William Marsh Rice University

Consolidated Financial Statements

June 30, 2019 and 2018

William Marsh Rice University
Index
June 30, 2019 and 2018

To the Board of Trustees of
William Marsh Rice University

We have audited the accompanying consolidated financial statements of William Marsh Rice University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statement of activities for the year ended June 30, 2019 and consolidated statements of cash flows for the years ended June 30, 2019 and 2018.

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 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of William Marsh Rice University and its subsidiaries as of June 30, 2019 and 2018, and the changes in their net assets for the year ended June 30, 2019 and their cash flows for the years ended June 30, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its consolidated financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and of cash flows for the year then ended (the consolidated statement of activities is not presented herein), and in our report dated October 25, 2018, 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, 2018 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

October 25, 2019

William Marsh Rice University
Consolidated Statements of Financial Position
June 30, 2019 and 2018

(in thousands of dollars)	2019	2018
Assets		
Cash and cash equivalents	$ 25,491	$ 42,463
Accounts receivable and other assets, net	53,165	95,013
Pledges receivable, net	226,827	228,242
Investments	7,078,812	6,741,371
Property and equipment, net	1,294,089	1,255,802
Total assets	$ 8,678,384	$ 8,362,891
Liabilities		
Accounts payable and other liabilities	$ 159,420	$ 144,887
Notes and bonds payable	950,496	957,360
Actuarial liability for life income agreements	135,602	133,545
Government refundable advances	5,082	4,931
Total liabilities	1,250,600	1,240,723
Net Assets		
Without donor restrictions	3,410,997	3,203,798
With donor restrictions	4,016,787	3,918,370
Total net assets	7,427,784	7,122,168
Total liabilities and net assets	$ 8,678,384	$ 8,362,891

	Without Donor Restrictions	With Donor Restrictions	2019	2018
Net Assets				
Internally designated	$ 226,404	$ -	$ 226,404	$ 240,181
Restricted by donor	-	307,170	307,170	286,208
Net investment in plant	327,806	15,787	343,593	323,148
Endowment and designated for long-term investment	2,856,330	3,649,847	6,506,177	6,228,857
Life-income trusts	-	40,971	40,971	38,561
Student loans and other assets	457	3,012	3,469	5,213
Total net assets	$ 3,410,997	$ 4,016,787	$ 7,427,784	$ 7,122,168

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

William Marsh Rice University
Consolidated Statements of Activities
For the Year Ended June 30, 2019
With Summarized Financial Information for the Year Ended June 30, 2018

(in thousands of dollars)	2019 Without Donor Restrictions	2019 With Donor Restrictions	2019 Total	2018 Total
Operating revenues				
Allocation of endowment spending	$ 301,325	$ -	$ 301,325	$ 281,426
Other investment income	3,235	1,147	4,382	2,890
Student tuition and fees	195,664	-	195,664	172,806
Grants and contracts	133,706	-	133,706	128,236
Gifts and pledges	8,293	69,238	77,531	54,312
Gifts and trusts released from restrictions	35,453	(35,453)	-	-
Auxiliary enterprises	44,487	-	44,487	47,198
Other revenues	28,743	955	29,698	30,646
Total operating revenues	750,906	35,887	786,793	717,514
Operating expenses				
Salaries and wages	362,304	-	362,304	339,906
Benefits	82,785	-	82,785	75,656
Scholarships	27,532	-	27,532	14,153
Depreciation and amortization	66,501	-	66,501	64,162
Interest and bond costs	34,673	-	34,673	34,684
Utilities and rent	12,550	-	12,550	12,788
Other operating expenses	162,011	-	162,011	151,329
Total operating expenses	748,356	-	748,356	692,678
Net operating income	2,550	35,887	38,437	24,836
Nonoperating changes				
Gifts, grants, and pledges for property and endowment	1,006	27,163	28,169	97,046
Investment returns	318,995	232,513	551,508	643,443
Allocation of endowment spending to operations	(141,310)	(160,015)	(301,325)	(281,426)
Revenues of consolidated endowment investments	37,218	-	37,218	35,206
Expenses of consolidated endowment investments	(29,558)	-	(29,558)	(37,949)
Net assets released from restrictions	35,161	(35,161)	-	-
Change in liabilities due under life-income agreements	-	(1,970)	(1,970)	(1,558)
Other nonoperating changes, net	(16,863)	-	(16,863)	(3,622)
Net nonoperating changes	204,649	62,530	267,179	451,140
Total increase in net assets	207,199	98,417	305,616	475,976
Net assets				
Beginning of year	3,203,798	3,918,370	7,122,168	6,646,192
End of year	$ 3,410,997	$ 4,016,787	$ 7,427,784	$ 7,122,168

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

William Marsh Rice University
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

(in thousands of dollars)	2019	2018
Cash flows from operating activities		
Total increase in net assets	$ 305,616	$ 475,976
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation of property and equipment	66,501	64,162
Loss on disposal of property and equipment	1,263	1,103
Net realized and unrealized investment gain	(490,576)	(574,309)
Contributions restricted for long term purposes and noncash contributions	(65,894)	(39,261)
Donated securities received	(1,688)	(10,884)
Proceeds from sale of donated securities	755	3,746
Loss on extinguishment of debt	-	3,929
Change in fair value of commodity swap agreements	16,704	(1,718)
Change in		
Accounts receivable and other assets	39,431	(12,183)
Pledges receivable	1,415	(57,105)
Accounts payable and other liabilities	(11,305)	9,995
Net cash used in operating activities	(137,778)	(136,549)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,045,616	1,380,698
Proceeds from sale of consolidated investments	136,015	-
Purchases of investments	(1,025,918)	(1,194,105)
Purchases of property and equipment	(96,756)	(87,621)
Net cash provided by investing activities	58,957	98,972
Cash flows from financing activities		
Contributions restricted for endowment	27,144	12,863
Contributions restricted for property	38,084	25,516
Contributions restricted for trusts and other	627	389
Proceeds from sale of donated securities restricted for endowment	211	4,399
Proceeds from sale of donated securities restricted for property	722	2,739
Actuarial change in life-income agreements	1,970	1,558
Proceeds from issuance of taxable bonds	-	102,442
Advance refunding of tax-exempt bonds	-	(101,974)
Principal payment of tax-exempt bonds	(3,720)	-
Issuance cost of taxable bonds	-	(468)
Payment of outstanding tax-exempt commercial paper	(3,340)	(4,295)
Increase (decrease) in government refundable advances	151	(2,707)
Net cash provided by financing activities	61,849	40,462
Net (decrease) increase in cash and cash equivalents	(16,972)	2,885
Cash and cash equivalents		
Beginning of year	42,463	39,578
End of year	$ 25,491	$ 42,463
Supplemental Data		
Interest paid in cash	$ 34,874	$ 35,354
Construction in progress payments included in accounts payable	12,476	3,220
Donated securities	1,688	10,884

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

(all dollar amounts in thousands)

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

William Marsh Rice University (the "University") is a Texas not-for-profit corporation that operates a private research university in Houston, Texas. The consolidated financial statements of the University have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires the university to classify its net assets into two categories according to donor-imposed restrictions: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. All material transactions between the university and its subsidiaries have been eliminated.

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, 2018, from which the summarized information was derived.

The consolidated financial statements of the University include the accounts of all academic and administrative departments of the University and affiliated organizations that are controlled by the University. The non-controlling interest amount for consolidated entities not wholly-owned is not considered material for separate presentation. In late December of 2018, the University sold substantially all of its controlling interest in a company previously consolidated in the financial statements. Revenues and expenses were reported in the nonoperating section of the statement of activities as a consolidated endowment investment. The fiscal year 2019 statement of activities includes only the revenues and expenses for the period the University owned the controlling interest. The gain of $153,055 realized from the sale is reported as a component of investment income. The University's remaining investment is now below the threshold for consolidation and is reported in the investments line at the fair market value as of June 30, 2019.

Net Assets Without and With Donor Restrictions

Net assets without donor restrictions are those net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific in purpose or time than broad limits resulting from the following: a) the nature of the not-for-profit entity; b) the environment in which it operates; and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

The classification of net assets without donor restrictions includes all revenues, gains and expenses not restricted by donors. The university reports all expenditures in this class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Those net assets of a not-for-profit entity that are subject to donor imposed restrictions include contributions for which donor-imposed restrictions have not been met (primarily future capital projects; endowment appreciation; life income trusts; and pledges receivable).

(all dollar amounts in thousands)

Measure of Operations

The University's measure of operations as presented in the consolidated statements of activities includes the allocation of endowment spending for operations, revenue from tuition and fees, grants and contracts, donor contributions for operating programs, revenue from auxiliary operations, and other revenues. Operating expenses are reported on the consolidated statements of activities by natural classification. The University's non-operating activity within the consolidated statements of activities includes: investment returns and other activities related to endowment; changes in the liability for life-income agreements; contributions related to land, buildings and equipment; and gains or losses on derivatives.

Contributions

Contributions, including unconditional promises to give and irrevocable trusts held by others under which the University is the beneficiary, are recognized as revenues in the period received or promised. Contributions restricted for the acquisition of land, buildings and equipment are reported as donor-restricted revenues. These contributions are reclassified to net assets without restriction when the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in net assets with donor restrictions.

It is the University's practice to sell marketable securities received as donations upon receipt. In the Consolidated Statements of Cash Flows, the University classifies cash receipts from the sale of donated marketable securities in a manner that is consistent with cash donations received if the donated marketable securities are converted into cash on receipt or shortly thereafter.

Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted using a market rate (Note 3). Amortization of the discount is recorded as contribution revenue.

Cash and Cash Equivalents

The University considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash equivalents, except those amounts assigned to its investment managers and unspent bond and commercial paper proceeds, which are classified as investments.

Investments and Other Financial Instruments

Investments are made within guidelines authorized by a group of individuals consisting of both trustees and non-trustees appointed by the University's Board of Trustees. The University's Board of Trustees retains overall fiduciary responsibility. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date. Marketable securities transactions that have not settled are recognized as accounts receivable or accounts payable until the settlement date. Endowment income is calculated net of internal and external investment management expenses.

Investments are stated at fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

(all dollar amounts in thousands)

The hierarchy of valuation inputs is based on the extent to which inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last is unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis (Note 7). The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities, such as exchange-traded equity securities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities, including corporate bonds and most Treasury securities.

Level 3 Unobservable inputs, such as valuations supplied by the investment managers, that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including investments in certain hedge strategies and all private market strategies.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In addition to these three valuation methodologies, as a practical expedient, the University is permitted under accounting principles generally accepted in the United States of America ("GAAP") to estimate the fair value of its investments with external managers using the external managers' reported net asset value ("NAV") without further adjustment unless the University expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP.

The estimated fair value of certain alternative investments, such as private equity and other limited partnership interests, is based on valuations provided by the general partners or partnership valuation committees. These valuations consider variables such as financial performance of investments, recent sale prices of similar investments and other pertinent information. The University reviews and evaluates the data used in determining fair value, including the valuation methods, assumptions, and values provided by the investment managers. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These differences could be material.

Direct investments in natural resources, specifically timberland and oil and gas, as well as real estate are primarily valued using a combination of independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach, or cost approach). The income approach is primarily based on the investment's anticipated future income

(all dollar amounts in thousands)

using one of two principal methods: the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized in the income approach may be subjective and require judgment regarding significant matters such as estimating the amount and timing of future cash flows and the selection of discount and capitalization rates that appropriately reflect market and credit risks. The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost of the investment is determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. The valuation process encompasses a wide range of procedures that in the aggregate allow the University to assert as to the adequacy of the fair values reported as of the measurement date.

Derivative financial instruments are recorded in the Consolidated Statements of Financial Position as either an asset or liability measured at fair value as of the reporting date. Derivative financial instruments consist of treasury lock and energy hedge agreements. Changes in fair value of these derivatives are recognized in the Consolidated Statements of Activities as other non-operating changes.

The University's investments are exposed to a number of risks including interest rate, market, and credit risks. Due to the level of risk exposure, it is possible that changes in the valuation of these investments may occur in the near term and that such changes could be material.

Property and Equipment
Property used by the University is stated at cost for purchased assets and fair value at the date of donation in the case of gifts. Interest expense incurred during the period of construction of an asset for University use is capitalized until that asset is substantially completed and ready for use. The University depreciates its physical assets using the straight-line method over their estimated useful lives. Repairs and maintenance of property and equipment are expensed as incurred. Property and equipment are removed from the records at the time of disposal. Any resulting gain or loss on disposal is recognized in the Consolidated Statements of Activities.

Works of art, historical treasures, literary works and artifacts are preserved and protected for educational, research and public exhibition purposes. Donations and purchases of such collections are recorded for financial statement purposes as property and equipment but are not depreciated.

Asset Retirement Obligations
The University recognizes asset retirement obligations ("AROs") that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished. The University measures conditional AROs at estimated fair value using a probability-weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of weighted, discounted cash flows is calculated using credit-adjusted, risk-free rates applicable to the University in order to determine the estimated fair value of the conditional AROs.

Life Income Agreements
Life income agreements include charitable remainder trusts and gift annuities. Charitable remainder trusts hold donated assets for which the University's subsidiary acts as trustee and periodically pays specified amounts to the designated beneficiaries. Generally, beneficiary payments are a fixed amount for annuity trusts and a fixed percentage of the fair value of the trust assets or based on income earned for other charitable remainder trusts. At a date specified in each gift instrument, usually the beneficiary's date of death, ownership of the trust assets will transfer to the University and the beneficiary payments will cease. The University also enters into

(all dollar amounts in thousands)

gift annuity agreements, which require that the University take ownership of the assets at the date of gift with an obligation to periodically pay specified amounts to designated beneficiaries for their lifetimes. Assets held in life income trusts and those assets associated with gift annuities are included in investments at fair value. Contribution revenues are recognized at the date the trusts or gift annuities are established at the net present value calculated based on an actuarial table. Liabilities are recorded at the same time using actuarial tables and discounted according to the risk-free rate at the time of the gift. Discount rates range from 1% to 6%. The liability represents the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted annually for changes in the value of the assets and actuarial changes, which impact the estimates of future payments.

Student Tuition and Fees

Tuition and fees includes amounts charged for degree programs as well as non-degree executive and continuing education programs. Fees are recognized when assessed and tuition revenue is recognized over the period during which the courses are taken. The University has a needs-blind admission policy for domestic undergraduate students; and the university meets all financial need of enrolled undergraduate students. Awarded financial aid is applied first to tuition and required fees (see Note 11).

Grants and Contracts

The University receives funding from both government and private sources for research and other programs conducted under grants and contracts. Nearly all revenue from these sources are non-exchange transactions. Revenue associated with non-exchange transactions are recognized as the qualified expenditures are incurred up to the award amount. A limited number of grants and contracts from private sources are considered exchange transactions and are allocated to the University on a calendar basis. Revenue associated with exchange transactions are recognized as the performance obligation is met.

Sponsored programs unearned income are amounts received by the University under the terms of agreements that generally require the exchange of assets, rights, or privileges between the University and the sponsor. These advanced funds are made for activity that will occur in the near future, generally within the next fiscal year; they are recognized in accounts payable and other liabilities.

Most grants and contracts provide for reimbursement of both direct and indirect costs. The recovery of indirect costs, also referred to as facilities and administrative costs, is recognized based on predetermined rates negotiated with the federal government or amounts set by non-federal sponsors.

Gifts and Pledges

Gifts and pledges (contributions) are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Non-financial gifts received from donors are put into use and recorded by the University at fair value. Pledges consist of unconditional promises to contribute to the University in the future. Pledges, trusts, and remainder interests are reported at their estimated fair values.

The University records items of collections as gifts at fair value and are received for educational or research purposes. In general, collections are not disposed of for financial gain or otherwise encumbered in any manner.

(all dollar amounts in thousands)

Auxiliary Enterprises
Revenues from auxiliary operations, which include student housing, dining, transportation and parking, are recognized over the period during which the services are provided. To the extent financial aid is awarded to students in excess of their tuition and required fees, it is next applied to room and board charges (see Note 11).

Other Revenues
Other revenues primarily consist of athletics revenues and revenues related to sales of non-tuition based goods and services (e.g. textbooks, conferences, consortia fees, concerts, etc.). Other revenues related to exchange contracts are recognized as the University fulfills the terms of the agreements, which generally span less than one year. Other revenue related to non-exchange contracts is recognized as received.

Use of Estimates
Financial statements prepared in conformity with accounting principles generally accepted in the United States of America rely on estimates. Management makes certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results could differ from these estimates.

Credit Risk
The University maintains operating cash and other cash balances in financial institutions that from time to time may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

The University has evaluated the credit risk associated with financing receivables, primarily student loans, and determined that both the receivables and the related allowances are immaterial to the financial statements.

Tax Status
The University is exempt from federal income tax to the extent provided under Section 501(c)(3) of the Internal Revenue Code. The IRS issued a determination letter in January 1938 that recognized the University as exempt from federal income tax under Section 501(c)(3). The IRS confirmed in 2008 that this exemption still applies.

The University has 10 subsidiary corporations that are included in the consolidated financial statements. Two of these subsidiary corporations are exempt from federal income taxes under 501(c)(2), one is exempt under 501(c)(3), one is exempt under 501(c)(4), four are exempt under 501(c)(25) and two are subject to taxation. The University is classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code because it is described in Sections 509(a)(1) and 170(b)(1)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions to the extent provided by law. The University and its subsidiary corporations that are exempt from federal income tax are required to pay federal income tax on unrelated business income. The amount of income tax expense for unrelated business income for the University and its subsidiary corporations was immaterial for the years ended June 30, 2019 and 2018, respectively.

The Tax Cuts and Jobs Act of 2017 (the Act) contained a provision affecting private colleges and universities with at least 500 tuition-paying students and assets of at least $500,000 per student.

(all dollar amounts in thousands)

Because the University meets those criteria, beginning in fiscal 2019 it became part of a small group of universities that are subject to an excise tax of 1.4% on the University's net investment income and the net investment income of its subsidiary corporations. The excise tax is recognized as a reduction of the University's investment returns. The University and its subsidiary corporations recorded an estimated income tax liability of $7,500 for the excise tax for the year ended June 30, 2019. The University has reflected the tax liabilities in the financial statements based on reasonable estimates under the currently available regulatory guidance on the Act.

US GAAP requires the University to evaluate its tax positions to recognize a tax liability (or asset) if the University has taken an uncertain tax position that, more likely than not, would not be sustained upon examination by the IRS. The University has analyzed the tax positions taken and has concluded that as of June 30, 2019, there are no significant uncertain positions taken or expected to be taken, apart from those impacted by the Act.

Recently Adopted Accounting Standards

The University adopted Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made in fiscal 2019. The ASU amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and (2) determining whether a contribution is conditional. The University has evaluated and applied the guidance on a modified prospective basis to the consolidated financial statements and added the required additional revenue disclosures (Note 12). The adoption of this standard did not have a significant impact on the University's consolidated financial statements.

The University adopted ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958) in fiscal 2019, and applied the changes retrospectively. ASU 2016-14 reduces the number of categories of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets of $3,348,461, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $2,613,416 and permanently restricted net assets of $1,160,291 for fiscal year 2018. Additionally the ASU increases the quantitative and qualitative disclosures regarding liquidity and availability of resources (Note 2), and requires expenses to be reported by both their natural and functional classification in one location (Note 13). During the implementation process all funds were reviewed and the University determined that as of June 30, 2018, $144,663 of net asset balances reported as without donor restrictions should have been reported as with donor restrictions resulting in June 30, 2018 as revised balances in net assets without donor restrictions of $3,203,798 and with donor restrictions of $3,918,370. The University believes the impact of this revision is immaterial to its consolidated financial statements.

The University adopted Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606) in fiscal 2019. ASC 606 implements a single framework for recognition of all revenue earned from customers, replacing industry specific guidance. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. During the implementation process the University reviewed its significant revenue sources and reviewed the accounting treatment of each to ensure that the revenue recognition process appropriately

(all dollar amounts in thousands)

matched the performance obligations. There were no changes in revenue recognition as a result of this adoption.

New Pronouncements
In February 2016, the FASB issued new guidance related to leases in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance is effective for fiscal years beginning after December 15, 2018. The University will adopt this standard with the consolidated financial statements beginning in fiscal year 2020.

Reclassifications
Certain amounts in the fiscal year 2018 consolidated financial statements have been reclassified to conform to the fiscal year 2019 presentation.

2. Liquidity and Availability

Financial assets available within one year of the balance sheet date for general expenditures were as follows:

	2019	2018
Total assets at year end	$ 8,678,384	$ 8,362,891
Less:		
Life income agreements investments	175,403	171,183
Notes receivable due in more than one year	5,661	6,385
Pledges receivable due in more than one year	154,283	153,300
Donor-restricted endowment funds	3,649,847	3,549,070
Board-designated funds	2,856,330	2,679,787
Inventories, prepaid expenses, and other assets	9,918	18,940
Property, plant, and equipment	1,294,089	1,255,802
Financial assets available at year end for current use	$ 532,853	$ 528,424

The University manages liquidity by structuring financial assets to be available as its expenditures, liabilities, and other obligations come due. The University invests cash in excess of operational requirements in short-term investments. As described in Note 10, the University has a commercial paper program; with Board of Trustees approval taxable commercial paper could be used to manage unanticipated liquidity needs.

The University's endowment funds consist of donor-restricted and board-designated funds functioning as endowment. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditures. The endowment distribution policy is described in Note 6. Although the University does not intend to spend from its board-designated funds other than amounts appropriated as part of its annual budget approval process, these amounts could be made available if necessary. However, both the board-designated and donor-restricted endowment funds contain investments with lock-up provisions that reduce the total investments that could be converted to cash in one year. The liquidity and availability disclosure required and defined by US GAAP differs from the liquidity calculations provided to bond rating agencies and endowment management committees that focus on the nature of endowment assets without regard to donor restrictions.

(all dollar amounts in thousands)

3. Accounts Receivable and Other Assets

Accounts receivable and other assets of the University at June 30, 2019 and 2018 were as follows:

	2019	2018
Unsettled investment sales and receivables	$ 3,672	$ 5,271
Investment income receivable	2,678	2,823
Student loans receivable, net of allowance of $1,427 in 2019 and $1,215 in 2018	5,661	6,385
Inventory, prepaid expenses, and other assets	9,918	18,940
Sponsored programs receivable, net of allowance of $339 in 2019 and $339 in 2018	21,489	24,898
Swap agreements	1,250	2,264
Other accounts receivable, net of allowance of $1,420 in 2019 and $1,228 in 2018	8,497	34,432
Total accounts receivable and other assets, net	$ 53,165	$ 95,013

4. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows. Unconditional promises to give at June 30, 2019 and 2018 are expected to be realized in the following periods:

	2019	2018
In one year or less	$ 72,544	$ 74,942
Between one year and five years	126,373	117,206
More than five years	62,278	77,632
Gross pledges receivable	261,195	269,780
Less:		
Discount to net present value	(18,697)	(25,351)
Allowance for uncollectible pledges	(15,671)	(16,187)
Net pledges receivable	$ 226,827	$ 228,242

(all dollar amounts in thousands)

Pledges receivable at June 30, 2019 and 2018 had the following restrictions:

	2019	2018
Long-term investment	$ 25,210	$ 45,079
Buildings	82,568	107,447
Support of University programs and activities	153,417	117,254
Gross pledges receivable	261,195	269,780
Less:		
Discount to net present value	(18,697)	(25,351)
Allowance for uncollectible pledges	(15,671)	(16,187)
Net pledges receivable	$ 226,827	$ 228,242

Rates ranging from 1% to 6% are used to discount pledges. A reserve rate of 6% was used for the allowance for uncollectible pledges as of June 30, 2019 and 2018. The reserve rate is reviewed annually to ensure adequate provision for uncollectible amounts. Periodically unconditional promises to give are reviewed for collectability. As a result, the allowance for uncollectible pledges may be adjusted and some pledges may be adjusted or cancelled. Such changes will be reflected in the consolidated financial statements.

At June 30, 2019 and 2018, the University had conditional pledge commitments of $25,300 and $25,250 respectively for program initiatives and capital projects. Conditional pledges are not reported in the consolidated financial statements.

5. Investments

Investments include annuity and life income fund assets of $175,403 and $171,183 as of June 30, 2019 and 2018, respectively. Fixed income securities include unspent bond proceeds that are available to fund project expenditures in future years (Note 9).

(all dollar amounts in thousands)

The following table presents investment income and net gains (losses) for the year ended June 30, 2019 by net asset classification, with summarized information for the year ended June 30, 2018:

	2019			2018
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
Investment Income	$ 29,205	$ 36,110	$ 65,315	$ 72,024
Net gain on sale of consolidated endowment investment	153,055	-	153,055	-
Net gains on investments	139,970	197,550	337,520	574,309
Total investment gains and earnings	322,230	233,660	555,890	646,333
Less:				
Earned on operating funds	(3,235)	(1,147)	(4,382)	(2,890)
Earned on life income annuities	-	(4,603)	(4,603)	(4,206)
Total investment gains and earnings for endowment and board designated funds	318,995	227,910	546,905	639,237
Less: Allocated for endowment and board designated funds spending	(141,310)	(160,015)	(301,325)	(281,426)
Remaining for endowment and board designated funds growth	$ 177,685	$ 67,895	$ 245,580	$ 357,811

Return on investments is presented net of investment management fees. Certain investments report net returns without specific identification of management fees.

6. Endowments

Within the investments the University has approximately 1,800 individual donor-restricted endowment funds and approximately 200 funds that are not donor-restricted for either purpose or time, but have been designated by the Board of Trustees for operational or capital purposes and are managed as endowment funds. In addition to being invested and managed alongside the endowment funds, they also receive a yearly allotment for spending generically referred to as the endowment spending allocation. The net assets associated with each are classified and reported based on the existence or absence of donor-imposed restrictions.

(all dollar amounts in thousands)

The following table presents net assets for endowment and funds functioning as endowment by purpose based on the nature of the restriction(s) given by the donor or the designation provided by the Board for the year ended June 30, 2019, with summarized information for the year ended June 30, 2018.

	2019			2018
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
Faculty chairs and academic department support	$ 309,478	$ 1,767,032	$ 2,076,510	$ 2,014,016
Discretionary	11,196	-	11,196	10,424
Library	4,355	44,847	49,202	45,925
Operation and maintenance of plant	253,151	44,894	298,045	280,656
Research	30,017	92,395	122,412	118,288
Scholarships and fellowships	47,312	838,755	886,067	861,174
Student services	2,120	158,173	160,293	154,034
Miscellaneous	126,160	-	126,160	117,464
Undesignated	2,072,541	703,751	2,776,292	2,626,876
Total endowment and board designated funds	2,856,330	3,649,847	6,506,177	6,228,857
Pledges restricted for long-term investment, net of discount and allowance	-	(22,203)	(22,203)	(38,660)
Endowment and board designated funds, excluding pledges	$ 2,856,330	$ 3,627,644	$ 6,483,974	$ 6,190,197

These are intended to be broad categories that contain a wide array of individual funds with varying degrees of specificity as to how the endowment earnings allocation is to be used. Funds functioning as endowment are established by the Board and are generally specified for a general purpose. Most of the earnings allocation is used for general support of operations; however, management is able to use those funds as it determines best and sometimes uses the funds to launch or help sustain strategic initiatives. Undesignated funds are funds that can be used for general operations and are not limited to how the funds are used. This category also contains some recent endowment gifts that are limited to use; however the donor has not yet finalized the spending stipulations.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the University and the donor restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;

(all dollar amounts in thousands)

6. Other resources of the University; and

7. The investment policies of the University.

Endowment Investment Policies

The University has adopted endowment investment policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain and, if possible, enhance the purchasing power of endowment assets. The University has a diversified approach to management of the endowment investment portfolio. By diversifying among asset classes and rebalancing toward policy target allocations, the University strives to manage and maintain the risk profile implied by policy targets.

To achieve its long term 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's diversified asset allocation places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk and liquidity constraints. The long term investment objectives of the endowment are to attain an average annual real total return in excess of endowment spending and to outperform various strategic policy and comparable industry universe benchmarks over the long term.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of the University approves the appropriation of endowment funds for expenditure. In establishing a distribution policy, the Board of Trustees considered a number of factors, including the expected long term investment rate of return on the endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment assets to grow, consistent with its intention to maintain the purchasing power of the endowment assets while providing a relatively predictable and stable (in real terms) stream of earnings for current use. Under the University's endowment earnings distribution policy, endowment returns on donor-restricted endowments, net of operating distributions, remain in the investment pool as net assets with donor-restrictions and endowment returns on board-designated endowment funds remain in the investment pool as net assets without donor-restrictions.

Endowment Funds With Deficits

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 creating a deficit. These deficits generally result when unfavorable market fluctuations occur shortly after the investment of newly established endowments.

(all dollar amounts in thousands)

Changes in endowment net assets for the year ended June 30, 2019, with summarized information for the year ended June 30, 2018, were as follows:

	2019			2018
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
Endowment net assets at beginning of year	$ 2,665,829	$ 3,563,028	$ 6,228,857	$ 5,835,568
Investment returns				
Investment income	25,970	36,727	62,697	71,287
Net realized and unrealized (losses) gains	293,025	191,183	484,208	567,950
Total investment returns	318,995	227,910	546,905	639,237
Contributions	18	10,899	10,917	20,502
Appropriation of endowment assets for expenditure	(141,310)	(160,015)	(301,325)	(281,426)
Other changes				
Transfers to board designated endowment funds	12,798	(19)	12,779	13,171
Donor designation	-	1,471	1,471	1,317
Other transfers	-	6,573	6,573	488
Change in endowment net assets	190,501	86,819	277,320	393,289
Endowment net assets at end of year	$ 2,856,330	$ 3,649,847	$ 6,506,177	$ 6,228,857

7. Financial Instruments

The following tables present the financial instruments carried at fair value on the Consolidated Statements of Financial Position as of June 30, 2019 and 2018, by category, in accordance with the valuation hierarchy defined in Note 1. Certain alternative investments, such as hedge funds, that do not have readily determinable fair values, are shown at investee-reported net asset value (NAV):

	2019				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Investments					
Short term investments and fixed income securities					
Cash and cash equivalents	$ 228,656	$ -	$ -	$ -	$ 228,656
Short term investments	-	499,362	-	-	499,362
Investment grade U.S. bonds	-	315,874	-	-	315,874
Equity securities	770,057	-	-	-	770,057
Equity funds	-	-	-	1,041,953	1,041,953
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	1,201,889	1,201,889
Hedge	-	-	-	990,681	990,681
Real estate	-	-	-	418,507	418,507
Energy and natural resources	-	-	-	557,971	557,971
Real assets, oil and gas, and other	113,132	-	765,327	-	878,459
Life income agreements	175,165	167	71	-	175,403
Total investments at fair value	$ 1,287,010	$ 815,403	$ 765,398	$ 4,211,001	$ 7,078,812
Swaps receivable (payable)	$ -	$ (15,690)	$ 1,250	$ -	$ (14,440)

(all dollar amounts in thousands)

	2018				
	Level 1	Level 2	Level 3	NAV	Total
Investments					
Short term investments and fixed income securities					
Cash and equivalents	$ 189,621	$ -	$ -	$ -	$ 189,621
Short term investments	-	504,709	-	-	504,709
Investment grade U.S. bonds	-	292,335	-	-	292,335
Equity securities	805,326	-	-	-	805,326
Equity funds	-	-	-	966,203	966,203
Limited partnerships and other funds					
Private equity and venture capital	-	-	-	1,035,340	1,035,340
Hedge	-	-	-	1,102,123	1,102,123
Real estate	-	-	-	363,165	363,165
Energy and natural resources	-	-	-	489,809	489,809
Real assets, oil and gas, and other	78,052	-	743,505	-	821,557
Life income agreements	170,946	166	71	-	171,183
Total investments at fair value	$ 1,243,945	$ 797,210	$ 743,576	$ 3,956,640	$ 6,741,371
Swaps receivable	$ -	$ -	$ 2,264	$ -	$ 2,264

Life income agreement assets consist primarily of mutual funds, with some directly held assets in real estate, oil and gas, and bonds. Life income investments included in Level 1 are cash and cash equivalents and mutual funds investing in equities, real estate funds and fixed income securities. Life income investments included in Level 2 are directly held bonds and U.S. Treasury securities. Life income investments included in Level 3 are directly held interests in real estate, oil and gas, and other investments. The life income agreement investments are managed by an external manager.

The following tables present the changes in amounts included in the Consolidated Statements of Financial Position for financial instruments classified by the University within Level 3.

Investments

	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
Fair value July 1, 2018	$ 743,505	$ 71	$ 743,576
Unrealized losses	(12,030)	-	(12,030)
Capital calls/purchases	50,092	-	50,092
Distributions	(36,319)	-	(36,319)
Transfers	22,500	-	22,500
Other	(2,421)	-	(2,421)
Fair value June 30, 2019	$ 765,327	$ 71	$ 765,398

(all dollar amounts in thousands)

	Real Assets, Oil and Gas, and Other	Life Income Agreements	Total
Fair value July 1, 2017	$ 557,003	$ 71	$ 557,074
Realized losses	(553)	-	(553)
Unrealized gains	87,763	-	87,763
Capital calls/purchases	102,765	-	102,765
Distributions	(1,100)	-	(1,100)
Other	(2,373)	-	(2,373)
Fair value June 30, 2018	$ 743,505	$ 71	$ 743,576

The following table presents a summary of Level 3 valuation techniques and quantitative information utilized in determining the value of real assets, oil and gas, and other investments, where no practical expedient to using the external managers' reported NAV exists.

	Fair Value		Valuation	Unobservable	2019	2018
Asset Type	**2019**	**2018**	**Technique**	**Input**	**Rates**	**Rates**
Real estate	$ 431,149	$ 364,060	Discounted cash flow	Discount rate	5.5%-8.5%	5.5%-8.5%
Timber	85,000	80,500	Income approach	Discount rate	5%-7%	5%-7%
Oil and gas	130,000	158,000	Discounted cash flow	Discount rate	8%-25%	8%-25%
Directly held private stock	55,583	72,650	Varies	Varies	Varies	Varies
Other	63,595	68,295	Varies	Varies	Varies	Varies
	$ 765,327	$ 743,505				

The University recognizes transfers between levels as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2019 and 2018.

Hedge funds held by the University may be subject to restrictions that limit (i) the University's ability to redeem/withdraw capital from such funds during a specified period of time subsequent to the University's investment of capital (lockups) and/or (ii) the amount of capital that investors may redeem/withdraw as of given redemption/withdrawal dates (side pockets). Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the University's participation in illiquid investments. These funds generally limit redemptions to monthly, quarterly, semiannually, annually or longer, at NAV, and require between 30 and 90 days prior written notice, limiting the University's ability to respond quickly to changes in market conditions. The value of hedge funds classified at NAV included investment lockups that will expire over the next 6 to 54 months of $428,724 and $286,272 at June 30, 2019 and 2018, respectively, and side pockets of $53,961 and $62,465 at June 30, 2019 and 2018, respectively, that had indeterminate redemption periods. The University's nonhedge fund investments restrict the ability to withdraw, which limits the University's ability to respond quickly to changes in market conditions. These investments are therefore illiquid.

(all dollar amounts in thousands)

Swap Agreements

	2019	2018
Fair value July 1	$ 2,264	$ 546
Unrealized (losses) gains	(16,704)	1,718
Fair value June 30	$ (14,440)	$ 2,264

The University entered into an agreement to hedge a portion of the cost of electricity that took effect on January 1, 2016 and extends through December 31, 2020. The estimated fair value of the arrangement was an asset of $1,250 and $2,264 at June 30, 2019 and 2018, respectively. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities.

Effective December 14, 2018, the University entered into a treasury lock agreement for a notional amount of $100,000 at 3.2455% with a maturity date of December 15, 2020. The estimated fair value of this arrangement as of June 30, 2019 was a liability of $15,690. The change in value is reported as other nonoperating change on the Consolidated Statements of Activities.

8. Property and Equipment

Property and equipment at June 30, 2019 and 2018 were as follows:

	Estimated Useful Lives *(Years)*	2019	2018
Land	-	$ 42,279	$ 42,279
Buildings and improvements	20-50	1,664,474	1,619,590
Equipment, furniture and library books	2-20	454,646	452,436
Art	-	12,135	11,789
Construction in progress	-	93,892	57,490
Less: Accumulated depreciation	-	(973,337)	(927,782)
Total property and equipment, net		$ 1,294,089	$ 1,255,802

(all dollar amounts in thousands)

9. Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2019 and 2018 were as follows:

	2019	2018
Unsettled investment purchases and advances	$ 5,218	$ 4,326
Vendor accounts payable	32,957	19,498
Accrued payroll and employee benefits	21,383	17,853
Sponsored programs unearned income	56,839	25,207
Other unearned income	7,889	54,336
Asset retirement obligations	4,075	4,286
Accrued interest payable	4,400	4,319
Treasury lock agreement	15,690	-
Other liabilities	10,969	15,062
Total accounts payable and other liabilities	$ 159,420	$ 144,887

10. Notes and Bonds Payable

Notes and bonds payable at June 30, 2019 and 2018 were as follows:

	2019	2018
Taxable bonds, Series 2017, maturing 2045 through 2047 with an average coupon of 3.567% per annum payable semiannually	$ 102,915	$ 102,915
Taxable bonds, Series 2015, maturing 2045 and 2055, with an average coupon of 3.686% per annum payable semiannually	680,000	680,000
Taxable bonds, Series 2013, maturing 2061 through 2063, with an average coupon of 4.63% per annum payable semiannually	113,985	113,985
Tax-exempt revenue bonds, Series 2010B, maturing 2031 through 2048, with an average coupon of 1.63% per annum payable monthly	23,045	26,765
Total bond liability	919,945	923,665
Tax-exempt commercial paper notes, Series A, with interest ranging from 1.42% to 1.83% at June 30, 2019 per annum payable upon maturity	36,685	-
Taxable commercial paper notes, Series A, with interest ranging from 1.98% to 2.07% at June 30, 2018 per annum payable upon maturity	-	40,025
Net of deferred financing costs, premiums and discounts on bond issuances	(6,134)	(6,330)
Total notes and bonds payable	$ 950,496	$ 957,360

(all dollar amounts in thousands)

The University incurred interest expense and bond costs, net of interest earned, of approximately $34,004 and $33,557 in 2019 and 2018, respectively. Interest expense of $34,673 and $34,684 was charged to operations in 2019 and 2018, respectively. Interest expense of $511 and $682 was capitalized in 2019 and 2018, respectively. The University made interest payments of approximately $34,874 and $35,354 in 2019 and 2018, respectively.

Taxable Bonds

Series 2017

On November 17, 2017, the University issued taxable bonds with a par value of $102,915 with an underwriters discount of $473 and issuance costs of $468. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. The bonds mature November 15, 2047 with mandatory sinking fund redemption requirements in the amounts of $33,090, $34,290 and $35,535 due on November 15, 2045, 2046 and 2047 respectively.

Proceeds from these bonds were used to advance refund the Series 2010A revenue bonds of $94,485 by irrevocably placing assets with a trustee to pay principal and other associated costs on the obligations. The total set aside was $101,974. The University recognized a loss on the extinguishment of debt of $3,928 in 2018 which is included in the other nonoperating changes, net in the Consolidated Statements of Activities.

Series 2015

On April 22, 2015, the University issued taxable bonds with a par value of $700,000 with an underwriters discount of $4,045 and issuance costs of $662. Both will be amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. In May, 2016 $20,000 matured and was repaid. The remaining bonds mature in the amount of $340,000 due on May 15, 2045 and $340,000 due on May 15, 2055. Mandatory sinking fund redemption payments are required in each of four years leading up to the maturity dates.

Unspent bond proceeds of $9,725 and $38,499 at June 30, 2019 and 2018, respectively, were invested in a separately managed short-term investment fund.

Series 2013

On June 26, 2013, the University issued taxable bonds. Interest payments on the bonds are payable semiannually beginning November 15, 2013. Principal payments start May 15, 2061 and continue annually until their maturity on May 15, 2063.

The proceeds of the bonds were used to refund all of the Series 2008A revenue bonds of $100,000, refund a portion of the outstanding commercial paper notes of $13,000, and pay the costs of issuance of the bonds of $985.

Tax-Exempt Revenue Bonds

Series 2010B

On June 2, 2010, the University issued Series 2010B revenue bonds through the City of Houston Higher Education Finance Corporation. The revenue bonds, with a face value of $39,765, were issued as variable rate demand bonds (“VRDBs”), which are subject to optional and mandatory tender. The University is not required to obtain or maintain a liquidity facility for the bonds.

(all dollar amounts in thousands)

In the event that the University receives notice of any optional tender on the bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University is obligated to purchase the bonds tendered at 100% of par value on the tender date.

Interest payments are payable monthly. Principal payments begin May 15, 2041 and continue annually until their maturity date on May 15, 2048.

Principal maturities for notes and bonds payable as of June 30, 2019, excluding commercial paper and unamortized discounts and premiums, were as follows:

2020	$ -
2021	-
2022	-
2023	-
Thereafter	919,945
	$ 919,945

Commercial Paper Notes
The University has a tax-exempt commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of $100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days.

The University established a taxable commercial paper program in May 2015 that provides for borrowings in the form of individual notes up to an aggregate of $100,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days.

The University Board of Trustees has limited management's use of commercial paper to a maximum of $100,000 between both programs.

The outstanding balance under the tax-exempt program was $36,685 with an average interest rate of 1.64% and an average maturity of 33 days at June 30, 2019.

The outstanding balance under the taxable program was $40,025 with an average interest rate of 2.03% and an average maturity of 27 days at June 30, 2018.

(all dollar amounts in thousands)

11. Student Financial Aid

Student tuition and fees revenues at published rates of $318,607 and $293,806 in 2019 and 2018, respectively, are presented in the consolidated financial statements net of scholarship and fellowship awards of $122,943 and $121,000, respectively. Auxiliary enterprises revenue was reduced by scholarship awards applied to room and board charges of $8,608 and $5,252 in 2019 and 2018, respectively. On a per student basis, scholarship and fellowship awards in excess of the above amounts are reported as expense. Financial aid provided to students in all forms was as follows:

	2019	2018
Scholarships and fellowship awards applied to tuition and fees	$ 122,943	$ 121,000
Scholarships applied to room and board charges	8,608	5,252
Scholarships and fellowship awarded in excess of the above amounts	27,532	14,153
Total financial aid provided to students	$ 159,083	$ 140,405

12. Grants and Contracts

The major components of grants and contracts revenue for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Government		
Direct	$ 70,784	$ 72,687
Indirect	21,894	21,225
Total government	92,678	93,912
Foundation, industrial, and other		
Direct	36,665	30,425
Indirect	4,363	3,899
Total foundation, industrial, and other	41,028	34,324
Total grants and contracts	$ 133,706	$ 128,236

Grant and Contract awards for which the contractual performance obligations have not yet been met totaled $9,187 as of June 30, 2019. Awards which are contractually authorized by the sponsor, but for which costs have not yet been incurred, totaled $132,895 as of June 30, 2019.

(all dollar amounts in thousands)

13. Functional Expenses

Expenses of the University by major functional category for the years ended June 30, 2019 and 2018 were as follows:

Natural Expense	Instruction	Research	Other Programs	Programs Subtotal	Management	Fundraising	Other Support	Support Subtotal	Elimination	Total
Salaries and wages	$ 185,380	$ 51,288	$ 55,401	$ 292,069	$ 28,294	$ 9,671	$ 32,270	$ 70,235	$ -	$ 362,304
Benefits	41,471	13,351	10,509	65,331	7,116	2,664	7,674	17,454	-	82,785
Scholarships	-	20,701	6,831	27,532	-	-	-	-	-	27,532
Depreciation and amortization	13,431	5,915	15,981	35,327	801	409	29,964	31,174	-	66,501
Interest and bond costs	14,837	5,809	188	20,834	555	342	12,942	13,839	-	34,673
Utilities and rent	459	39	317	815	72	144	11,519	11,735	-	12,550
Other operating expenses	69,560	44,130	61,775	175,465	5,622	3,092	9,391	18,105	(31,559)	162,011
Total 2019	$ 325,138	$ 141,233	$ 151,002	$ 617,373	$ 42,460	$ 16,322	$ 103,760	$ 162,542	$ (31,559)	$ 748,356
Total 2018	$ 322,327	$ 125,054	$ 127,843	$ 575,224	$ 37,248	$ 16,176	$ 92,926	$ 146,350	$ (28,896)	$ 692,678

Expenses are presented by functional classification similar to the way the University views its mission. Each functional area is presented with the natural expenses underlying the function. Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation, utilities and rent, and operation and maintenance expenses are allocated directly and/or based on square footage. Interest expense is allocated based on the functional category which benefited from the proceeds of the underlying debt. The elimination amount for other operating expenses represents those expenses charged between University departments.

Major categories included in Other Programs include the library ($22,238), student services ($72,195), and financial aid ($27,532). Major activities in Other Support include auxiliaries ($43,077), public affairs ($6,957), and other central administrative functions ($53,726).

14. Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. The University employs a conflict of interest policy that requires any such associations to be disclosed in writing on an annual basis and updated as appropriate during the year. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board or senior management member from any decisions involving the entity doing business with the University. The transactions with entities associated with trustees or senior management are not considered to be significant and may include investment management, common membership in investment partnerships or other investment vehicles, or the purchase of goods or services.

15. Retirement Plans

Substantially all employees are eligible to participate in a defined contribution retirement plan, which is administered by a third party. The plan operates in accordance with Section 401(a) of the Internal Revenue Code. University contributions are made to this plan. In addition, employees may elect to participate in plans created under Section 403(b) of the Internal Revenue Code. The contributions of the University and its employees can be applied to a range of investments. The University's contributions to the plan of $26,524 and $25,357 were recorded as expense in the appropriate functional categories in 2019 and 2018, respectively.

(all dollar amounts in thousands)

16. Commitments and Contingencies

A number of suits and claims are pending against the University. While final outcomes cannot be determined at this time, management believes, after consultation with its legal counsel, that the uninsured liability, if any, resulting from these suits and claims will not have a material adverse effect on the University's financial position, operations, or cash flows.

The University receives funding from federal government agencies for research and other programs conducted under government grants and contracts. The costs recovered by the University in support of sponsored programs are subject to audit and adjustment.

In connection with its private equity investment program (Note 4), the University is obligated under certain limited partnership agreements to advance additional funding up to levels specified in each agreement upon the request of the general partner. At June 30, 2019 and 2018, for private equity and market alternative investments, the University had unfunded commitments of approximately $1,171,000 and $880,000, respectively, which are expected to be called primarily over the next five to seven years.

Additionally, the University was committed under contracts at June 30, 2019 and 2018 for capital construction and improvements and major maintenance of approximately $100,080 and $92,670, respectively, to be financed primarily from gifts and net assets designated for long-term investments, and from debt to the extent other resources are not available. Other purchasing commitments of approximately $15,554 and $12,665 were also outstanding at June 30, 2019 and 2018, respectively.

17. Subsequent Events

The University evaluated subsequent events from July 1, 2019 to October 25, 2019, the date these consolidated financial statements were issued, for events that occurred after the financial position date that would have a material impact on the University's consolidated financial statements. No material items were noted that require disclosure.