

Northeastern University
Consolidated Financial Statements
June 30, 2023 and 2022

Northeastern University
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June 30, 2023 and 2022

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Report of Independent Auditors

To the Board of Trustees of Northeastern University

Opinion

We have audited the accompanying consolidated financial statements of Northeastern University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statement of activities for the year ended June 30, 2023, and of cash flows for the years ended June 30, 2023 and 2022, including the related notes (collectively referred to as 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, 2023 and 2022, the changes in its net assets for the year ended June 30, 2023, and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the consolidated statements of financial position as of June 30, 2022, and the related consolidated statement of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated November 14, 2022, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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 accounting principles generally accepted in the United States of America, 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 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 US 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 US 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 evaluating 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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 23, 2023

Northeastern University
Consolidated Statements of Financial Position
June 30, 2023 and 2022

<i>(in thousands of dollars)</i>	2023	2022
Assets		
Cash and cash equivalents	\$ 402,335	\$ 311,487
Accounts and other receivables, net	158,779	151,006
Prepays and other assets	90,485	76,035
Pledges receivable, net (Note 5)	215,457	236,262
Student and other loans receivable, net	12,937	17,777
Operating leases - right of use assets (Note 7)	364,670	325,596
Investments (Notes 4)	2,058,371	1,854,732
Special Collection	27,714	3,380
Property, plant and equipment, net (Note 6)	<u>2,678,892</u>	<u>2,480,003</u>
Total assets	<u>\$ 6,009,640</u>	<u>\$ 5,456,278</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 227,871	\$ 222,107
Accounts payable on construction projects	75,472	32,286
Deferred revenue and student deposits	218,268	227,604
Refundable advances	30,191	31,650
Interest rate swap agreement (Notes 4 and 8)	14,304	25,071
Operating lease liabilities (Note 7)	410,194	364,590
Finance lease liabilities (Note 7)	16,678	18,338
Bonds and notes payable (Note 8)	<u>1,275,295</u>	<u>1,063,378</u>
Total liabilities	<u>2,268,273</u>	<u>1,985,024</u>
Net assets		
Without donor restrictions (Note 11)	2,517,413	2,355,652
With donor restrictions (Note 11)	<u>1,223,954</u>	<u>1,115,602</u>
Total net assets	<u>3,741,367</u>	<u>3,471,254</u>
Total liabilities and net assets	<u>\$ 6,009,640</u>	<u>\$ 5,456,278</u>

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

Northeastern University
Consolidated Statement of Activities
Year Ended June 30, 2023
(with summarized financial information for the year ended June 30, 2022)

<i>(in thousands of dollars)</i>	Without Donor Restrictions	With Donor Restrictions	2023	2022
Operating				
Revenues and other support				
Tuition and fees (after financial aid of \$505,746 in 2023 and \$486,115 in 2022)	\$ 1,456,996	\$ -	\$ 1,456,996	\$ 1,288,927
Contributions available for operations	6,559	30,767	37,326	27,780
Auxiliary enterprises	189,642	-	189,642	192,207
Sponsored support	212,501	-	212,501	182,740
Indirect cost recovery	49,715	-	49,715	42,114
Endowment spending available for operations (Note 12)	24,951	23,112	48,063	38,810
Other investment return available for operations	28,005	-	28,005	4,366
Other	59,901	-	59,901	35,691
Total operating revenues	<u>2,028,270</u>	<u>53,879</u>	<u>2,082,149</u>	<u>1,812,635</u>
Net assets released for operations	<u>22,237</u>	<u>(22,237)</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>2,050,507</u>	<u>31,642</u>	<u>2,082,149</u>	<u>1,812,635</u>
Expenses				
Salary and benefits	1,050,908	-	1,050,908	887,390
Other operating expenses	735,296	-	735,296	645,411
Depreciation	122,090	-	122,090	93,594
Interest	41,452	-	41,452	34,526
Total operating expenses (Notes 6, 8 and 14)	<u>1,949,746</u>	<u>-</u>	<u>1,949,746</u>	<u>1,660,921</u>
Increase in net assets from operating activities	100,761	31,642	132,403	151,714
Nonoperating				
Contributions	6,566	71,162	77,728	49,007
Contributions available for operations	(6,559)	(30,767)	(37,326)	(27,780)
Endowment and other investment return	78,203	56,742	134,945	(119,691)
Endowment spending available for operations (Note 12)	(24,951)	(23,112)	(48,063)	(38,810)
Other investment return available for operations	(28,005)	-	(28,005)	(4,366)
Change in annuity and life income funds	-	(379)	(379)	(172)
Other nonoperating changes	5,551	-	5,551	(1,033)
Net realized and change in unrealized gain/(loss) on interest rate swap agreement (Note 8)	8,662	-	8,662	19,280
Inherent contributions from acquisition	24,597	-	24,597	702,545
Net assets released from restrictions and other transfers	<u>(3,064)</u>	<u>3,064</u>	<u>-</u>	<u>-</u>
Change in net assets	161,761	108,352	270,113	730,694
Net assets at beginning of year	<u>2,355,652</u>	<u>1,115,602</u>	<u>3,471,254</u>	<u>2,740,560</u>
Net assets at end of year	<u>\$ 2,517,413</u>	<u>\$ 1,223,954</u>	<u>\$ 3,741,367</u>	<u>\$ 3,471,254</u>

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

Northeastern University
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Cash received from student-related revenues	\$ 1,648,196	\$ 1,511,527
Cash received from sponsored programs	238,434	159,167
Cash received from donors	19,349	28,681
Proceeds from sale of contributed securities	17,041	11,509
Cash (used)/received from net endowment and other investment income	41,239	(3,068)
Cash received from auxiliary enterprises other than student housing	10,113	16,702
Cash received from other income	54,750	27,379
Cash paid to employees, students, and vendors	(1,784,242)	(1,506,157)
Interest and other payments	(47,751)	(49,295)
Cash received from premium on bonds premium/discount	45,500	-
Cash provided for acquisition	-	(28,553)
Net cash provided by operating activities	<u>242,629</u>	<u>167,892</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(278,127)	(277,613)
Proceeds from sale or maturities of investments	545,789	334,351
Purchases of investments	(655,989)	(429,455)
Student loans and other loans issued	(570)	(1,768)
Proceeds from student and other loans	5,344	4,166
Net cash (used in)/provided by investment activities	<u>(383,553)</u>	<u>(370,319)</u>
Cash flows from financing activities		
Decrease in refundable advances	(1,459)	970
Interest and dividends restricted for long-term investments	185	128
Payments to annuitants and life income funds	(1,040)	(1,133)
Contributions for long-term investments	14,906	20,179
Proceeds from the sale of restricted contributed securities	47,653	4,870
Payments on finance lease obligations	(1,660)	(1,580)
Debt refinancing	(172,460)	-
Net proceeds from issuance of long-term debt	378,510	-
Retirement of bond premium, discount & issuance costs	(4,839)	-
Payments on bonds and notes payable	(27,135)	(23,345)
Bond issuance costs on new financing	(889)	-
Payment of loans for acquisition	-	(20,980)
Net cash provided by/(used in) financing activities	<u>231,772</u>	<u>(20,891)</u>
Increase in cash and cash equivalents	90,848	(223,318)
Cash and cash equivalents		
Beginning of the year	<u>311,487</u>	<u>534,805</u>
End of the year	<u>\$ 402,335</u>	<u>\$ 311,487</u>

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

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

1. Background

Founded in 1898, Northeastern University (“the University” or “Northeastern”) is a global research university and recognized leader in experiential lifelong learning. The approach of integrating real-world experience with education, research, and innovation, empowers our students, faculty, alumni, and partners to create worldwide impact. The global university system provides our community and academic, government, and industry partners with unique opportunities to think locally and act globally. The system which includes 13 campuses across the U.S., U.K., and Canada, 300,000-plus alumni, and 3,000 partners worldwide-serves as a platform for scaling ideas, talent, and solutions.

Northeastern’s personalized, experiential undergraduate and graduate programs lead to degrees through the doctorate in 9 colleges and schools across our campuses. Learning emphasizes the intersection of data, technology, and human literacies, uniquely preparing graduates for careers of the future and lives of fulfillment and accomplishment.

The research enterprise, with an R1 Carnegie classification, is solutions-oriented and spans the world. The faculty scholars and students work in teams that cross not just disciplines, but also sectors-aligned around solving today’s highly interconnected global challenges and focused on transformative impact for humankind.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with the reporting standards for not-for-profit organizations and include the University and its subsidiaries, the most significant of which includes the Kostas Research Institute and the New College of the Humanities based in the United Kingdom.

Generally Accepted Accounting Principles (“GAAP”) require classification of net assets and revenues, expenses, gains, and losses, based on the existence or absence of donor restrictions. The categories, net assets without donor restrictions and net assets with donor restrictions, are defined as follows:

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by management or the Board of Trustees.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Net realized and change in unrealized gains and losses on investments and other assets, or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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

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

Expirations of donor-imposed restrictions on net assets are reported as reclassifications between the applicable classes of net assets in the statement of activities. Gifts with donor-imposed restrictions, which are reported as donor restricted revenues, are released to net assets without donor restrictions when used for an expenditure that satisfies the donor-imposed restriction. Gifts restricted for the purchase of land, buildings and equipment are reported as donor restricted nonoperating revenues and are released to net assets without donor restrictions when the assets are placed into service.

Revenues

Revenues are recognized when control of the promised goods or services is transferred to the University's customers, in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services.

Tuition and fees are derived from students participating in degree programs as well as lifelong learning programs. Tuition is recognized ratably over the academic period of the course or program offered based on time elapsed and financial aid awarded to students reduces the amount of revenue recognized. The University's individual schools have various billing and academic cycles, and the majority of the University's programs are designed to be completed within the fiscal year. Tuition and fees and auxiliary revenues received in advance of services to be rendered are recorded as deferred revenue and student deposits which totaled \$85,576,000 and \$83,086,000, respectively, at June 30, 2023 and 2022.

Scholarships applied to tuition and fees reflect student financial aid funded by the University's operating budget, restricted endowment funds, and federal and state assistance programs. Compensation of students for services provided and tuition benefits for employees are presented as expenses.

The University receives sponsored support from governmental and private sources. Sponsored support primarily consists of contribution revenue, which is recognized when qualifying expenditures are incurred. Sponsored support for which restrictions are met in the same year are reflected in revenues without donor restrictions. Federally funded operating grants and contracts for

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the years ended June 30, 2023 and 2022 were \$238,503,000 and \$197,076,000, respectively, including indirect costs of \$46,404,000 and \$38,956,000, respectively. Total conditional contributions remaining to be recognized from sponsors for the years ended June 30, 2023 and 2022 were \$294,583,000 and \$233,771,000, respectively, which primarily relate to support to be received from the federal government. Other sponsored support is considered exchange arrangements, and revenue under these agreements is recognized based on the University's fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones.

Funding received in advance of recognition is recorded as refundable advances. Included in refundable advances at June 30, 2023 and 2022 are \$19,233,000 and \$15,304,000, respectively, of sponsored receipts, that have not been expended but generally are expended within the next year. Indirect cost recoveries by the University on U.S. Government contracts and grants are based upon a negotiated rate and are recorded in revenues without donor restrictions.

Auxiliary enterprises include the operation of student housing and dining services, the daycare center and managed properties and revenue is recognized ratably over the period during which the services are provided. Student housing and dining revenues received in advance of services to be rendered are recorded as deferred revenue and student deposits and are reflected above with those deposits related to tuition and fees.

Other revenues are recognized at the point in time goods or services are provided. During fiscal 2019, the University entered into a parking arrangement with a third party. The University received an upfront payment for which deferred revenue of \$144,168,000 was recorded and will be recognized within other revenues on a straight-line basis over the fifty-year term of the parking arrangement.

Nonoperating Activities

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

Expenses incurred in carrying out the fundraising activities of the University, amounted to \$37,192,000 and \$25,026,000 for the years ended June 30, 2023 and 2022, respectively.

Cash and Cash Equivalents

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

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

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Accounts and Loans Receivable

Accounts receivables are stated net of allowance for doubtful accounts of \$9,254,000 and \$10,372,000 at June 30, 2023 and 2022, respectively. Loans receivables are stated net of allowance for doubtful accounts of \$2,091,000 and \$687,000 at June 30, 2023 and 2022, respectively. Loans receivable are principally amounts due from students under Federally Sponsored Loan Programs, which are subject to significant restrictions; accordingly, it is not practical to determine the fair value of such amounts.

The University records an allowance for doubtful accounts for student and other loans receivables including those under the Federal Perkins Loan Program. Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans previously disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain nonrepayment situations. Management believes that this allowance at June 30, 2023 and 2022 is adequate to absorb credit losses inherent in the portfolio as of that date.

Investments

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

The University values its financial assets and liabilities at fair value in accordance with GAAP.

Net investments return/(loss) is reported in the consolidated statement of activities and consists of interest and dividends, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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

Property, Plant and Equipment

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

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

Buildings	50 years
Building improvements	30 years
Furniture, equipment, and books	5–20 years
Software	4–7 years

Expenditures for maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized. Costs associated with construction of new facilities are reported as construction in progress until such projects are completed.

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The University's Special Collection ("the Collection") is comprised of works of art, historical treasures, or similar assets. The Collection is protected and preserved for public exhibition, education, research, and the furtherance of public service. The Collection is capitalized at its appraised values.

Conditional Asset Retirement Obligations

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

The University recognized \$2,807,000 and \$1,336,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2023 and 2022, respectively. Conditional asset retirement obligations of \$36,403,000 and \$26,601,000 at June 30, 2023 and 2022, respectively, are included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Endowment

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

The Board has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act ("UPMIFA" or "Act") for donor-restricted endowment funds as requiring the preservation of the original value of gifts, as of the gift date, to donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The University retains in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively these amounts are referred to as the historic dollar value of the fund.

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

Net assets without donor restrictions include funds designated by the Board to function as endowments.

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University expects its endowment funds, over time, to provide an average real rate of return of approximately 4% annually.

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The University's endowment spending policy is calculated using 4% of a sixty-month moving average of the endowment fund's market value. This amount is distributed to the appropriate funds and treated as operating revenue in the statement of activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains. The amount distributed each year is subject to the Board's approval. During both fiscal years 2023 and 2022, the full payout amount was distributed.

Tax Status

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

GAAP requires that the University evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The University has analyzed the tax positions taken and has concluded that as of June 30, 2023, there are no significant uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results may differ from these estimates.

Recently Adopted Accounting Pronouncements

The University is currently evaluating the impact of accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date.

3. Available Resources and Liquidity

As of June 30, 2023 and 2022, the following table shows the total financial assets held by the University and the amounts of those financial assets that could readily be made available within one year of the consolidated statements of financial position date to meet expenditures:

<i>(in thousands of dollars)</i>	2023	2022
Financial assets available to meet general expenditures over the next 12 months		
Cash and cash equivalents	\$ 402,335	\$ 311,487
Accounts and other receivables, net	158,779	151,006
Pledges receivable due in 1 year or less available for expenditures	53,457	51,650
Forecasted endowment spending available for operations	51,095	47,481
Other investments not invested in the endowment	357,375	295,353
	<u>\$ 1,023,041</u>	<u>\$ 856,977</u>

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June 30, 2023 and 2022

Northeastern regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. When reviewing available resources required to meet its expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities.

In addition to financial assets available to meet expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows which identify the sources and uses of the University's cash and show positive cash generated by operations for fiscal years 2023 and 2022.

Additionally, the University has quasi endowment assets of \$804,836,000 and \$778,389,000 as of June 30, 2023 and June 30, 2022, respectively. Although the University does not intend to spend from its quasi-endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi endowment could be made available if necessary. However, these funds contain investments with lock-up provisions that reduce the total investments that could be made available (Please see Note 4 for disclosures about investments).

4. Fair Value Measurements

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

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

- Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.
- Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Valuations using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023, and indicates the fair value hierarchy utilized to determine such fair value:

	6/30/2023	Fair Value Measurements at the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>(in thousands of dollars)</i>				
Beneficial interest in charitable remainder trust investments	\$ 14,403	\$ -	\$ -	\$ 14,403
Endowment investments				
Short-term investments	12,542	12,542	-	-
Fixed income	78,968	78,968	-	-
Domestic equity	292,857	292,857	-	-
International equity	41,292	41,292	-	-
Private equity at NAV (a)	473,711	-	-	-
Hedge funds at NAV (a)	782,612	-	-	-
Total endowment investments	1,681,982	425,659	-	-
Other investments				
Short-Term Investments	157	157	-	-
Fixed income	355,359	355,359	-	-
Domestic equity	1,859	1,859	-	-
International Equity	-	-	-	-
Auction rate securities and other	19,014	-	-	19,014
Total other investments	376,389	357,375	-	19,014
Total investments	2,058,371	783,034	-	19,014
Total assets	\$ 2,072,774	\$ 783,034	\$ -	\$ 33,417
Interest rate swap agreements – liability	\$ (14,304)	\$ -	\$ (14,304)	\$ -
Total liabilities	\$ (14,304)	\$ -	\$ (14,304)	\$ -

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

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The following table presents information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2022, and indicates the fair value hierarchy utilized to determine such fair value:

	6/30/2022	Fair Value Measurements at the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>(in thousands of dollars)</i>				
Beneficial interest in charitable remainder trust investments	\$ 13,788	\$ -	\$ -	\$ 13,788
Endowment investments				
Short-term investments	29,312	29,312	-	-
Fixed income	150,131	150,131	-	-
Domestic equity	214,130	214,130	-	-
International equity	64,981	64,981	-	-
Private equity at NAV (a)	436,023	-	-	-
Hedge funds at NAV (a)	646,788	-	-	-
Investments in-transit	-	-	-	-
Total endowment investments	1,541,365	458,554	-	-
Other investments				
Short-Term Investments	48	48	-	-
Fixed income	292,732	292,732	-	-
Domestic equity	2,181	2,181	-	-
International Equity	392	392	-	-
Auction rate securities and other	18,014	-	-	18,014
Total other investments	313,367	295,353	-	18,014
Total investments	1,854,732	753,907	-	18,014
Total assets	\$ 1,868,520	\$ 753,907	\$ -	\$ 31,802
Interest rate swap agreements – liability	\$ (25,071)		\$ (25,071)	
Total liabilities	\$ (25,071)	\$ -	\$ (25,071)	\$ -

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

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

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At June 30, 2023 the change in the fair value of financial instruments valued using significant unobservable inputs (Level 3) is shown below:

<i>(in thousands of dollars)</i>	Auction Rate Securities and Other	Beneficial Interest in Charitable Remainder Trust	Total
Fair value recorded at June 30, 2021	\$ 18,014	\$ 5,317	\$ 23,331
Additions	-	9,672	9,672
Unrealized gain/(loss)	-	(1,201)	(1,201)
Fair value recorded at June 30, 2022	<u>\$ 18,014</u>	<u>\$ 13,788</u>	<u>\$ 31,802</u>
Additions	1,000	163	1,163
Unrealized gain/(loss)	-	452	452
Fair value recorded at June 30, 2023	<u>\$ 19,014</u>	<u>\$ 14,403</u>	<u>\$ 33,417</u>

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

At June 30, 2023, liquidity terms for investments consist of the following:

<i>(in thousands of dollars)</i>	Within 30 Days	31-60 Days Prior Written Notice	61-90 Days Prior Written Notice	91-180 Days Prior Written Notice	181-365 Days Prior Written Notice	1-5 Years	Illiquid	Total
Short-term investments	\$ 12,699	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,699
Fixed income	434,327	-	-	-	-	-	-	434,327
Domestic equity	294,716	-	-	-	-	-	-	294,716
International equity	41,292	-	-	-	-	-	-	41,292
Private equity	-	-	-	-	-	-	473,711	473,711
Hedge funds	79,496	134,696	-	290,273	111,118	104,713	62,316	782,612
Other investments	-	-	-	-	-	-	19,014	19,014
	<u>\$ 862,530</u>	<u>\$ 134,696</u>	<u>\$ -</u>	<u>\$ 290,273</u>	<u>\$ 111,118</u>	<u>\$ 104,713</u>	<u>\$ 555,041</u>	<u>\$ 2,058,371</u>

Unfunded commitments of \$226,328,000 and \$260,375,000 at June 30, 2023 and 2022, respectively, consist of commitments that the University has made to various private equity funds. These funds may be called for a period to extend between one year and until termination of the fund, the timing for which is unknown.

The University is the beneficiary of various charitable remainder trusts held and administered by outside trustees. A receivable is recorded at the present value of the amount held by the trustees that is due to the University, which is calculated using the life expectancy of the beneficiaries. Valuations are reviewed annually by management by updating life expectancy of the beneficiaries, discount rates and the fair value of the underlying investments. The discount rates used for the years ended June 30, 2023 and 2022 ranges from 3.81% to 4.13% and 2.98% to 3.04%, respectively, based on ten-year daily treasury yield curve rates.

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The University's auction rate securities at June 30, 2023 and 2022 were determined to have a fair value of \$17,000,000 and were reflective of a \$3,000,000 discount. The auction rate securities are valued using the income approach, specifically a discounted cash flow analysis. This valuation methodology includes utilizing unobservable inputs such as offered quotes and comparability adjustments to arrive at the estimated fair value. The University performs ongoing due diligence to determine that the auction rate securities' fair value is reasonable.

The estimated fair value of the interest rate swap agreement is based on an independent third-party valuation. The fair value of swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date. The University has performed due diligence on the fair value of its interest rate swap agreement to determine fair value at June 30, 2023 and 2022.

5. Pledges Receivable

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

<i>(in thousands of dollars)</i>	2023	2022
One year or less	\$ 80,523	\$ 88,290
Between one and five years	107,317	123,033
Greater than five years	47,746	47,072
	<u>235,586</u>	<u>258,395</u>
Less: Discount	(13,521)	(14,333)
Less: Allowance for doubtful pledges	(6,608)	(7,800)
Pledges receivable, net	<u>\$ 215,457</u>	<u>\$ 236,262</u>

At June 30, 2023 and 2022, the University has \$17,000,000 and \$17,000,000, respectively, in conditional pledges that are not reflected in the consolidated financial statements due to their conditional nature.

6. Property, Plant and Equipment

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

<i>(in thousands of dollars)</i>	2023	2022
Land	\$ 205,498	\$ 205,498
Building and improvements	2,744,634	2,593,015
Finance lease	37,928	37,928
Furniture and equipment	463,171	415,020
Library books	72,239	68,268
Construction in progress	341,531	231,166
	<u>3,865,001</u>	<u>3,550,895</u>
Less: Accumulated depreciation	(1,186,109)	(1,070,892)
	<u>\$ 2,678,892</u>	<u>\$ 2,480,003</u>

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Depreciation expense amounted to \$122,090,000 and \$93,594,000 for the years ended June 30, 2023 and 2022, respectively, and is allocated in the functional and natural classification of expenses footnote to functional expenses based on specific use of the related facilities. Operation, maintenance, and security of plant expense totaled \$120,942,000 and \$100,181,000 for the years ended June 30, 2023 and 2022, respectively, and is allocated to functional expense categories in the functional and natural classification of expenses footnote based on salary expense. Please refer to Note 14.

The value of the Special Collections, located on the Mills campus, has been increased from \$3,380,000 to \$27,714,126 based on appraisals completed.

7. Leases

The University is the lessee of equipment and space under operating (rental) and finance leases. The University determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The University categorizes leases with contractual terms longer than twelve months as either operating or finance. The University's leases generally have terms that range from one to five years for equipment and one to twenty-five years for property, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement. Right of use assets and lease liabilities for operating leases are included in "Operating leases - right of use assets" and "Operating lease liabilities," respectively, in the consolidated statements of financial position. Finance lease right of use assets and lease liabilities are included in "Property, plant and equipment, net" and "Finance lease liabilities", respectively, in the consolidated statements of financial position. Lease assets represent the University's right to use an underlying asset for the lease term and lease liabilities represent the University's obligation to make lease payments arising from the lease. The University elected the short-term lease exemption policy as well as the practical expedient that allows lessees to treat the lease and nonlease components as a single lease component.

Operating and finance lease right of use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the collateralized incremental borrowing rate at the commencement date in determining the present value of future payments. Total rental expense related to operating leases, including short-term leases and variable lease payments was \$110,962,000 and \$131,589,000 in fiscal year 2023 and 2022, respectively.

The University commenced the residence hall finance lease in July 2001. The rent, over the 30-year term of the lease, is equal to the actual debt service plus customary fees payable with respect to the \$31,130,000 principal amount of the bonds issued to finance the building. The annual lease commitments for future years, principal plus interest, range from \$2,593,000 in 2024 to \$2,576,000 in 2032.

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Maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities:

<i>(in thousands of dollars)</i>	Operating	Finance
Year		
2024	\$ 69,199	\$ 2,526
2025	62,292	2,526
2026	53,898	2,526
2027	50,306	2,526
2028	51,228	2,526
Thereafter	330,610	7,578
Total lease payments	617,533	20,208
Less: Imputed interest	(207,339)	(3,530)
Present value of lease liabilities	\$ 410,194	\$ 16,678

Weighted average remaining lease term and discount rate for operating and finance leases were as follows:

	2023	2022
Weighted average remaining lease term		
Operating leases	10.8 years	10.7 years
Finance lease	8 years	9 years
Weighted average discount rate		
Operating leases	4.14 %	4.18 %
Finance lease	4.92 %	4.92 %

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8. Bonds and Notes Payable

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

<i>(in thousands of dollars)</i>	Rate	Maturity	2023	2022
Massachusetts Development Finance Agency				
Series T -1 (par value, \$63,260)	2.00%-5.00%	2037	\$ 3,350	\$ 59,710
Series T -2 (par value, \$66,315)	3.00%-5.00%	2037	-	62,790
Series T -3 (par value, \$70,000)	Variable	2037	65,925	66,475
Series 2012 (par value, \$54,385)	4.00%-5.00%	2035	-	54,385
Series 2014A (par value, \$150,000)	4.38%-5.25%	2044	150,000	150,000
Series 2018A (par value, \$61,005)	3.00%-5.00%	2033	48,560	51,880
Series 2020A (par value, \$103,480)	5.00%	2035	88,425	103,480
Series 2022 (par value, \$378,510)	4.00%-5.00%	2044	378,510	-
Taxable Revenue Bonds				
Series 2010B (par value, \$75,460)	3.35%-6.43%	2035	48,445	49,940
Series 2014B (par value, \$100,000)	.098%-5.29%	2032	59,425	65,065
Series 2018B (par value, \$70,415)	4.12%	2048	70,415	70,415
Series 2020B (par value, \$300,000)	2.89%	2050	300,000	300,000
Line of credit and other notes payable	Variable	2023	-	-
			1,213,055	1,034,140
Add: Unamortized Premium on Bonds			67,575	34,573
Less: Unamortized Discount on Bonds			(3,102)	(3,453)
Less: Unamortized Issuance Cost on Bonds			(2,233)	(1,882)
			\$ 1,275,295	\$ 1,063,378

Approximate future annual principal requirements are below:

<i>(in thousands of dollars)</i>	Principal Payments
Year	
2024	\$ 27,530
2025	28,725
2026	29,980
2027	31,325
2028	32,830
Thereafter	1,062,665
	\$ 1,213,055

The tables above reflect the contractual maturities of the debt agreements which were effective as of June 30, 2023.

On October 1, 2019, the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series Y-1 and Y-2 were redeemed for the amounts of \$7,470,000 and \$23,530,000, respectively. The University financed the \$31,000,000 redemption utilizing its line of credit. This was subsequently paid off in July 2020 with the proceeds of Series 2020B as described below.

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On July 7, 2020, the University issued \$300,000,000 in US Bank National Association taxable bonds Series 2020B. \$31,000,000 of the proceeds were used to pay off the line of credit in July 2020. \$17,610,000 of the proceeds were used to refund a portion of the MDFA 2010A bonds in October 2020 and the remaining funds will be used to fund future capital needs. Principal payments commence in October 2045 with final tender in October 2050.

On July 7, 2020, the Massachusetts Development Finance Agency (“MDFA”) Series 2020A bonds were issued in the amount of \$103,480,000 for the purpose of refunding a portion of the MDFA 2010A bond for \$127,118,000 in October 2020. The MDFA Series 2020A bonds were issued with an original premium of \$27,047,000. Principal payments commence in October 2022 with final tender in October 2035.

On August 11, 2022, the Massachusetts Development Finance Agency (“MDFA”) Series 2022 tax-exempt, fixed-rate bonds were issued in the amount of \$378,510,000. The bonds proceeds were used to refund MDFA Series 2012 for \$54,385,000, Series T-2 for \$62,240,000 and a partial refund of Series T-1 for \$55,385,000 the remaining proceeds will be used to fund capital projects. The MDFA Series 2022 bonds were issued with an original premium of \$46,500,000. Principal payments commence in October 2023 with final tender in October 2044.

Interest expense on bonds and notes payable totaled \$53,367,000 and \$38,872,000 for the years ended June 30, 2023 and 2022, respectively. Interest expense has been allocated to each functional expense category in the functional and natural classification of expenses footnote based on specific identification. Total amounts paid in 2023 and 2022 were \$59,201,000 and \$51,444,000, respectively, to meet interest costs including settlement costs on the related interest rate swap agreement.

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

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

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

<i>(in thousands of dollars)</i>	June 30, 2023	June 30, 2022
	Fair Value	Fair Value
Interest rate swap agreement (liability)	\$ (14,304)	\$ (25,071)

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Net realized and unrealized losses on the interest rate swap recorded in the consolidated statement of activities as nonoperating was as follows for the years ended June 30, 2023 and 2022:

<i>(in thousands of dollars)</i>	2023	2022
Realized loss	\$ (2,106)	\$ (7,118)
Change in unrealized gain/(loss)	<u>10,768</u>	<u>26,398</u>
	<u>\$ 8,662</u>	<u>\$ 19,280</u>

The following schedule presents the notional principal amounts and fair value of the University's interest rate swap agreement at June 30, 2023:

<i>(in thousands of dollars)</i>				Date	Fair Value
Bond Issue	Counterparty	Trade Type	Notional Amount	Expiration	at June 30, 2023
				October 1,	
M DFA Series T	AIG	Swap	\$ 197,775	2037	\$ (14,304)

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

The University maintained a line of credit in the aggregate amount of \$50,000,000 for which there was no outstanding balances for the year ended June 30, 2023 and 2022.

9. Retirement Plan

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute an amount of their eligible compensation up to the Internal Revenue Service published limit toward the purchase of contracts with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and/or Fidelity Management Trust Company. After two years of employment, the University contributes 10% of each participant's eligible compensation to each participant's account providing that the participant contributes a minimum of 5% of eligible compensation to the plan. The cost of the University's contribution to this plan was \$44,915,000 and \$40,609,000 for the years ended June 30, 2023 and 2022, respectively.

10. Post-Retirement Medical Plan

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

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

<i>(in thousands of dollars)</i>	2023	2022
Service cost	\$ 1,145	\$ 1,170
Interest cost	711	343
	<u>\$ 1,856</u>	<u>\$ 1,513</u>

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

<i>(in thousands of dollars)</i>	2023	2022
Benefit obligations at beginning of year	\$ 17,381	\$ 15,828
Service cost	1,145	1,170
Interest cost	711	343
Participant contributions	674	545
Actuarial (gain)/loss	585	893
Benefits paid	<u>(1,755)</u>	<u>(1,398)</u>
Benefit obligations at end of year	<u>\$ 18,741</u>	<u>\$ 17,381</u>

The service cost is allocated to the salaries and benefits expense line item in the statement of activities. Other costs are reflected in other nonoperating activities in the statement of activities. The accrued post-retirement benefit obligation in the table above is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The plan does not hold assets and is funded as benefits are paid.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 6.75% for the year ending June 30, 2023, graded down ratably until reaching an ultimate medical trend rate of 4.50% for fiscal year 2032 and thereafter. The discount rate used to determine the accumulated benefit obligation is 4.81% and 4.22% as of June 30, 2023 and 2022, respectively. The discount rate used to determine the net periodic post-retirement benefit cost is 4.22% and 2.23% for the years ended June 30, 2023 and 2022, respectively. The cumulative amount in net assets without donor restrictions related to unamortized losses is \$2,693,000 as of June 30, 2023.

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

<i>(in thousands of dollars)</i>	Future Benefit Payments
Year	
2024	\$ 1,088
2025	1,240
2026	1,403
2027	1,522
2028	1,533
2029-2032	9,747
	<u>\$ 16,533</u>

11. Net Assets

The University's net assets are summarized as follows as of June 30:

<i>(in thousands of dollars)</i>	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating funds			
Net invested in plant	\$ 1,481,615	\$ -	\$ 1,481,615
Other unrestricted	230,962		230,962
Donor restricted for			-
Instruction and academic administration		148,320	148,320
Research		29,020	29,020
Scholarships, fellowships and other aid		65,273	65,273
Capital construction and maintenance		41,710	41,710
Other programs		30,546	30,546
Total operating funds	<u>1,712,577</u>	<u>314,869</u>	<u>2,027,446</u>
Endowment and life income funds			
Quasi endowment funds	804,836		804,836
Donor restricted for			-
Instruction and academic administration		424,843	424,843
Research		44,931	44,931
Scholarships, fellowships and other aid		309,318	309,318
Capital construction and maintenance		7,365	7,365
Other programs		98,648	98,648
Life income funds		23,980	23,980
Total endowment and life income funds	<u>804,836</u>	<u>909,085</u>	<u>1,713,921</u>
Total net assets	<u>\$ 2,517,413</u>	<u>\$ 1,223,954</u>	<u>\$ 3,741,367</u>

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<i>(in thousands of dollars)</i>	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating funds			
Net invested in plant	\$ 1,316,757	\$ -	\$ 1,316,757
Other unrestricted	260,056		260,056
Donor restricted for			
Instruction and academic administration		124,383	124,383
Research		26,846	26,846
Scholarships, fellowships and other aid		61,979	61,979
Capital construction and maintenance		40,090	40,090
Other programs		28,309	28,309
Total operating funds	<u>1,576,813</u>	<u>281,607</u>	<u>1,858,420</u>
Endowment and life income funds			
Quasi endowment funds	778,839		778,839
Donor restricted for			
Instruction and academic administration		366,462	366,462
Research		40,516	40,516
Scholarships, fellowships and other aid		367,827	367,827
Capital construction and maintenance		7,030	7,030
Other programs		27,717	27,717
Life income funds		24,443	24,443
Total endowment and life income funds	<u>778,839</u>	<u>833,995</u>	<u>1,612,834</u>
Total net assets	<u>\$ 2,355,652</u>	<u>\$ 1,115,602</u>	<u>\$ 3,471,254</u>

Included in net assets with donor restrictions on the consolidated statements of financial position as of June 30, 2023 and 2022 are \$559,902,000 and \$519,088,000 of perpetually restricted funds, and \$664,052,000 and \$596,514,000 of funds restricted for time or purpose, respectively.

12. Endowment and Similar Net Assets

Changes in endowment and similar net assets for the fiscal year ended June 30, 2023:

<i>(in thousands of dollars)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment and similar net assets at July 1, 2022	\$ 778,839	\$ 833,995	\$ 1,612,834
Total endowment return	55,595	58,146	113,741
Contributions	7	39,966	39,973
Endowment spending for operations and reinvestment	(24,951)	(23,112)	(48,063)
Other expenses and transfers	(4,654)	90	(4,564)
Endowment funds and similar net assets at June 30, 2023	<u>\$ 804,836</u>	<u>\$ 909,085</u>	<u>\$ 1,713,921</u>

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Changes in endowment and similar net assets for the fiscal year ended June 30, 2022:

<i>(in thousands of dollars)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment and similar net assets at July 1, 2021	\$ 857,357	\$ 683,445	\$ 1,540,802
Total endowment return	(58,605)	(47,853)	(106,458)
Contributions	8	20,377	20,385
Endowment spending for operations and reinvestment	(22,606)	(16,204)	(38,810)
Other expenses and transfers	(4,221)	(676)	(4,897)
Endowment and similar net assets at June 30, 2022	<u>771,933</u>	<u>639,089</u>	<u>1,411,022</u>
Mills College endowment funds at June 30, 2022	<u>6,906</u>	<u>194,906</u>	<u>201,812</u>
Consolidated endowment funds and similar net assets at June 30, 2022	<u>\$ 778,839</u>	<u>\$ 833,995</u>	<u>\$ 1,612,834</u>

Endowment and similar net assets classified as net assets without donor restrictions include gifts without donor restrictions and other funds designated by the University as endowment for the long-term support of the University. Endowment and similar net assets consist of those funds designated by donors to be invested in perpetuity to provide a permanent source of income, including any accumulated income and appreciation as well as life income, annuities, and trust funds (net of actuarial liability). Endowment and similar net assets are primarily used to fund scholarships and professorships.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). These deficits usually result from unfavorable market fluctuations that generally occur shortly after the investment of recently established endowments. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Underwater endowment funds at June 30, 2023 were reported in net assets with donor restrictions as follows:

<i>(in thousands of dollars)</i>	2023
Fair value of underwater endowment funds	\$ 77,086
Original endowment gift amount	<u>86,182</u>
Deficiencies of underwater endowment funds	<u>\$ (9,096)</u>

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13. Commitments and Contingencies

The University has entered into contracts for various construction, maintenance, and renovation projects for which a balance of \$125,842,000 is committed at June 30, 2023. The University is subject to certain other legal proceedings and claims that arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position.

14. Functional and Natural Classification of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, interest on indebtedness and depreciation and amortization expense. The University applies various methods to allocate costs among the program and support functions, the most significant of which is by the amount of building space utilized. Operating expenses by functional and natural classification for the year ended June 30, 2023 are as follows:

<i>(in thousands of dollars)</i>	Salary and Benefits	Other Operating Expenses	Depreciation	Interest	Total
Instruction	\$ 467,257	\$ 118,804	\$ 37,951	\$ 5,243	\$ 629,255
Research	135,289	105,887	16,146	17,199	274,521
Academic support	174,514	135,760	11,571	5,122	326,967
Student services	104,147	112,970	11,511	486	229,114
Institutional support	145,346	137,316	23,250	2,253	308,165
Auxiliary	20,790	124,551	21,259	11,142	177,742
Other	3,565	8	402	7	3,982
Total	<u>\$ 1,050,908</u>	<u>\$ 735,296</u>	<u>\$ 122,090</u>	<u>\$ 41,452</u>	<u>\$ 1,949,746</u>

Operating expenses by functional and natural classification for the year ended June 30, 2022 were as follows:

<i>(in thousands of dollars)</i>	Salary and Benefits	Other Operating Expenses	Depreciation	Interest	Total
Instruction	\$ 419,758	\$ 111,653	\$ 26,355	\$ 3,230	\$ 560,996
Research	109,956	76,936	13,168	12,981	213,041
Academic support	134,821	111,755	9,784	4,411	260,771
Student services	86,337	122,801	7,236	154	216,528
Institutional support	115,187	86,356	20,533	1,505	223,581
Auxiliary	19,847	135,910	16,426	10,382	182,565
Other	1,484	-	92	1,863	3,439
Total	<u>\$ 887,390</u>	<u>\$ 645,411</u>	<u>\$ 93,594</u>	<u>\$ 34,526</u>	<u>\$ 1,660,921</u>

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15. Related-Party Transactions

The University considers related parties to be members of the Board of Trustees, Officers, key employees, and family members of these individuals. The University has a related party transaction loan receivable on June 30, 2023. All goods and services acquired are negotiated at arm's length and follow the University purchasing and procurement procedures. The University also has outstanding pledges from related parties. These transactions are included on the University's Consolidated Financial Statements.

16. Subsequent Events

The University has assessed the impact of subsequent events through October 23, 2023, the date the audited consolidated financial statements were issued, and has concluded that there is no required adjustments to the audited consolidated financial statements.