

Boston University

Consolidated Financial Report
June 30, 2022 and 2021





Letter from the Treasurer—Fiscal Year 2022:

Fiscal year 2022 was distinct from recent years as Boston University (“the University”) ended the year with a record operating gain of \$176 million while net assets decreased due to the bear market that affected institutions across the country.

The University’s total net assets decreased by \$111 million to \$5.2 billion in fiscal year 2022. The decrease reflects investment losses of \$398 million offset by the positive operating results. Despite this modest decline, between fiscal years 2018 and 2022 net assets grew at a compounded annual rate of 7.5%, driven in part by total average annual revenue growth of 5.6%.

Our research enterprise continues to grow as sponsored program awards, excluding financial aid, totaled \$531 million in fiscal year 2022. The Combating Antibiotic-Resistant Bacteria Biopharmaceutical Accelerator, or CARB-X, received renewed support from sponsors accounting for \$20 million initially and up to \$300 million over the next 10 years for the existing portfolio and to launch new funding rounds. Since its inception, CARB-X has received over \$500 million and invested over \$360 million of non-dilutive funding to support the advancement of 121 projects in 12 countries.

The University had another record-breaking fundraising year, with cash gifts and grants totaling over \$242 million. These gifts and foundation grants provide support for multiple University initiatives including a commitment to meet the demonstrated financial need of domestic undergraduate students.

After record endowment gains of nearly \$1 billion in the prior fiscal year, the University’s endowment declined \$408 million to \$3 billion at the end of fiscal year 2022 as a result of the financial bear market. While the University’s investment policies emphasize long-term capital appreciation, the endowment provided operating support in the form of income distributions of \$96 million, an increase of over 5% from the prior year. Even with the impact of this fiscal year’s investment losses, the University’s endowment assets have grown at a compounded annual rate of 8.8% between fiscal years 2018 and 2022.

Learning from our pandemic experiences and building from our financial successes, the University is poised to focus on future strategic initiatives, including expanding services to ensure student well-being; supporting the development and implementation of our new Student Information System; promoting faculty and staff hiring; and other academic and research initiatives outlined in our 2030 Strategic Plan.

While we share concern about inflation, rising interest rates, and the effects of a recession, the University has consistently demonstrated the ability to adjust to uncertain economic conditions and to maintain balance sheet strength over the long term.

A handwritten signature in black ink that reads "Gary W. Nicksa".

Gary W. Nicksa
Senior Vice President, CFO, and Treasurer

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SELECT FINANCIAL & STATISTICAL DATA

unaudited

For the years ended June 30

(\$000s)

2018

2019

2020

2021

2022

STATEMENT OF ACTIVITIES HIGHLIGHTS

Student tuition and fees, net of financial aid	\$	1,099,682	\$	1,164,242	\$	1,168,192	\$	1,152,579	\$	1,297,659
Grants, contracts, and contributions		420,094		472,683		530,273		616,511		676,068
Auxiliary enterprises		273,623		288,576		224,480		153,911		261,044
Other revenues		224,931		245,152		225,900		189,966		226,585
Total operating revenues		2,018,330		2,170,653		2,148,845		2,112,967		2,461,356
Total operating expenses		1,875,233		2,012,804		2,050,288		1,969,478		2,285,169
Net operating activities		143,097		157,849		98,557		143,489		176,187
Endowment and other long-term investment activities, net		108,163		114,916		91,730		895,298		(463,666)
Other non-operating activities, net		263,334		(57,565)		(125,890)		110,186		176,678
Net non-operating activity		371,497		57,351		(34,160)		1,005,484		(286,988)
Total change in net assets	\$	514,594	\$	215,200	\$	64,397	\$	1,148,973	\$	(110,801)

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Cash and investments	\$	3,211,683	\$	3,699,652	\$	3,816,967	\$	4,878,144	\$	4,517,918
Property, plant, and equipment, net		2,665,587		2,724,857		2,766,178		2,823,127		2,921,042
Other assets		620,750		600,229		627,417		590,611		585,730
Total assets		6,498,020		7,024,738		7,210,562		8,291,882		8,024,690
Debt, lease obligation, and interest rate swaps		1,956,035		2,266,411		2,416,523		2,324,424		2,138,033
Other liabilities		622,038		623,180		594,495		618,941		648,941
Total liabilities		2,578,073		2,889,591		3,011,018		2,943,365		2,786,974
Total net assets	\$	3,919,947	\$	4,135,147	\$	4,199,544	\$	5,348,517	\$	5,237,716
Total Endowment assets	\$	2,143,074	\$	2,311,388	\$	2,440,824	\$	3,397,221	\$	2,989,671

CREDIT RATING

Standard & Poor's	A+	AA-	AA-	AA-	AA-
Moody's	Aa3	Aa3	Aa3	Aa3	Aa3

STUDENTS
Student Full-Time Equivalent (FTE)**

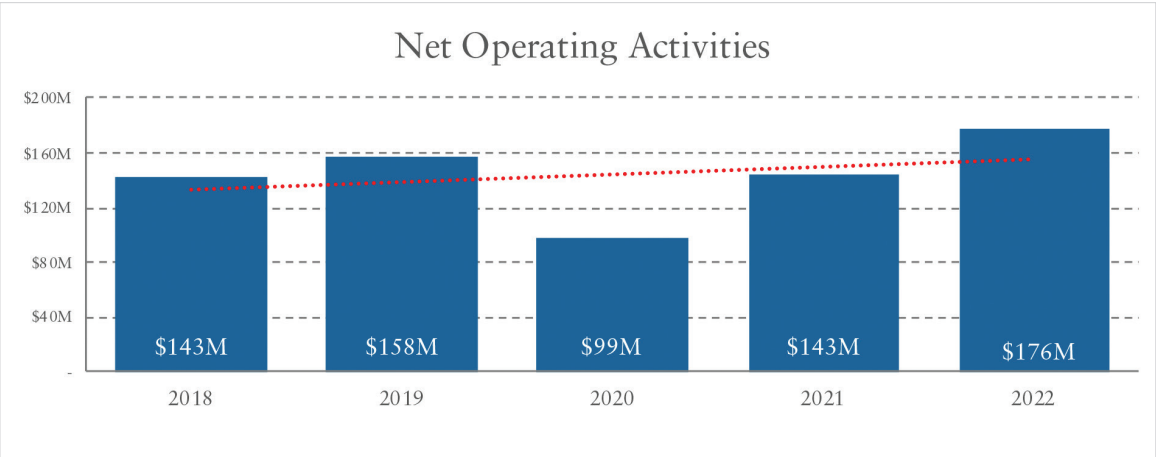
Undergraduate		16,517		17,047		16,730		16,222		17,355
Graduate		9,993		10,738		10,512		10,455		11,818
Applications		60,825		64,481		62,224		61,007		75,778
Freshman Selectivity		25%		22%		19%		20%		19%
Freshman Yield		23%		25%		27%		24%		28%
Undergraduate Tuition Rate	\$	50,980	\$	52,816	\$	54,720	\$	56,854	\$	58,560
Percent increase over prior year		3.7%		3.6%		3.6%		3.9%		3.0%

**End of fall semester full-time equivalent enrollment

DISCUSSION OF FINANCIAL RESULTS

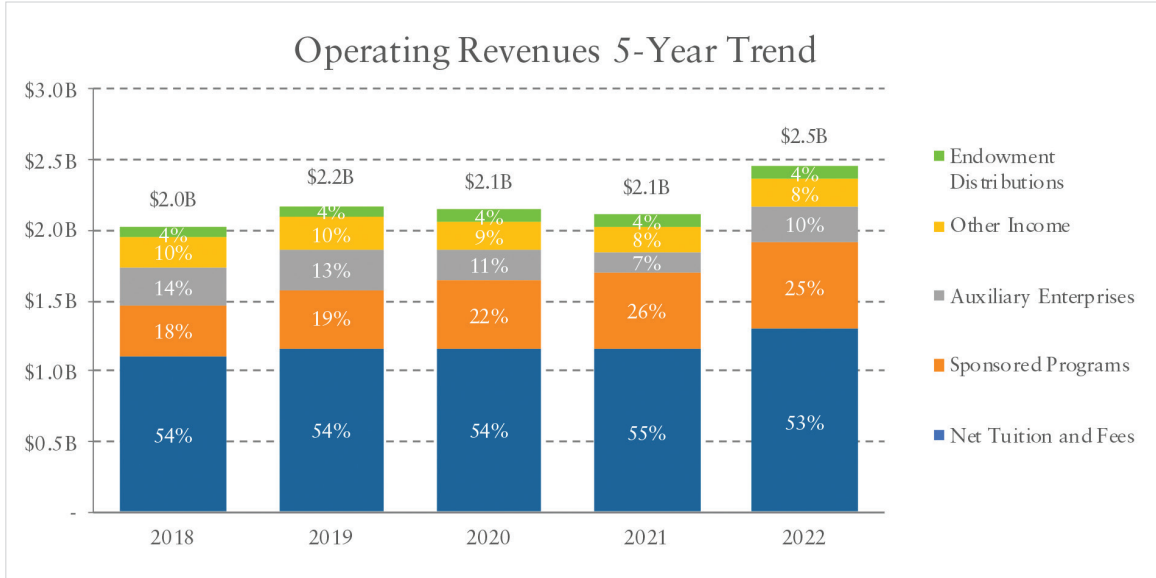
Boston University (the “University”) ended the fiscal year with a net operating surplus of \$176 million, mirroring pre-pandemic levels. Operating revenues for fiscal year 2022 reflect greater-than-expected enrollments and the resumption of many on-campus activities as demand for our residential academic experience rebounded. Additionally, salary and benefit costs were lower than anticipated due to various staffing challenges, including the “great resignation” experienced by organizations across the nation.

The University also benefited from federal pandemic relief funding, receiving \$42 million from the Higher Education Emergency Relief Fund (HEERF) during fiscal year 2022. Across all three fiscal years since the start of the pandemic, the University received \$80 million of HEERF fundings, of which \$48 million was disbursed directly to students as emergency aid. Remaining funds were utilized to defray COVID-19 related expenses such as the University’s robust contact tracing program and quarantine and isolation housing to ensure the delivery of an excellent academic and healthful residential experience for our community.



Operating Revenues

Operating revenues and other support, net of financial aid, totaled \$2.5 billion in fiscal year 2022, increasing \$348 million over the prior fiscal year.



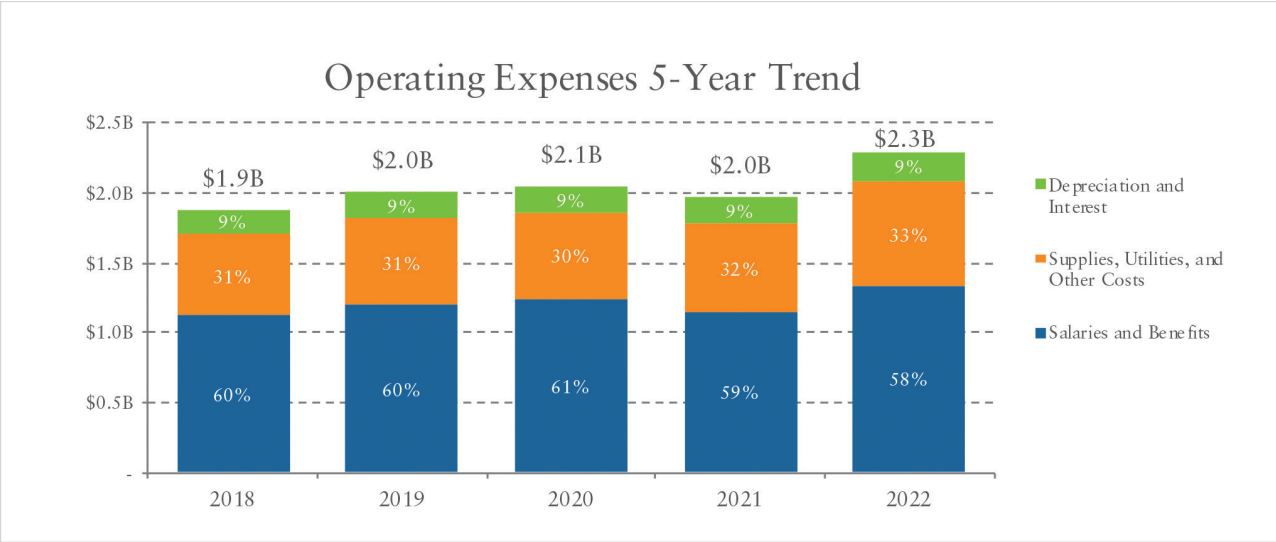
This year’s operating revenues exceeded pre-pandemic levels, growing to \$2.5 billion. Tuition and fee revenues increased due to strong enrollment and modest rate increases. Financial aid increased by \$52 million, or 11%, in fiscal year 2022 as the University maintained its commitment to provide access to high quality higher education by meeting the full need for all domestic students who qualify for financial aid. This policy was first implemented with the freshman class that arrived in fall 2020.

Auxiliary enterprise revenue, comprising room and board fees, parking, and events and conference revenues, rebounded in fiscal year 2022 to a more historically normal \$261 million, an increase of \$107 million or 70% from the prior year. The financial impact of the pandemic was most severe on the University’s auxiliary enterprise revenues. In March 2020, the University announced the closure of our residential campus and issued credits to students for room and board charges based on a prorated amount. These room and board credits totaled \$45 million, reducing reported auxiliary enterprise revenue for fiscal year 2020. In the fall of fiscal year 2021, the University established the Learn *from* Anywhere delivery model through which students could attend classes either on-campus or remotely. Although enrollment for online and in-person classes was strong, on-campus life was less vibrant, evidenced by dormitories operating at less than 67% capacity.

Operating Expenses

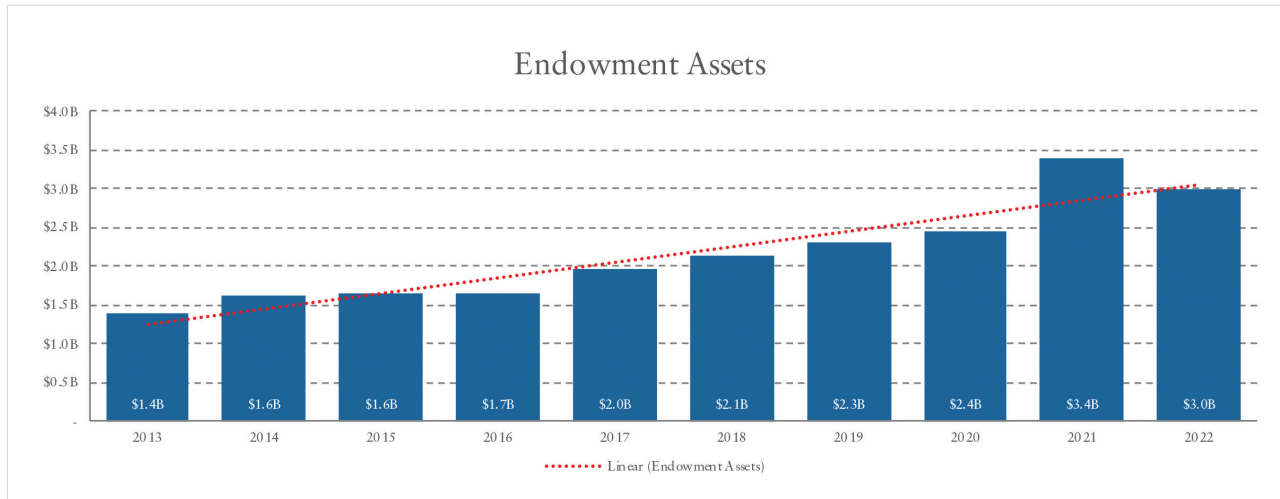
Expenses returned in fiscal year 2022 as campus life was revitalized and operations commenced with many on-campus restrictions eased. Operating expenses totaled \$2.3 billion in fiscal year 2022, an increase of \$316 million or 16% over the prior fiscal year.

In fiscal year 2021 to address the potential impacts on revenues and incremental costs required as a result of the pandemic, the University took proactive budget actions to build significant contingent budget reserves. With the development and distribution of COVID-19 vaccines and boosters, the decision was made to transition from the Learn *from* Anywhere model and resume on-campus operations. The University gradually lifted several budget controls, including prior limits on staff hiring, a freeze on off-cycle salary increases, and a freeze on the University’s contributions to employee retirement plans. Although the salary and hiring restrictions were lifted, the University saw budgetary savings in fiscal year 2022 related to salaries and benefits as staff hiring continued to be challenging given the present labor market.



Endowment Assets and Distribution

The University had \$3.0 billion of endowment assets as of June 30, 2022, a decrease of \$408 million over the prior fiscal year. This decrease reflects net investment losses of \$420 million and distributions utilized for operations of \$96 million, offset by new gifts and additions of \$74 million. Even with the decrease this year, the University’s endowment has grown by nearly \$1.6 billion since the end of fiscal year 2013, a compounded annual growth rate of 8.8%.



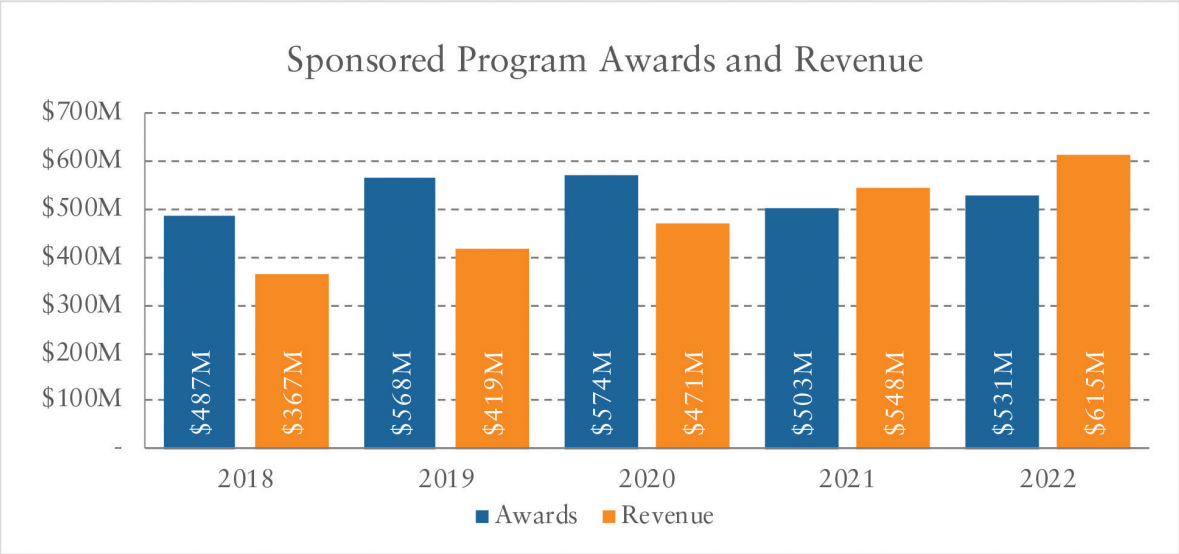
Since endowment spending distributions represent less than 4% of the total operating revenues, the University’s long-term investment objectives are to grow the endowment and earn a return, net of inflation and fees and expenses, which is at least equal to the endowment spending rate. As the endowment grows, the spending distribution should provide increased support for the University’s operations and provide intergenerational equity for student and faculty support. Although the endowment’s return reflects uncontrollable market conditions, the University is able to mitigate volatility through asset allocation and the endowment spending rate. To grow, by compounding capital as stably as possible over the long term, the endowment is strategically diversified and invested globally, with a tilt to growth-oriented asset classes.

To facilitate annual budget development, several months before the start of each fiscal year, the University uses its endowment spending guideline to select a spending rate, with a goal of providing steadily increasing support to operations. The spending guideline is calculated using the last 20 quarters’ average endowment value as of the most recent December 31st. Applying an average lessens the impact of market fluctuations on the University’s budget because it smooths out the variability of spending distributions. More specifically, the application of an average slows distribution growth during bull markets and creates “savings” to support distributions during bear markets. To help maintain an appropriate balance between current and future generations, the annually selected distribution amount must also be between 3% and 5% of the endowment’s value on the most recent December 31st.

Sponsored Programs

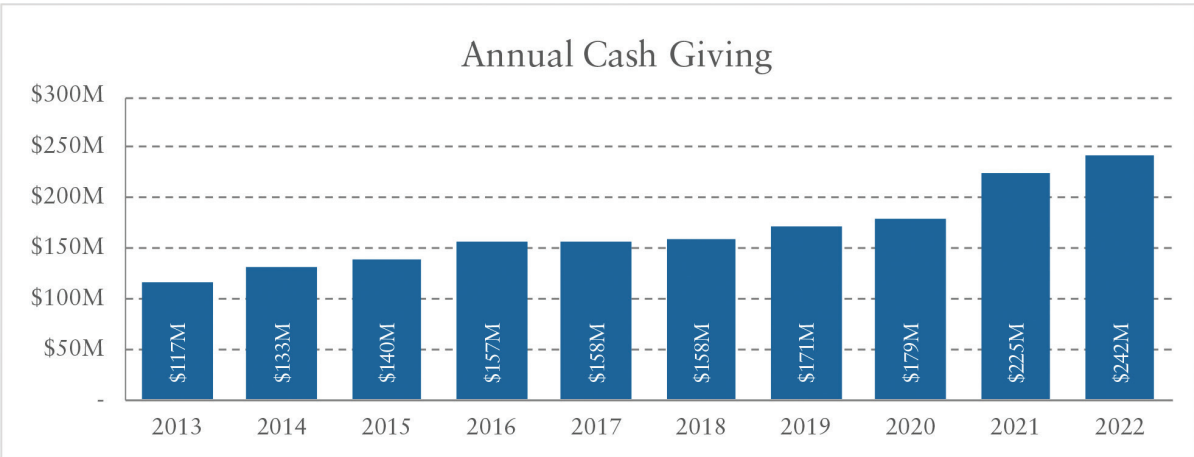
The increasing research activity of our faculty is reflected in the University’s sponsored program awards, which totaled \$531 million in fiscal year 2022. These awards from federal, state, and foundation sponsors facilitate groundbreaking research in the social and hard sciences and in medicine. Research initiatives include study of mass incarcerations and racial disparities, development of artificial lungs grown in the laboratory, and multiple projects addressing the science and policy of climate change.

Total sponsored program revenue, primarily research-related, increased by \$67 million in fiscal year 2022. Federal agencies, such as the Department of Health and Human Services and National Science Foundation, account for 69% of sponsored program revenues.



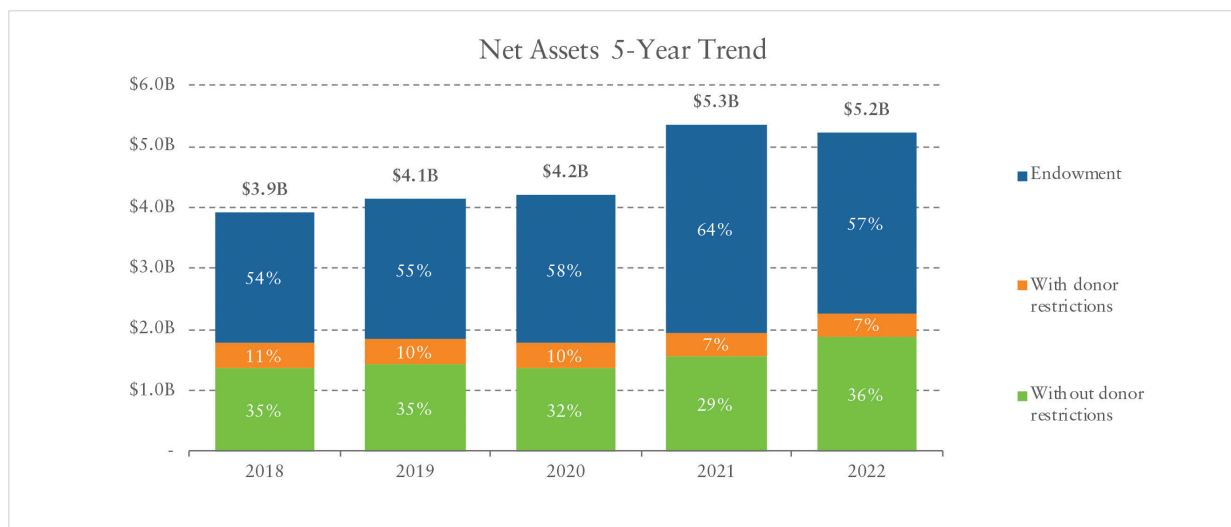
Philanthropy

Continued generous giving by alumni and friends resulted in philanthropic support of over \$242 million (non-GAAP basis), the best cash year for fundraising in our history.



Net Assets

Although the University had a modest decline in total net assets of \$111 million or 2%, net assets without donor restrictions increased due to positive operating results. The University's endowment and investment portfolio decreased due to negative investment performance this year; however, given the reduction in the University's total liabilities and other obligations, net assets remained relatively stable. Despite the decline, the University's net assets have grown more than 34% or \$1.3 billion since fiscal year-end 2018, representing a compounded annual growth rate of 7.5%.



Liquidity and Debt

The University actively manages its liquidity to maintain targeted levels sufficient to meet operating requirements to maintain the endowment's reserves throughout the year. Ample liquidity is maintained to ensure adequate security and flexibility under a variety of stress scenarios. The end of each fiscal year represents the traditional low point in the institution's liquidity, consistent with the ebb and flow of our business cycle. The University's unrestricted liquidity totaled \$1.7 billion at fiscal year-end, decreasing \$62 million resulting from a rebalancing between the endowment's cash and investments. To provide supplemental liquidity support, the University maintains \$240 million in committed bank lines of credit.

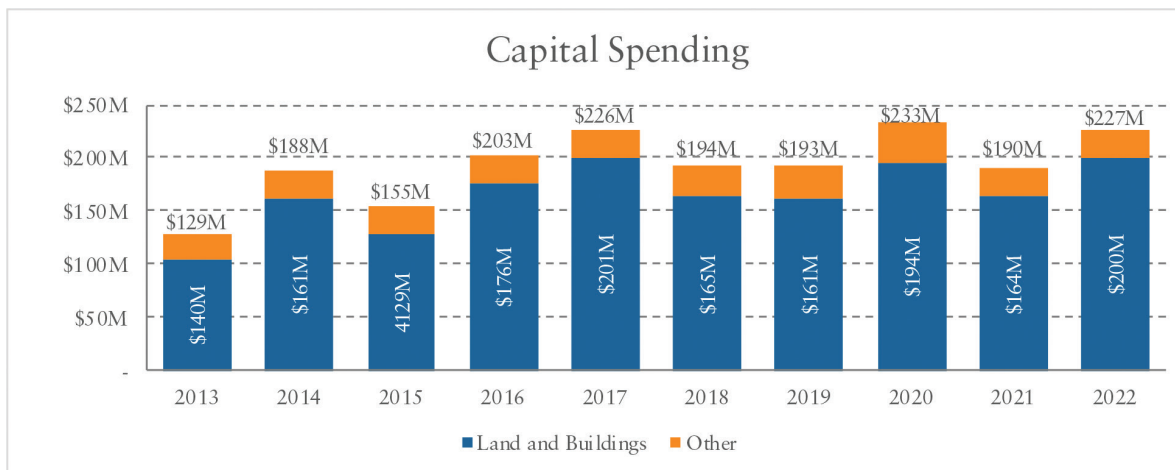
The University's net bonds and notes payable totaled \$1.7 billion at the end of fiscal year 2022. This decrease of \$14 million, or 0.8%, reflects scheduled principal payments and related amortization of bond premiums, discounts, and issuance costs. Although the University did not issue debt in fiscal year 2022, the University continually evaluates the opportunity to refund existing debt for savings, and to borrow for future capital projects when market conditions are favorable. On a periodic basis, the University uses debt-related financial metrics in order to evaluate the impacts of issuing additional debt in comparison to peer institutions.

The University's debt service, which includes scheduled principal payments and interest paid during fiscal year 2022, was \$61 million, compared to \$62 million in the prior year. Overall, the University's weighted average cost of capital during the year ended June 30, 2022, was 4.55%.

Credit ratings are an indicator of the University's effectiveness in managing its financial resources. Stronger credit ratings reflect greater financial strength and flexibility and provide greater access to capital markets. Moody's (Aa3) and Standard & Poor's (AA-) affirmed the University's long-term ratings in November and September 2021, respectively.

Capital Spending

Property, plant and equipment, net of depreciation expense of \$146 million, increased \$98 million in fiscal year 2022. Purchases of property and equipment totaled \$227 million in fiscal year 2022 and \$190 million in the prior fiscal year. Over the past 10 years, the University has completed \$1.9 billion of capital investment in its campuses, library collections, and information systems. These projects include renovations on the Law School building, construction of the 170,000-square-foot Rajen Kilachand Center for Integrated Life Sciences & Engineering, renovation of the Myles Standish Hall dormitory, renovation and expansion of the Henry M. Goldman School of Dental Medicine, and most recently our new 360,000-square-foot Center for Computing & Data Sciences, which is scheduled to open in January 2023.





KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Boston University:

Opinion

We have audited the consolidated financial statements of Boston University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises management's discussion and analysis of the consolidated financial statements but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

KPMG LLP

Boston, Massachusetts
September 28, 2022

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021
(\$000)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 385,608	\$ 253,258
Cash and cash equivalents-restricted	37,164	183,470
Short-term investments	813,229	884,959
Accounts and loans receivable, net.	234,319	205,919
Pledges receivable, net	181,994	189,376
Prepaid expenses and other assets	57,304	72,181
Investment in residual asset note	32,127	41,849
Right-of-use assets-operating leases	112,113	123,135
Long-term investments.	3,249,790	3,514,608
Property, plant, and equipment, net.	2,921,042	2,823,127
Total assets	\$ 8,024,690	\$ 8,291,882
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	\$ 141,522	\$ 168,967
Accounts payable and accrued expenses	149,855	111,637
Deferred revenue	82,222	69,188
Student deposits.	138,260	122,983
Operating lease obligations	116,088	126,183
Finance lease obligations	79,590	80,343
Other long-term obligations	43,013	50,935
Deferred ground lease revenue.	94,069	95,231
Fair value of interest rate exchange agreements.	195,532	356,776
Bonds and notes payable, net	1,746,823	1,761,122
Total liabilities	2,786,974	2,943,365
Net assets:		
Without donor restrictions	3,154,503	3,018,463
With donor restrictions	2,083,213	2,330,054
Total net assets	5,237,716	5,348,517
Total liabilities and net assets	\$ 8,024,690	\$ 8,291,882

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2022 and 2021
(\$000)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Student tuition and fees, net of student aid of \$548.6 million in 2022	\$ 1,297,659	\$ -	\$ 1,297,659
Sponsored programs-direct	457,280	-	457,280
Sponsored programs-indirect	118,689	-	118,689
External fringe benefit recoveries	52,077	-	52,077
Contributions	47,080	-	47,080
Sales and services	89,394	-	89,394
Spending formula amount and other investment income	85,114	-	85,114
Sponsored program income for student aid	38,912	-	38,912
Auxiliary enterprises, net of student aid of \$26.8 million in 2022	261,044	-	261,044
Contributions used for operations	14,107	-	14,107
Total operating revenues	2,461,356	-	2,461,356
OPERATING EXPENSES			
Salaries and wages	1,019,549	-	1,019,549
Employee benefits	314,147	-	314,147
Supplies and services	661,512	-	661,512
Utilities, rent, and repairs	92,608	-	92,608
Depreciation	145,617	-	145,617
Interest	51,736	-	51,736
Total operating expenses	2,285,169	-	2,285,169
Change in net assets from operating activities	176,187	-	176,187
NONOPERATING ACTIVITIES			
Contributions	-	60,681	60,681
Contributions used for operations	-	(14,107)	(14,107)
Reinvested endowment and other investment income	10,144	20,023	30,167
Net realized and unrealized losses on investments and other assets	(153,955)	(243,733)	(397,688)
Spending formula amount	(40,560)	(55,585)	(96,145)
Net realized and unrealized gains on interest rate exchange agreements	129,339	-	129,339
Net assets released from restrictions- building funds and other	10,332	(10,332)	-
Other additions (deductions) and transfers, net	4,553	(3,788)	765
Net nonoperating activities	(40,147)	(246,841)	(286,988)
Change in net assets	136,040	(246,841)	(110,801)
Beginning net assets	3,018,463	2,330,054	5,348,517
Ending net assets	\$ 3,154,503	\$ 2,083,213	\$ 5,237,716

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2022 and 2021
(\$000)

		2021		
Without Donor Restrictions	With Donor Restrictions	Total		
\$ 1,152,579	\$ -	\$ 1,152,579		OPERATING REVENUES
411,472	-	411,472		Student tuition and fees, net of student aid of \$496.2 million in 2021
108,054	-	108,054		Sponsored programs-direct
32,511	-	32,511		Sponsored programs-indirect
55,102	-	55,102		External fringe benefit recoveries
76,848	-	76,848		Contributions
				Sales and services
80,607	-	80,607		Spending formula amount and other investment income
28,163	-	28,163		Sponsored program income for student aid
				Auxiliary enterprises, net of student aid of \$18.4 million in 2021
153,911	-	153,911		Contributions used for operations
13,720	-	13,720		Total operating revenues
<u>2,112,967</u>	<u>-</u>	<u>2,112,967</u>		OPERATING EXPENSES
				Salaries and wages
955,465	-	955,465		Employee benefits
202,057	-	202,057		Supplies and services
538,486	-	538,486		Utilities, rent, and repairs
87,621	-	87,621		Depreciation
132,653	-	132,653		Interest
53,196	-	53,196		Total operating expenses
<u>1,969,478</u>	<u>-</u>	<u>1,969,478</u>		Change in net assets from operating activities
<u>143,489</u>	<u>-</u>	<u>143,489</u>		NONOPERATING ACTIVITIES
				Contributions
-	55,861	55,861		Contributions used for operations
-	(13,720)	(13,720)		Reinvested endowment and other investment income
12,897	14,312	27,209		Net realized and unrealized gains on investments and other assets
403,587	555,653	959,240		Spending formula amount
(38,508)	(52,643)	(91,151)		Net realized and unrealized losses on interest rate exchange agreements
70,399	-	70,399		Net assets released from restrictions- building funds and other
2,606	(2,606)	-		Other additions (deductions) and transfers, net
339	(2,693)	(2,354)		Net nonoperating activities
<u>451,320</u>	<u>554,164</u>	<u>1,005,484</u>		Change in net assets
594,809	554,164	1,148,973		Beginning net assets
2,423,654	1,775,890	4,199,544		Ending net assets
<u>\$ 3,018,463</u>	<u>\$ 2,330,054</u>	<u>\$ 5,348,517</u>		

See accompanying notes to consolidated financial statements.

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021
(\$000)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (110,801)	\$ 1,148,973
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,617	132,653
Amortization of debt premium and issuance costs, net	(4,192)	(4,192)
Amortization of right-of-use assets-financing	1,806	1,807
Amortization of right-of-use assets-operating	15,266	20,773
Loss on disposal of property and equipment	963	896
Unrealized gains on interest rate exchange agreements	(161,244)	(104,054)
Settlements on swap replacement transactions, net	11,589	12,138
Net realized and unrealized losses (gains) on investments	398,102	(967,491)
Contributions and pledge payments restricted for long-term investment . .	(68,064)	(85,330)
Restricted gifts of securities	(2,062)	(1,934)
Unrealized (gains) losses on currency exchange	(1,671)	2,594
Changes in operating assets and liabilities:		
Increase in accounts and loans receivable, net	(16,763)	(20,951)
Decrease in pledges receivable, net	7,382	29,469
Decrease in prepaid expenses and other assets	14,877	11,540
(Decrease) increase in accrued payroll and related expenses	(27,445)	32,421
Increase in accounts payable and accrued expenses	10,695	11,810
Decrease in operating lease obligations	(14,339)	(20,940)
Increase (decrease) in deferred revenue	13,034	(721)
Increase in student deposits	15,277	11,389
Decrease in other long-term obligations	(5,283)	(8,431)
Decrease in deferred ground lease revenue	(1,162)	(1,161)
Net cash provided by operating activities	<u>221,582</u>	<u>201,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,704,366)	(2,615,560)
Proceeds from sales and maturities of investments	2,641,285	2,248,372
Purchases of property and equipment	(226,602)	(189,511)
Proceeds from residual asset note	3,304	-
Net cash used in investing activities	<u>(286,379)</u>	<u>(556,699)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bonds and notes	-	179
Payment of bonds, notes, and mortgages	(8,436)	(8,223)
Payment of bond issuance costs	-	(115)
Payments for finance lease obligations	(753)	(723)
Increase (decrease) in other long-term liabilities-annuity obligations . .	1,493	(920)
Contributions and pledge payments restricted for long-term investment . .	68,064	85,330
Proceeds from sale of restricted gifts of securities	2,062	1,934
Settlements on swap replacement transactions, net	(11,589)	(12,138)
Net cash provided by financing activities	<u>50,841</u>	<u>65,324</u>
Net decrease in cash, cash equivalents, and restricted cash	(13,956)	(290,117)
Cash, cash equivalents, and restricted cash beginning of year	436,728	726,845
Cash, cash equivalents, and restricted cash end of year	<u>\$ 422,772</u>	<u>\$ 436,728</u>

For the years ended June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies

Organization:

Boston University (the University) is an independent, nonprofit, coeducational, nonsectarian institute of higher education, founded in 1839 and chartered under the laws of the Commonwealth of Massachusetts on May 26, 1869. The University has three principal campuses: the Charles River Campus in the Back Bay, the Fenway Campus in Boston, and the Medical Campus in the South End, offering students more than 300 areas of study in 17 schools and colleges.

Effective June 1, 2018, Wheelock College merged with and into the University, with the University as the surviving corporation. As a result of the merger, the University's School of Education was renamed the Boston University Wheelock College of Education & Human Development, combining the doctoral programs and research capabilities of the University's School of Education with the early childhood expertise of Wheelock College's School of Education, Child Life and Family Studies.

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

COVID-19 Pandemic:

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. As a result, the University suspended in-person education and other campus-based activities for the Spring 2020 semester. To address the potential impacts on revenues and incremental costs required as a result of COVID-19, the University took proactive budget actions in fiscal year 2021 to build budget reserves. These actions included salary freezes, targeted operating and personnel budget reductions, and a one-year suspension of employer contributions to the University's retirement savings program.

The University identified federal relief programs to mitigate the financial impact of the pandemic on the institution and to support students experiencing financial hardship. These relief programs include the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan (ARP), which allocated a total of \$80,067,000 from fiscal 2020 through fiscal 2022 under the Higher Education Emergency Relief Funds (HEERF). The University distributed \$47,859,000 directly to students as emergency aid and utilized \$32,208,000 to defray the incremental cost of transitioning to a hybrid education model, COVID-19 testing, and other pandemic-related health and safety protocols.

The University continues to evaluate external funding resources related to the pandemic, including Federal Emergency Management Agency (FEMA) programs.

Summary of Significant Accounting Policies:

Basis of Presentation:

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

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

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

Net Asset Classification:

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

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

For the years ended June 30, 2022 and 2021

Collections:

The University’s collections, acquired through purchases and contributions since the University’s inception, are not recognized as assets on the Consolidated Statements of Financial Position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired.

The University’s collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed regularly. The collections are subject to a policy that requires proceeds from dispositions to be used to acquire and maintain other items for collections.

Use of Estimates:

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Related Party Transactions:

Under the University’s conflict of interest policy, all business and financial relationships among the University and entities affiliated with Trustees or Officers of the University are subject to the review and approval of the Audit Committee of the Board of Trustees. Disclosures about the University’s related party transactions, including those with affiliates, are described in notes 1, 3, and 11 to the consolidated financial statements.

Cash and Cash Equivalents:

Cash equivalents consist primarily of short-term money market mutual funds and treasury bills with original maturities of 90 days or less.

Cash and cash equivalents-restricted represent collateral posted with counterparties under the terms of certain derivative agreements.

The following table summarizes cash, cash equivalents, and restricted cash reported on the statement of cash flows as of June 30, 2022 and 2021, in thousands of dollars:

	2022	2021
Cash and cash equivalents	\$ 385,608	\$ 253,258
Cash and cash equivalents-restricted	37,164	183,470
Total cash, cash equivalents, and restricted cash	<u>\$ 422,772</u>	<u>\$ 436,728</u>

Fair Value Measurements:

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

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

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

The majority of the University’s long-term investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient. Fair

For the years ended June 30, 2022 and 2021

values of investments in funds similar to mutual funds that are deemed to have readily determinable fair value, are measured at published NAV.

The NAVs or their equivalents, as estimated and reported by the general partners or investment managers, are reviewed, monitored, and evaluated by the University's Investment Office, in accordance with valuation procedures established by the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer. Valuation results, changes in valuation policies and procedures, and issues regarding valuation that may arise from time to time are reviewed with the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer.

Non-core institutional real estate is valued using one or more of the following valuation techniques: the use of prices and other information generated by other relevant market transactions, or an income approach determining valuation by direct capitalization of net income or discounting future cash flows. Inputs such as capitalization rates, price information, operating statistics, specific and broad credit data, recent transactions, discount rates, and other factors are used in the valuation calculations.

Funds Held in Trust by Others:

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

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held and administered by others. For annuity contracts, the contributed assets are included in investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University, and liabilities are recorded at the present value of estimated future payments to the donors and beneficiaries. The liabilities are adjusted during the term of the agreements and contracts to reflect actuarial gains and losses.

The present values of the estimated future cash receipts from charitable remainder trusts are recognized as assets and contribution revenues as of the dates the trusts are established. Distributions from these trusts are recorded as investment income, and the carrying value of the assets is adjusted for changes in estimates of future receipts.

Property, Plant, and Equipment:

Land, buildings, equipment, and library books are reported at cost or estimated fair value at the date of contribution. Maintenance and repairs are expensed as incurred and improvements that increase the useful life of the asset are capitalized. Costs associated with the construction of new facilities are reported as additions to construction in progress when expended until such projects are completed. Equipment includes general and scientific equipment, computers, furniture, and vehicles.

For the years ended June 30, 2022 and 2021, the University acquired equipment and other assets of approximately \$6,453,000 and \$7,528,000, respectively, through the use of federal funds. In most cases, the University continues to maintain the assets after the granting agreement expires.

Depreciation is computed on a straight-line basis over the remaining useful lives of assets as follows: buildings, 50 years; renovations and improvements, 20 years or lease term, if shorter; University buildings used in sponsored research activities, 12 to 50 years, based on the distinct useful lives for each major building component; equipment, 2 to 20 years; internally used software, 20 years; and library books, 10 years. Depreciation expense for the years ended June 30, 2022 and 2021 was \$145,617,000 and \$132,653,000, respectively.

Long-lived assets and certain intangibles are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, the impairment loss recognized is the amount by which the asset's net carrying value exceeds its estimated fair value.

For the years ended June 30, 2022 and 2021

Leasing:

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

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

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

Conditional Asset Retirement Obligations:

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Consolidated Statements of Activities.

The asset retirement obligation at June 30, 2022 and 2021 was \$12,057,000 and \$12,487,000, respectively, and is included in other long-term obligations in the Consolidated Statements of Financial Position.

Revenue from Contracts with Customers:

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

Revenue from student education, residence, and dining services is reflected net of reductions from institutional student aid and is recognized as the services are provided over the academic year, which generally aligns with the University’s fiscal year. Aid in excess of a student’s tuition and fees is reflected as a reduction of residence and dining charges.

Disbursements made directly to students for living or other costs are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as student deposits to the extent services will be rendered in the following fiscal year.

The composition of net student tuition and fees revenue was as follows for the years ended June 30, 2022 and 2021, in thousands of dollars:

	2022	2021
Undergraduate	\$ 744,200	\$ 682,769
Postgraduate	530,574	450,584
Other	22,885	19,226
Total	<u>\$ 1,297,659</u>	<u>\$ 1,152,579</u>

For the years ended June 30, 2022 and 2021

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2022 and 2021, in thousands of dollars:

	2022	2021
Residence and dining services, net of student aid	\$ 190,239	\$ 116,707
Arena, parking, and retail operations	70,805	37,204
Total	<u>\$ 261,044</u>	<u>\$ 153,911</u>

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

Revenue from Sponsored Programs:

Grants and contracts awarded by federal and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The University has elected the simultaneous release policy available under GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Grant revenue used for the construction or acquisition of plant is reported within nonoperating activities. The University recognizes reimbursement of facilities and administrative costs relating to government and foundation contracts and grants at authorized rates each year. All funds expended in connection with government grants and contracts are subject to audit by granting agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University’s financial position. Total revenue from grants and contracts recognized in net assets without donor restrictions was \$614,881,000 and \$547,689,000 for the years ended June 30, 2022 and 2021, respectively. Payments received from sponsors in advance of conditions being met are reported as deferred revenue, and totaled \$68,700,000 and \$57,995,000 as of June 30, 2022 and 2021, respectively. Conditional awards from federal and other sponsors outstanding as of June 30, 2022 and 2021 were \$183,141,000 and \$313,361,000, respectively.

As a result of the COVID-19 pandemic, the University received funds under the HEERF. The University provided emergency financial aid grants to students of \$21,426,000 and \$11,438,000 for the years ended June 30, 2022 and 2021, respectively. These funds were recognized as revenue under sponsored program income for student aid. In addition, \$20,453,000 and \$11,755,000 of funds were used to defray institutional expenses associated with maintaining the desired student experience sought by the University as provided prior to the COVID-19 pandemic and required investments in testing as well as health and safety protocols during the year ended June 30, 2022 and 2021, respectively. These funds are recognized as revenue under sponsored programs-direct.

External Fringe Benefit Recoveries:

External fringe benefit recoveries includes payments from affiliated organizations for the cost of fringe benefits paid by the University under a common paymaster agreement.

Contributions:

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

Income Taxes:

The University is generally exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except to the extent the University has unrelated business income. As of June 30, 2022 the University’s federal net operating loss carryforwards prior to June 30, 2018 are \$22,184,000, and expire in various years from 2024 to 2037. These losses may be applied to offset taxable income for any unrelated business activity earned in future years. IRC section

For the years ended June 30, 2022 and 2021

512 (a)(6), enacted in December 2017 as part of the Tax Cut and Jobs Act, requires tax exempt organizations with multiple sources of unrelated business income to separately compute (“silo”) net unrelated business income and losses on an activity by activity basis; for taxable years beginning after December 31, 2017, expenses from one unrelated business activity may no longer be used to offset the income from another. Net operating loss carryforwards beginning July 1, 2018 through June 30, 2022 are \$32,345,000 and may be carried forward indefinitely, but may only be used to offset income from the activity generating the loss. The University believes that unrelated business activities will generate future taxable income during the periods in which these operating loss carryforwards will become deductible and has recorded deferred tax assets totaling \$2,647,000 as of June 30, 2022 and 2021. The University has no material uncertain tax positions.

Nonoperating Activities:

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions to be received in the future, gains and losses on interest rate exchange agreements, the excess of investment returns over the spending formula amount, and certain other activities.

Supplemental Disclosure of Cash Flow Information:

The following information is intended to supplement the Consolidated Statements of Cash Flows for the years ended June 30, 2022 and 2021, in thousands of dollars:

	2022	2021
Interest paid in cash, net of capitalized interest of \$7,595 and \$5,811.	\$ 55,546	\$ 54,779
Noncash investing activities:		
Increase in accounts payable for property, plant, and equipment	19,699	2,794
Increase (decrease) in payables for purchases of investments.	7,824	(10,853)
(Increase) decrease in receivables for sales of investments	(11,637)	39,350
Decrease (increase) in investments for residual note asset	2,286	(1,020)

The following table summarizes cash paid for amounts included in the measurement of lease liabilities, under ASC 842, for operating and finance leases as a lessee for the years ended June 30, 2022 and 2021, in thousands of dollars:

	2022	2021
Operating cash flows from finance leases	\$ 3,558	\$ 3,584
Operating cash flows from operating leases	16,824	22,117
Financing cash flows from finance leases.	753	723

In April 2022, the University executed the purchase option of an operating lease releasing the obligation and disposing of the right-of-use assets at the net present value of \$730,000. The purchase of this property resulted in an increase in long-term investments.

Recent Accounting Pronouncements:

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* that requires the statement of activities to present contributed nonfinancial assets as a separate line. The ASU became effective for the University for the year ended June 30, 2022. The University’s adoption of the ASU on a retrospective basis did not have a material effect on its consolidated financial statements.

For the years ended June 30, 2022 and 2021

2. Financial Assets and Liquidity Resources

As of June 30, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on debt, and capital construction costs not financed by debt are as follows, in thousands of dollars:

	2022	2021
Financial assets, at year-end	\$ 4,934,231	\$ 5,273,439
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Donor restricted endowment	(1,704,621)	(1,945,492)
Pledges receivable due in greater than one year or restricted for use	(175,416)	(181,858)
Restricted cash and cash equivalents.	(37,164)	(183,470)
Student loans receivable due in greater than one year.	(31,458)	(38,143)
Investment in residual asset note.	(32,127)	(41,849)
Board designations:		
Quasi-endowment funds.	(1,268,731)	(1,447,021)
Add: approved endowment spending distribution for next fiscal year	103,584	94,761
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,788,298	\$ 1,530,367

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

3. Investments

Basis of Reporting:

Investments consist of directly held equity and fixed income securities, registered mutual funds, exchange traded funds, commingled funds, limited partnerships, non-core institutional real estate, and funds held in trust by others. Investments are reported at estimated fair value.

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

For the years ended June 30, 2022 and 2021

The University’s interests in commingled investment funds are generally reported at the NAV reported by the fund managers and determined to be reasonable by the University. NAV is used as a practical expedient to estimate the fair value of the University’s interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2022 and 2021, the University had no plans or intentions to sell investments at amounts different from NAV.

Although the University’s alternative fund managers generally adhere to fair value accounting in determining NAV, because of inherent uncertainties in valuation assumptions, the estimated fair values for alternative investments may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, earnings of the underlying holdings, projected cash flows, recent sales prices, and other pertinent information.

The fair value of non-core institutional real estate is based on independent appraisals and broker opinions of value, including recent sales of relevant properties in the same region and in an active market. The determination of whether a real estate market is active is based on the median number of days to sale for properties with a similar geographic location, type, size, condition, and long-term occupancy rate. When independent appraisals have not been carried out and where comparable sales information is not available, a direct capitalization model is used, with significant assumptions including rental rates ranging from \$15 to \$62 per square foot and weighted average capitalization rates of 5.75%. Significant changes in these inputs may result in a significantly lower or higher fair value measure.

Cash and investments included in the Consolidated Statements of Financial Position at June 30, 2022 and 2021 were as follows, in thousands of dollars:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 385,608	\$ 253,258
Cash and cash equivalents-restricted	37,164	183,470
Short-term investments	813,229	884,959
Investment in residual asset note	32,127	41,849
Long-term investments	<u>3,249,790</u>	<u>3,514,608</u>
	4,517,918	4,878,144
Less: assets not reported at fair value:		
Investment in residual asset note	(32,127)	(41,849)
Real estate partnerships accounted for under the equity method	<u>(26,309)</u>	<u>(27,300)</u>
Total cash and investments at fair value	<u>\$ 4,459,482</u>	<u>\$ 4,808,995</u>

For the years ended June 30, 2022 and 2021

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2022 and 2021, in thousands of dollars:

As of June 30, 2022	Investments	Investments Classified in the Fair Value Hierarchy			Total Fair Value
	Measured at NAV	Level 1	Level 2	Level 3	
Assets at fair value:					
Cash and cash equivalents	\$ -	\$ 422,772	\$ -	\$ -	\$ 422,772
Common and preferred equities:					
Domestic	149,762	70,786	-	-	220,548
International	338,396	56,591	45,711	-	440,698
	<u>488,158</u>	<u>127,377</u>	<u>45,711</u>	<u>-</u>	<u>661,246</u>
Fixed income:					
Domestic	-	875	1,625	-	2,500
International	-	5	275	-	280
U.S. government and agencies	-	962,014	478	-	962,492
	<u>-</u>	<u>962,894</u>	<u>2,378</u>	<u>-</u>	<u>965,272</u>
Alternatives:					
Hedge	802,737	-	-	-	802,737
Natural resources	71,726	-	-	-	71,726
Private	1,052,679	-	-	333	1,053,012
Real estate	101,208	-	-	367,980	469,188
	<u>2,028,350</u>	<u>-</u>	<u>-</u>	<u>368,313</u>	<u>2,396,663</u>
Funds held in trust by others	-	-	-	13,529	13,529
Total assets at fair value	<u>\$ 2,516,508</u>	<u>\$ 1,513,043</u>	<u>\$ 48,089</u>	<u>\$ 381,842</u>	<u>\$ 4,459,482</u>

As of June 30, 2021	Investments	Investments Classified in the Fair Value Hierarchy			Total Fair Value
	Measured at NAV	Level 1	Level 2	Level 3	
Assets at fair value:					
Cash and cash equivalents	\$ -	\$ 436,728	\$ -	\$ -	\$ 436,728
Common and preferred equities:					
Domestic	190,791	94,155	-	-	284,946
International	414,271	112,159	71,460	-	597,890
	<u>605,062</u>	<u>206,314</u>	<u>71,460</u>	<u>-</u>	<u>882,836</u>
Fixed income:					
Domestic	-	877	2,189	-	3,066
International	-	6	293	-	299
U.S. government and agencies	-	1,025,749	11,483	-	1,037,232
	<u>-</u>	<u>1,026,632</u>	<u>13,965</u>	<u>-</u>	<u>1,040,597</u>
Alternatives:					
Hedge	910,319	-	-	-	910,319
Natural resources	57,492	-	-	-	57,492
Private	1,031,970	-	-	333	1,032,303
Real estate	92,234	-	-	342,641	434,875
	<u>2,092,015</u>	<u>-</u>	<u>-</u>	<u>342,974</u>	<u>2,434,989</u>
Funds held in trust by others	-	-	-	13,845	13,845
Total assets at fair value	<u>\$ 2,697,077</u>	<u>\$ 1,669,674</u>	<u>\$ 85,425</u>	<u>\$ 356,819</u>	<u>\$ 4,808,995</u>

For the years ended June 30, 2022 and 2021

The following tables present a summary of the University's activity for the years ended June 30, 2022 and 2021 for investment categorized in Level 3, in thousands of dollars:

2022	Alternatives		Funds	Total
	Private	Real Estate	Held in Trust by Others	Assets in Level 3
Fair value, July 1, 2021	\$ 333	\$ 342,641	\$ 13,845	\$ 356,819
Additions	-	12,327	-	12,327
Unrealized gains (losses)	-	13,012	(316)	12,696
Fair value, June 30, 2022	<u>\$ 333</u>	<u>\$ 367,980</u>	<u>\$ 13,529</u>	<u>\$ 381,842</u>

2021	Alternatives		Funds	Total
	Private	Real Estate	Held in Trust by Others	Assets in Level 3
Fair value, July 1, 2020	\$ 333	\$ 342,641	\$ 11,807	\$ 354,781
Additions	-	2,090	-	2,090
Unrealized (losses) gains	-	(2,090)	2,038	(52)
Fair value, June 30, 2021	<u>\$ 333</u>	<u>\$ 342,641</u>	<u>\$ 13,845</u>	<u>\$ 356,819</u>

Investment Related Derivatives:

The endowment employs certain derivative financial instruments to replicate long asset positions more cost effectively than through purchases or sales of the underlying assets.

As a result of entering investment derivative agreements, the University is subject to market volatility consistent with the underlying asset classes. The University has established policies, procedures, and internal controls governing the use of derivatives.

The purchase and sale of exchange-traded derivatives require collateral deposits with the Futures Commission Merchant (FCM). Collateral is posted and moved on a daily basis as required by the rules of the exchange on which the derivatives are traded. In the event of the FCM's insolvency, recovery may be limited to the University's pro-rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total cash or other collateral posted. The collateral is generally in the form of debt obligations issued by the U.S. Treasury or cash. Cash collateral and certain securities owned by the University were held at counterparty brokers to collateralize these positions and are included in cash and cash equivalents-restricted on the Consolidated Statements of Financial Position.

During the fiscal year 2022, the University sold these derivative instruments; therefore, no notional exposure remains as of June 30, 2022. Realized losses on these assets were \$78,000 for the year ended June 30, 2022. As of June 30, 2021, the aggregate notional exposure on long-term assets was \$12,097,000. The associated unrealized gain on these assets was \$368,000 as of June 30, 2021.

Residual Asset Note:

In June 2006, the University securitized its interest in an investment banking partnership that owned rights to future cash flows. To effect a securitization, the rights to receive the future cash flows were transferred from the University to a 100% owned, bankruptcy remote, special purpose limited liability corporation (LLC). The LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust (DBLF) collateralized by future cash flow rights. The note had an initial face value of \$88,227,000, the aggregate amount of the expected cash flows between 2007 and 2021. The note was acquired by DBLF for \$25,244,000 and is non-recourse to the University.

The LLC is consolidated in the financial statements of the University. The LLC's investment is recorded as an asset and the discounted note obligation is recorded as a liability on the Consolidated Statements of Financial Position. The discount on the note is amortized over its scheduled maturity using the effective interest method and the note obligation decreases as future cash flows are received.

For the years ended June 30, 2022 and 2021

Upon extinguishment of the note in fiscal year 2022, residual payments to the University commenced. The LLC's investment is valued based on a present value analysis using readily available and observable market discount factors. As of June 30, 2022 and 2021, the carrying value of the investment is \$32,127,000 and \$41,849,000, respectively. For the year ended June 30, 2022, payments received totaled \$3,304,000.

Real Estate Partnerships:

The University owns shares ranging from 45% to 50% in certain University business-related real estate partnerships with a related party, which have been accounted for using the equity method. The University's ownership interest in these partnerships has been recorded within long-term investments on the Consolidated Statements of Financial Position.

Investment Return:

The following summarizes, in thousands of dollars, the investment return, as reflected in the Consolidated Statements of Activities:

For the year ended June 30, 2022	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income	\$ 14,731	\$ 13,381	\$ 28,112
Net realized and unrealized losses on investments and other assets	<u>(153,955)</u>	<u>(243,733)</u>	<u>(397,688)</u>
Total return on investments and other assets . . .	<u>\$ (139,224)</u>	<u>\$ (230,352)</u>	<u>\$ (369,576)</u>

For the year ended June 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income	\$ 10,448	\$ 6,724	\$ 17,172
Net realized and unrealized gains on investments and other assets	<u>403,587</u>	<u>555,653</u>	<u>959,240</u>
Total return on investments and other assets . . .	<u>\$ 414,035</u>	<u>\$ 562,377</u>	<u>\$ 976,412</u>

For the years ended June 30, 2022 and 2021

Commitments:

Private equity, natural resources, and real estate investments are generally made through private limited partnerships. Under the terms of the partnership agreements, the University makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the General Partner as the partnership executes on its investment strategy. Private equity, natural resources, and real estate funds are typically structured with investment periods of 3 to 7 years. Subsequent to the expiration of the investment period, a fund is usually prohibited from calling capital for new investments. The aggregate amount of unfunded commitments associated with private limited partnerships as of June 30, 2022 and 2021 was \$521,753,000 and \$502,520,000, respectively. Of this amount, approximately 21% and 10% of commitments as of June 30, 2022 and 2021, respectively, was for funds whose investment period had expired. The timing and amount of capital calls expected to be exercised in any particular future year is uncertain.

Liquidity:

Investment liquidity is aggregated below based on redemption or sale period, in thousands of dollars:

As of June 30, 2022	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	\$ 422,772	\$ -	\$ -	\$ -	\$ -	\$ 422,772
Common and preferred equities:						
Domestic	69,829	998	62,567	70,583	16,571	220,548
International	56,581	230,281	20,755	30,084	102,997	440,698
	126,410	231,279	83,322	100,667	119,568	661,246
Fixed income:						
Domestic	2,481	19	-	-	-	2,500
International	275	5	-	-	-	280
U.S. government and agencies	962,492	-	-	-	-	962,492
	965,248	24	-	-	-	965,272
Alternatives:						
Hedge	-	-	130,476	352,585	319,676	802,737
Natural resources.	-	-	-	-	71,726	71,726
Private	-	-	-	-	1,053,012	1,053,012
Real estate	-	-	-	365,804	103,384	469,188
	-	-	130,476	718,389	1,547,798	2,396,663
Funds held in trust by others	-	-	-	-	13,529	13,529
Total assets at fair value	\$1,514,430	\$ 231,303	\$ 213,798	\$ 819,056	\$1,680,895	\$4,459,482

*Cash and cash equivalents includes \$36,700,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short-term rates.

For the years ended June 30, 2022 and 2021

As of June 30, 2021	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	\$ 436,728	\$ -	\$ -	\$ -	\$ -	\$ 436,728
Common and preferred equities:						
Domestic	93,009	1,218	105,226	85,493	-	284,946
International	112,142	232,165	79,443	41,140	133,000	597,890
	205,151	233,383	184,669	126,633	133,000	882,836
Fixed income:						
Domestic	3,045	21	-	-	-	3,066
International	293	6	-	-	-	299
U.S. government and agencies	1,037,232	-	-	-	-	1,037,232
	1,040,570	27	-	-	-	1,040,597
Alternatives:						
Hedge	-	-	169,641	398,786	341,892	910,319
Natural resources.	-	-	-	-	57,492	57,492
Private	-	-	-	-	1,032,303	1,032,303
Real estate	-	-	-	340,465	94,410	434,875
	-	-	169,641	739,251	1,526,097	2,434,989
Funds held in trust by others	-	-	-	-	13,845	13,845
Total assets at fair value	\$1,682,449	\$ 233,410	\$ 354,310	\$ 865,884	\$1,672,942	\$4,808,995

*Cash and cash equivalents includes \$182,546,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short-term rates.

Certain hedge funds contain lockup provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

The University has sole discretion to liquidate its direct holdings in non-core real estate included in the table above. These assets are located in the greater Boston market. Relevant market assumptions have been incorporated where applicable, determining the fair values of such assets involves significant judgment, and their ultimate sales price may be materially different than the values reported.

Investments in the “>1 Year” category include non-redeemable assets totaling \$1,350,570,000 and \$1,201,536,000, as well as investments with rolling lockup periods totaling \$330,325,000 and \$471,406,000 as of June 30, 2022 and 2021, respectively.

4. Endowment Funds

Total endowment assets as of June 30, 2022 and 2021 are \$2,989,671,000 and \$3,397,221,000, respectively. A pooled endowment fund is included as part of the University’s investments. The amounts distributed from the investment return of pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution amount is established annually and is between 3% and 5% of the market value per share as of the most recent December 31. The actual distribution amount is recommended by management and approved by the Trustee Executive Committee. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year accumulated earnings. Income attributable to shares from new donor-restricted and institution designated endowment funds during the first six months after establishment is not spent; such income is included in net assets without donor restrictions or with donor restrictions, depending on the nature of the endowment fund. For the fiscal years ended June 30, 2022 and 2021, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.3% and 3.7%.

For the years ended June 30, 2022 and 2021

The University’s endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University classifies as net assets with donor restrictions (a) the original value of contributions donated to the permanent endowment, (b) the original value of subsequent contributions to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Original gift amounts consist of donor restricted gifts to the University’s endowment to be held in perpetuity as well as gifts held in the endowment subject to donor time and purpose restrictions. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

The University has investment and spending policies for its endowment and similar funds that emphasize long-term capital appreciation as a primary source of return while balancing the dual objectives of growth in capital and principal preservation. Investments are expected to earn inflation-adjusted long-term returns sufficient to maintain or grow the purchasing power of assets, net of spending and investment expenses, within acceptable risk parameters. To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The University targets a diversified asset allocation of U.S. treasury bills, common and preferred equities, fixed income, hedge funds, natural resources, private equity, and real estate. The portfolio is expected to produce risk-adjusted returns that exceed the policy benchmarks, a blended rate of indices.

The following table represents endowment net asset composition by type of fund as of June 30, 2022, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions		Total with Donor Restrictions	Total
		Original Gift	Accumulated Gains		
Quasi	\$ 1,268,731	\$ -	\$ -	\$ -	\$1,268,731
Donor restricted:					
Underwater funds	-	39,066	(3,578)	35,488	35,488
All other funds	-	770,909	898,224	1,669,133	1,669,133
Endowment net assets at end of year	<u>\$ 1,268,731</u>	<u>\$ 809,975</u>	<u>\$ 894,646</u>	<u>\$ 1,704,621</u>	<u>\$2,973,352</u>

For the years ended June 30, 2022 and 2021

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2022, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 1,447,021	\$ 1,945,492	\$ 3,392,513
Reinvested income distribution	9,565	2,014	11,579
Realized and unrealized losses	(166,634)	(230,420)	(397,054)
Less: spending formula	(40,560)	(55,585)	(96,145)
Undistributed investment income.	(197,629)	(283,991)	(481,620)
Contributions	4,941	10,478	15,419
Pledge payments	32	31,898	31,930
Other additions, transfers, and net asset reclassifications	14,366	744	15,110
Endowment net assets at end of year	<u>\$ 1,268,731</u>	<u>\$ 1,704,621</u>	<u>\$ 2,973,352</u>

The following table represents endowment net asset composition by type of fund as of June 30, 2021, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions			Total
		Original Gift	Accumulated Gains	Total with Donor Restrictions	
Quasi	\$ 1,447,021	\$ -	\$ -	\$ -	\$ 1,447,021
Donor restricted:					
All other funds	-	764,519	1,180,973	1,945,492	1,945,492
Endowment net assets at end of year	<u>\$ 1,447,021</u>	<u>\$ 764,519</u>	<u>\$ 1,180,973</u>	<u>\$ 1,945,492</u>	<u>\$ 3,392,513</u>

There were no underwater endowment funds reported in net assets with donor restrictions as of June 30, 2021.

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2021, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 1,054,016	\$ 1,367,099	\$ 2,421,115
Reinvested income distribution	8,858	2,426	11,284
Realized and unrealized gains	408,460	562,377	970,837
Less: spending formula	(38,508)	(52,643)	(91,151)
Undistributed investment income.	378,810	512,160	890,970
Contributions	10,415	36,759	47,174
Pledge payments	71	30,811	30,882
Other additions (deductions), transfers, and net asset reclassifications	3,709	(1,337)	2,372
Endowment net assets at end of year	<u>\$ 1,447,021</u>	<u>\$ 1,945,492</u>	<u>\$ 3,392,513</u>

For the years ended June 30, 2022 and 2021

5. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2022 and 2021, in thousands of dollars, consist of the following:

	2022	2021
Accounts receivable, net:		
Students	\$ 21,023	\$ 21,245
Less: allowances	(7,077)	(7,116)
	13,946	14,129
Grants and contracts	116,149	91,398
Unsettled investment trades	19,349	7,712
Departmental sales, services, and other	53,880	55,476
Less: allowances	(9,139)	(8,735)
	180,239	145,851
Student loans	44,364	50,316
Less: allowances	(4,230)	(4,377)
	40,134	45,939
Total accounts and loans receivable, net	\$ 234,319	\$ 205,919

Federally sponsored student loans receivable represented \$16,598,000 and \$20,924,000 as of June 30, 2022 and 2021, respectively, of total student loans receivable, which consist of amounts due from current and former students under various federal government loan programs, including Perkins and health professional programs offered to graduate and undergraduate students. The University’s advances under Perkins and other federally funded student loan programs were \$21,069,000 and \$25,916,000 as of June 30, 2022 and 2021, respectively, and are included in other long-term obligations on the Consolidated Statements of Financial Position. The University has the right to assign loans disbursed under these programs to the federal government upon default by the borrower; therefore, no allowance has been provided for these loans.

Departmental sales, services, and other receivables include outstanding notes, mortgages, and advances bearing interest at rates up to 4.91% at June 30, 2022 and 2021, respectively, to certain employees. The aggregate amount as of June 30, 2022 and 2021 is \$8,496,000 and \$9,471,000, respectively.

Pledges Receivable:

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2022 and 2021, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2022	2021
In one year or less	\$ 135,912	\$ 52,748
Between one year and five years	60,599	130,813
More than five years	22,790	41,620
	219,301	225,181
Discount to present value (at rates ranging from 1.07% to 4.02%) . .	(12,123)	(13,387)
Less: allowance for unfulfilled pledges	(25,184)	(22,418)
Total pledges receivable, net	\$ 181,994	\$ 189,376

As of June 30, 2022 and 2021, over 70% of the University’s gross pledges receivable was due from four donors.

For the years ended June 30, 2022 and 2021

6. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation and amortization of right-of-use assets at June 30, 2022 and 2021, in thousands of dollars, consist of the following:

	2022	2021
Land	\$ 221,351	\$ 217,191
Buildings and improvements	3,806,553	3,578,300
Construction in progress	361,267	379,725
Software	57,558	57,558
Equipment	340,564	320,446
Library books	282,906	273,018
	<u>5,070,199</u>	<u>4,826,238</u>
Less: accumulated depreciation	(2,120,318)	(1,976,078)
Less: amortization of right-of-use assets	(28,839)	(27,033)
Total property, plant, and equipment, net.	<u>\$ 2,921,042</u>	<u>\$ 2,823,127</u>

As of June 30, 2022 and 2021, gross land, buildings and improvements and equipment include \$95,116,000, associated with equipment and office, research, and retail space finance leases.

7. Other Long-Term Obligations

Other long-term obligations at June 30, 2022 and 2021, in thousands of dollars, were as follows:

	2022	2021
Federal loan advances	\$ 21,069	\$ 25,916
Conditional asset retirement obligation	12,057	12,487
Annuities and split-interest agreements payable	8,218	6,725
Residual asset note obligation	-	4,132
Other	1,669	1,675
Total other long-term obligations	<u>\$ 43,013</u>	<u>\$ 50,935</u>

For the years ended June 30, 2022 and 2021

8. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2022 and 2021, in thousands of dollars, are summarized in the table below. Tax exempt and certain taxable bonds were issued through the Massachusetts Development Finance Agency (MDFA) and through the Massachusetts Health and Educational Facilities Authority (HEFA) prior to its merger with MDFA.

	Final Bond Maturity	Interest Rate at June 30, 2022	Interest Rate at June 30, 2021	Outstanding Principal	
				2022	2021
Fixed rate bonds and notes payable:					
MDFA Series P, blended fixed rate	05/15/2059	5.63%	5.63%	\$ 100,000	\$ 100,000
MDFA Series W (taxable)	10/01/2045	5.20%	5.20%	100,470	100,470
MDFA Series X, blended fixed rate	10/01/2048	4.78%	4.78%	111,485	111,485
MDFA Series BB-1	10/01/2046	4.54%	4.54%	111,270	111,270
MDFA Series BB-2	10/01/2040	3.95%	3.95%	52,260	52,260
MDFA Series BB-3	10/01/2029	5.00%	5.00%	38,290	38,290
MDFA Series DD-1	10/01/2042	5.00%	5.00%	63,965	63,965
MDFA Series DD-2	10/01/2033	5.00%	5.00%	21,800	21,800
Series CC (taxable)	10/01/2048	4.06%	4.06%	300,000	300,000
Series EE (taxable)	10/01/2050	3.17%	3.17%	150,000	150,000
Series EE (taxable)	10/01/2035	2.58%	2.58%	50,000	50,000
Century notes (taxable)	07/15/2097	7.63%	7.63%	100,000	100,000
WBUR PPP Loan	08/03/2026	1.00%	1.00%	179	179
Various notes payable (taxable)	various	various	various	127	368
Total fixed rate bonds and notes payable				<u>1,199,846</u>	<u>1,200,087</u>
Variable rate bonds and notes payable:					
HEFA Series N (taxable)	10/01/2034	1.62%	0.07%	24,255	25,515
MDFA Series U-1	10/01/2040	1.41%	0.64%	50,000	50,000
MDFA Series U-2	10/01/2040	1.26%	0.17%	50,000	50,000
MDFA Series U-3	10/01/2040	1.37%	0.01%	50,000	50,000
MDFA Series U-5A	10/01/2031	1.35%	0.58%	24,800	26,800
MDFA Series U-5B	10/01/2031	1.35%	0.58%	26,000	28,000
MDFA Series U-6A	10/01/2042	1.37%	0.52%	62,850	62,850
MDFA Series U-6C	10/01/2042	0.65%	0.03%	52,545	52,545
MDFA Series U-6E	10/01/2042	0.59%	0.02%	62,695	62,695
Royal Bank of Scotland (taxable)	08/15/2029	1.76%	0.54%	17,264	21,870
MDFA Series Y	10/01/2039	1.35%	0.47%	35,000	35,000
MDFA Series AA-1	10/01/2039	1.26%	0.17%	81,370	81,370
MDFA Series AA-2	10/01/2039	1.19%	0.42%	81,370	81,370
Total variable rate bonds and notes payable				<u>618,149</u>	<u>628,015</u>
Total bonds and notes payable				1,817,995	1,828,102
Add: unamortized bond premium and discount, net				32,873	37,413
Less: unamortized bond issuance costs				(4,045)	(4,393)
Less: trust assets to refund Century notes				(100,000)	(100,000)
Total bonds and notes payable, net				<u>\$ 1,746,823</u>	<u>\$ 1,761,122</u>

For the years ended June 30, 2022 and 2021

Certain bond and bank obligations are collateralized by a pledge on tuition revenues, and certain other notes payable are collateralized by plant and property with a net carrying value of \$39,183,000 and \$40,399,000 as of June 30, 2022 and 2021, respectively. The University’s bank agreements require annual compliance with financial covenants, including a minimum level of debt service coverage and a minimum level of expendable resources relative to debt. The University was in compliance with all debt covenants as of June 30, 2022 and 2021.

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

Fiscal Year	Scheduled Principal Maturities
2023	\$ 8,079
2024	8,590
2025	8,925
2026	18,655
2027	19,078
Thereafter	<u>1,754,668</u>
Total	<u>\$ 1,817,995</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2022, the University’s debt portfolio includes variable rate demand bonds (VRDBs) of \$139,495,000, Series N, U-6C, and U-6E, that are supported by irrevocable letters of credit (LOCs). The LOCs are provided by a diverse group of financial institutions to secure bond repayment and interest obligations and have various maturity dates between September 2026 and May 2027. In the event that a VRDB cannot be remarketed, the bond may be “put” to the LOC provider, resulting in a loan to the University to fund redemption of the bond. If all outstanding VRDBs had been “put” as of June 30, 2022, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$23,249,000, \$46,498,000, \$46,498,000, and \$23,249,000 in fiscal years 2023, 2024, 2025, and 2026, respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In June 2020, the University issued Series EE of taxable bonds totaling \$200,000,000, of which \$154,444,000 was deposited into an irrevocable trust for the defeasance of all interest and principal payment obligations of the Century notes. On the call date, the escrow agent will release the final payments due on the Century notes. Trust assets equal to the par value of the Century notes, \$100,000,000, are presented in the University’s Consolidated Statements of Financial Position as a contra-liability reduction of bonds and notes payable, net. The remaining \$54,444,000 of trust assets will be used to fund interest expense over the life of the notes and are included in the University’s Consolidated Statements of Financial Position within prepaid expenses and other assets. The balance of trust assets remaining as of June 30, 2022 was \$127,646,000. The remaining proceeds of approximately \$45,556,000 from the Series EE issuance were utilized for operations.

For the years ended June 30, 2022 and 2021

Bank Lines:

The University has a total of \$240,000,000 in committed lines of credit with five financial institutions. There were no draws or outstanding loans under these lines of credit as of and for the years ended June 30, 2022 and 2021. The current expiration dates for all lines of credit are in June 2024. The University plans to renew the lines of credit upon expiration.

Debt-Related Derivatives:

The University has entered into various long-term interest rate exchange agreements to hedge all or a portion of the variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. The contracts require the University to make fixed rate interest payments in exchange for variable rate interest payments on the respective notional principal amounts. The variable rate payments received are expected to approximate the interest payable on the underlying variable rate debt. Scheduled reductions of the notional amounts under the swap agreements also generally match the scheduled amortization of the underlying debt.

Below is a summary of the terms of the University's outstanding debt-related derivatives as of June 30, 2022 and 2021, in thousands of dollars:

Swap	Notional Amount	Fair Value		Effective Date	Termination Date	University Pays	University Receives
		6/30/22	6/30/21				
Series DD-1	\$ 89,310	\$ 1,221	\$ (1,930)	08/01/2019	10/01/2023	SIFMA	1.15%
Series DD-2	25,000	3,464	6,910	10/03/2008	12/01/2027	5.28%	SIFMA
Series N	17,965	3,047	5,829	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1-3	37,500	16,796	29,969	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1-3	37,500	16,345	29,450	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5-AB	50,800	5,295	10,445	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	59,750	24,118	43,250	10/03/2008	10/01/2042	5.39%	SIFMA
Series U6	90,000	36,950	65,959	10/03/2008	10/01/2042	5.44%	SIFMA
Series U6	30,000	12,335	21,984	07/01/2008	10/01/2042	5.44%	SIFMA - 1-Mo.
Series U6	59,750	24,081	43,246	07/01/2008	10/01/2042	5.39%	SIFMA - 1-Mo.
Series U6	2,900	27	194	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y	35,000	9,054	18,085	10/01/2014	10/01/2039	4.70%	SIFMA - 1-Mo.
Series AA-1	81,370	22,531	42,050	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR - .027%*
Series AA-2	81,370	21,801	41,241	10/01/2015	10/01/2039	4.95%	79% of 1-Mo. USD LIBOR + .032%**
Royal Bank of Scotland	21,870	1,730	4,554	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment . . .		(3,263)	(4,460)				
Total		<u>\$ 195,532</u>	<u>\$ 356,776</u>				

*Until April 1, 2025; thereafter SIFMA

**Until April 1, 2026; thereafter SIFMA

SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index

LIBOR—London Interbank Offered Rate

For the years ended June 30, 2022 and 2021

Interest rate exchange liabilities are valued using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. In instances where models are used to validate third-party quotations, the value of the interest rate exchange liability depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs. The fair value of interest rate exchange agreements is categorized within Level 2 of the valuation hierarchy.

In 2022 and 2021, the University's net settlement payments on interest rate exchange agreements were \$31,905,000 and \$33,655,000, respectively. These net settlement costs have been reported in nonoperating activities in net realized and unrealized gains on interest rate agreements on the Consolidated Statements of Activities.

For purposes of the Consolidated Statements of Cash Flows, net settlements under the University's interest rate exchange agreements are generally included in cash flows from operating activities. However, in October 2008, the University elected to terminate its existing interest rate exchange agreements with a subsidiary of Lehman Brothers after that firm's bankruptcy and simultaneously entered replacement agreements with new counterparties who provided cash to facilitate settlement of the existing agreements. Accordingly, future net settlements under various replacement agreements, with a total notional amount of \$303,490,000 at June 30, 2022, are considered financing activities. During 2022 and 2021, respectively, \$11,589,000 and \$12,138,000 of the net settlement payments were classified as cash flows used in financing activities.

The University's interest rate exchange agreements necessarily involve counterparty credit exposure. The counterparties for the University's agreements are a diversified group of major financial institutions that meet the University's criteria for financial stability and creditworthiness. Interest rate exchange agreements provide for two-way collateral posting requirements intended to mitigate credit risk. At June 30, 2022 and 2021, the University was required to post collateral of \$36,700,000 and \$181,891,000, respectively. Posted collateral balances are included on the Consolidated Statements of Financial Position in cash and cash equivalents-restricted. Contractual bilateral collateral posting levels are based on counterparty public debt ratings; current University posting amounts could increase or decrease should the University's credit ratings change. Additionally, interest rate exchange contracts provide for early termination should a counterparty's credit ratings fall below investment grade.

9. Defined Contribution Plan

All employees who work at least 50% of a full-time schedule and have an appointment or an expected assignment duration of at least nine months are eligible to participate in the University's defined contribution benefit plans. The University contributes a specified percentage of eligible employee compensation and matches employee contributions up to 3.00%. In response to COVID-19, the University suspended these contributions for fiscal year 2021. The contributions were reinstated for fiscal year 2022. Contributions for the year ended June 30, 2022 were \$91,735,000.

For the years ended June 30, 2022 and 2021

10. Leases

Leases:

The University is committed to minimum annual rent payments under several long-term non-cancellable operating and capital leases for educational and office space through fiscal year 2066.

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

	2022	2021
<i>Lease cost:</i>		
Finance lease expense:		
Amortization of right-of-use assets	\$ 1,806	\$ 1,807
Interest on lease liabilities	3,558	3,584
Operating lease expense	18,624	23,393
Short-term lease expense	3,607	2,469
Total lease expense	\$ 27,595	\$ 31,253
<i>Other Information:</i>		
Right-of-use assets obtained in exchange for new operating lease liabilities . . .	\$ 4,975	\$ 43,375
Weighted-average remaining lease term-finance leases	43 years	44 years
Weighted-average remaining lease term-operating leases	9.2 years	9.1 years
Weighted-average discount rate-finance leases	4.28%	4.28%
Weighted-average discount rate-operating leases	2.14%	1.97%

Payments due include options to extend leases that are reasonably certain through fiscal year 2066, in thousands of dollars, and are summarized below as of June 30, 2022:

Fiscal Year	Operating	Finance
2023	\$ 14,940	\$ 4,064
2024	13,424	4,064
2025	13,543	4,064
2026	13,882	4,064
2027	12,809	4,064
Thereafter	59,822	156,280
	128,420	176,600
Less: amounts representing interest . .	(12,332)	(97,010)
Total	\$ 116,088	\$ 79,590

The University is the lessor in several long-term non-cancellable leases for commercial space through fiscal year 2040. Future minimum rental revenue due, excluding from ground leases discussed in note 11, is summarized below as of June 30, 2022, in thousands of dollars:

Fiscal Year	Operating
2023	\$ 8,203
2024	7,488
2025	6,770
2026	4,867
2027	3,400
Thereafter	26,989
Total	\$ 57,717

For the years ended June 30, 2022 and 2021

11. Commitments and Contingencies

Deferred Ground Lease Revenue:

In December 2012, in connection with the sale of a non-core asset, the University entered into a 75-year ground agreement to lease the related land to the purchaser of the building. The lease term is through 2087. In connection with this transaction, the University received a prepaid lease payment of \$38,625,000 that will be amortized on a straight-line basis over the term of the lease. For each of the years ended June 30, 2022 and 2021, the University recognized rental revenue of \$515,000 related to the ground lease. The unamortized deferred ground lease revenue as of June 30, 2022 and 2021 is \$33,732,000 and \$34,247,000, respectively.

In connection with the sale of non-core assets, the University entered into four 99-year agreements to lease the related land to the purchaser of the buildings. The lease term is through 2115. In connection with this transaction, the University received a prepaid lease payment of \$64,000,000 that will be amortized on a straight-line basis over the term of the lease. For each of the years ended June 30, 2022 and 2021, the University recognized rental revenue of \$647,000 related to the ground lease. The unamortized deferred rent as of June 30, 2022 and 2021 is \$60,337,000 and \$60,984,000, respectively.

Other:

As of June 30, 2022, the University has commitments of approximately \$411,912,000 related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flows, federal government grants, and borrowings.

Effective July 1, 1996, the University entered into a support agreement with Boston Medical Corporation, which was formed from the merger of Boston City Hospital and Boston Medical Center Hospital. The University agreed to continue its support of clinical department operations at a level of support proportionately consistent to what was provided before the merger. The University's commitment for fiscal year 2022 was \$8,974,000 and is reflected in operating expenses.

The University is a defendant in various legal actions arising in the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that any resulting liability would not have a material effect on the University's financial position.

12. Functional Classification of Expenses

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

Expenses presented by functional classification for the year ended June 30, 2022 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages	\$ 591,405	\$ 108,602	\$ 172,469	\$ 113,655	\$ 33,418	\$ 1,019,549
Employee benefits	193,776	35,426	35,131	39,696	10,118	314,147
Supplies and services	164,823	89,679	237,076	62,460	107,474	661,512
Utilities, rent, and repairs	44,724	3,045	9,861	11,943	23,035	92,608
Depreciation	89,757	9,542	6,540	8,693	31,085	145,617
Interest	25,862	43	-	10,092	15,739	51,736
Total operating expenses	<u>\$ 1,110,347</u>	<u>\$ 246,337</u>	<u>\$ 461,077</u>	<u>\$ 246,539</u>	<u>\$ 220,869</u>	<u>\$ 2,285,169</u>

For the years ended June 30, 2022 and 2021

Expenses presented by functional classification for the year ended June 30, 2021 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages	\$ 552,517	\$ 103,049	\$ 160,347	\$ 112,951	\$ 26,601	\$ 955,465
Employee benefits	123,603	22,914	23,827	26,304	5,409	202,057
Supplies and services	117,689	65,646	221,674	56,971	76,506	538,486
Utilities, rent, and repairs	40,285	4,340	3,464	10,690	28,842	87,621
Depreciation	82,252	8,821	5,309	7,848	28,423	132,653
Interest	26,513	177	-	10,323	16,183	53,196
Total operating expenses	<u>\$ 942,859</u>	<u>\$ 204,947</u>	<u>\$ 414,621</u>	<u>\$ 225,087</u>	<u>\$ 181,964</u>	<u>\$ 1,969,478</u>

13. Subsequent Events

The University has assessed the impact of subsequent events through September 28, 2022, the date the Consolidated Financial Statements were issued.

THE CORPORATION

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