare book and art collections are reflected at historical cost and are not depreciated. Depreciation for the years ended May 31, 2018 and 2017 amounted to $97,000,000 and $68,101,000, respectively.

Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts, and gains or losses are included in the consolidated statement of activities. The University retired or disposed of $24,599,000 and $20,528,000 in gross plant assets for the years ended May 31, 2018 and 2017, respectively.

Property, plant and equipment additions of $25,919,000 and $14,249,000 are included in accrued liabilities for the years ended May 31, 2018 and 2017, respectively.

The University recognized $658,000 and $821,000 of operating expenses relating to the accretion of liabilities associated with the retirement of long-lived assets, for the years ended May 31, 2018 and 2017, respectively. Conditional asset retirement obligations of $13,711,000 and $12,991,000 as of May 31, 2018 and 2017, respectively, are included in accrued liabilities.

The University has commitments of $110,734,000 to complete various capital projects as of May 31, 2018.

G. Bonds and Mortgages Payable

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

(in thousands)	**2018**	**2017**
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Boston College Issues (fixed rate)		
Series M, 5.00 - 5.50%, due 2023 - 2035	$ 134,285	$ 134,285
Massachusetts Development Finance Agency (MDFA)		
Boston College Issues (fixed rate)		
Series Q, 4.25 - 5.00%, due 2018-2029	61,565	66,855
Series R, 4.00 - 5.00%, due 2018-2040	154,010	160,235
Series S, 4.12 - 5.00%, due 2018-2038	113,640	123,030
Series T, 3.37 - 5.00%, due 2033-2042	129,305	129,305
Trustees of Boston College (fixed rate)		
Taxable bonds, Series 2013, 2.28 - 5.09%, due 2018-2043	165,365	171,035
Taxable bonds, Series 2017, 1.70 - 3.99%, due 2019-2047	287,110	287,110
Department of Education (fixed rate)		
Library building bonds, 3.41%, due 2018 - 2022	3,445	4,055
Secured note, 3.00%	-	182
Bonds and mortgages payable, par	1,048,725	1,076,092
Unamortized original bond issue premium	49,580	52,148
Unamortized issuance cost on bonds	(5,801)	(6,069)
Bonds and mortgages payable, net	$ 1,092,504	$ 1,122,171

As of May 31, 2018, principal payments due on all long-term bonds and mortgages payable are as follows; 2019 - $28,580,000; 2020 - $30,475,000; 2021 -$31,535,000; 2022 - $32,845,000; 2023 - $34,240,000 and thereafter - $891,050,000.

Interest expense for the years ended May 31, 2018 and 2017 amounted to $42,577,000 and $38,617,000, respectively. The University capitalized interest of $2,991,000 and $2,983,000 for the years ended May 31, 2018 and 2017, respectively.

The University has an agreement for a $75,000,000 unsecured line of credit. As of May 31, 2018 and 2017, there was no balance outstanding on the line of credit.

In January 2017, the University issued $129,305,000 of MDFA Series T Revenue Bonds (Series T) and $287,110,000 of Trustees of Boston College Taxable Bonds Series 2017 (Series 2017). Series T was issued with an original issue premium of $11,898,000 which is being amortized over the life of the bonds. The entire net proceeds from Series T, $140,280,000, as well as a portion of the net proceeds from Series 2017, $40,680,000, were used to refund the existing Series P bonds. The retirement of Series P was comprised of $176,980,000 repayment of par value and $3,980,000 of interest prepayment. The remaining proceeds from Series 2017, $245,000,000, are being used to finance certain capital needs including the construction, renovation and improvement of University facilities. The University incurred costs of $2,353,000 associated with these issues, which were capitalized and are being amortized over the life of the bonds. The University recognized a net loss on debt extinguishment of $1,272,000 in the year ended May 31, 2017.

H. Net Assets

Net assets consist of the following as of May 31:

			Donor Restricted			
	Unrestricted		Temporarily Restricted		Permanently Restricted	
(in thousands)	2018	2017	2018	2017	2018	2017
Endowment net assets, beginning of year						
Board designated	$ 900,875	$ 832,826	$ -	$ -	$ -	$ -
Donor restricted	-	-	497,804	391,811	1,001,795	971,028
Contributions, net of allowance	-	-	6,071	4,524	22,790	29,091
Investment return:						
Investment income, net	611	(150)	1,340	(22)	(32)	(34)
Gains, net	96,376	111,051	149,951	169,994	611	619
Total investment return	96,987	110,901	151,291	169,972	579	585
Appropriation of endowed assets or expenditure	(44,852)	(43,692)	(69,617)	(66,045)	-	-
Net assets reclassified or released from restrictions	6,646	967	(2,149)	(804)	637	2,158
Other losses, net	(116)	(127)	(431)	(1,654)	(903)	(1,067)
Endowment net assets, end of year						
Board designated	959,540	900,875	-	-	-	-
Donor restricted	-	-	582,969	497,804	1,024,898	1,001,795
Designated for specific purposes	122,214	193,863	-	-	-	-
Net investment in plant	590,433	486,329	-	-	-	-
Program support	-	-	60,557	67,990	-	-
Contributions for plant assets	-	-	117,894	140,727	-	-
Student loans	-	-	884	945	-	-
Total net assets	$ 1,672,187	$ 1,581,067	$ 762,304	$ 707,466	$ 1,024,898	$ 1,001,795

I. Retirement Programs

All eligible full-time personnel may elect to participate in a defined contribution retirement program. Under the program, the University makes contributions, currently limited to 8-10% of the annual wages of participants, up to defined limits. Voluntary contributions by participants are made subject to IRS limitations. The limitation applicable to University contributions is on a combined plan basis. For the years ended May 31, 2018 and 2017, the University's contributions to the retirement program were $26,802,000 and $26,080,000, respectively.

The University provides certain health care benefits for retired employees through either a defined benefit retirement medical program or a Retirement Medical Savings Account depending upon certain age and service requirements. Employees will become eligible for this benefit if they reach retirement while employed by the University. The plan does not hold assets and is funded as benefits are paid. The estimated future cost of providing postretirement health care benefits is recognized on an accrual basis over the period of service during which benefits are earned.

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

(in thousands)	**2018**	**2017**
Service cost	$ 3,355	$ 3,301
Interest cost	4,105	3,751
Amortization of prior service cost	(210)	(534)
Amortization of loss	1,106	869
Net periodic postretirement benefit cost	8,356	7,387
Actuarial loss (gain)	10,495	(396)
Amortization of prior service cost	210	534
Amortization of loss	(1,106)	(869)
Other changes in plan assets and benefit obligation	9,599	(731)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 17,955	$ 6,656

In fiscal 2019, the prior service cost credit of $69,000 and unrecognized net loss of $1,300,000 are expected to be amortized as a component of net periodic postretirement benefit cost.

For measurement purposes, the assumed annual rates of increase for measuring the obligation at May 31, 2017 and the cost for the year ending May 31, 2018 were: 6.75% in the per capita cost of covered health care benefits for post-65 benefits and 6.50% in the per capita cost of covered health care benefits for pre-65 benefits. Both rates were assumed to decrease gradually to 5.00% in 2023 and remain at that level thereafter. The assumed annual rates of increase for measuring the obligation at May 31, 2018 and the cost for the year ending May 31, 2019 were: 6.00% in the per capita cost of covered health care benefits for post-65 benefits and 7.50% in the per capita cost of covered health care benefits for pre-65 benefits. Rates were assumed to decrease gradually to 5.00% in 2027 for pre-65 benefits and to 5.00% in 2023 for post-65 benefits and remain at those levels thereafter.

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

(in thousands)		**Increase**		**Decrease**
Effect on total of service and interest cost components	$	1,009	$	(826)
Effect on postretirement benefit obligation		14,571		(12,138)

The discount rate used to determine the accumulated benefit obligation is 4.25% as of May 31, 2018 and 2017. The discount rate used to determine the net periodic postretirement benefit cost is 4.25% as of May 31, 2018 and 2017.

A reconciliation of the accumulated postretirement benefit obligation and plan assets are as follows as of May 31:

(in thousands)		**2018**		**2017**
Reconciliation of accumulated postretirement benefit obligation				
Benefit obligation, beginning of year	$	91,324	$	86,973
Service cost		3,355		3,301
Interest cost		4,105		3,751
Plan participant contributions		926		855
Benefits paid		(3,677)		(3,160)
Actuarial loss (gain)		10,495		(396)
Benefit obligation, end of year	$	106,528	$	91,324
Amounts not yet recognized as a component of net periodic benefit cost				
Prior service cost	$	(69)	$	(280)
Net actuarial loss		22,840		13,451
	$	22,771	$	13,171

As of May 31, 2018 and 2017, the benefit obligation is reflected in accrued liabilities on the consolidated statements of financial position.

Expected benefit payments, net of participant contributions, are as follows: 2019 - $3,440,000; 2020 - $3,690,000; 2021 - $4,010,000; 2022 - $4,410,000; 2023 - $4,810,000 and the five fiscal years thereafter - $30,490,000.

J. Related Party

The University has mortgages, loans and notes due from various related parties of $23,377,000 and $24,030,000 as of May 31, 2018 and 2017, respectively.

K. Commitments and Contingencies

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