

BOSTON  
UNIVERSITY

# BOSTON UNIVERSITY

*CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020*



# **Boston University**

Consolidated Financial Statements  
June 30, 2021 and 2020



### Letter from the Treasurer—Fiscal Year 2021:

Boston University faced unprecedented uncertainties in Fiscal Year 2021 due to COVID-19 and responded to the challenge. The financial result was another successful year with total assets growing to \$8.3 billion. Our success was driven by positive operating results and outstanding returns on the University's endowment investments.

The University took considerable care to thoughtfully navigate through significant pandemic-related obstacles going into the fiscal year. Major decisions included:

- transitioning to the Learn *from* Anywhere delivery model where students could attend classes either on-campus or remotely,
- drawing on the expertise of our research faculty and partnering with vendors and suppliers experiencing significant supply chain disruptions to stand up and operate COVID-19 test collection sites and a PCR clinical testing facility on campus that performed over 1 million tests for nearly 34,000 students and more than 10,000 faculty and staff, and
- implementing prudent but difficult budgetary actions including salary freezes, operating and personnel expense reductions, and a one-year suspension of University retirement contributions to offset an expected shortfall of \$243 million in FY2021 revenue due to the pandemic.

With better-than-expected enrollment, hard work by faculty and staff to pivot to new modes of teaching and research, dedicated actions by our leadership to achieve targeted expense reductions, and federal pandemic relief funding, the University realized an operating gain of \$143.5 million for FY2021.

Sponsored program awards totaled \$502.6 million in FY2021. Although initially impacted by the continued restrictions related to on-campus activities, our research enterprise was restored to full operation and partially compensated by engaging in many COVID-19 virus research projects.

Continued generosity from our alumni and friends provided philanthropic support of over \$225.3 million, the best cash year in our history. These gifts and foundational grants infused funding for the University's strategic initiatives such as providing 100% of demonstrated financial need for first-year domestic undergraduate students and substantial support for the new Center for Antiracist Research.

Endowment assets soared to \$3.4 billion by the end of the fiscal year, representing a year over year increase of \$956 million, and provided annual operating support in the form of income distributions of over \$90 million.

The pandemic tested our community in many ways, yet our students, faculty, and staff demonstrated their strength and resilience to overcome these hurdles, contributing to the continued success of the University. We are especially grateful to our faculty and staff for their extraordinary effort to provide students the quality academic experience they expect and are confident that together we will weather the challenges ahead.

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

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



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

## Independent Auditors' Report

The Board of Trustees  
Boston University:

We have audited the accompanying consolidated financial statements of Boston University and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston University and its subsidiaries as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Boston, Massachusetts  
September 22, 2021

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2021 and 2020  
(\$000)

	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 253,258	\$ 440,879
Cash and cash equivalents-restricted . . . . .	183,470	285,966
Short-term investments . . . . .	884,959	464,657
Accounts and loans receivable, net. . . . .	205,919	224,318
Pledges receivable, net . . . . .	189,376	218,845
Prepaid expenses and other assets . . . . .	72,181	83,721
Investment in residual asset note . . . . .	41,849	52,711
Right-of-use assets-operating leases . . . . .	123,135	100,533
Long-term investments. . . . .	3,514,608	2,572,754
Property, plant, and equipment, net. . . . .	2,823,127	2,766,178
<b>Total assets . . . . .</b>	<b>\$ 8,291,882</b>	<b>\$ 7,210,562</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accrued payroll and related expenses . . . . .	\$ 168,967	\$ 136,546
Accounts payable and accrued expenses . . . . .	111,637	107,886
Deferred revenue . . . . .	69,188	69,909
Student deposits. . . . .	122,983	111,594
Operating lease obligations . . . . .	126,183	103,748
Finance lease obligations . . . . .	80,343	81,066
Other long-term obligations . . . . .	50,935	72,168
Deferred ground lease revenue. . . . .	95,231	96,392
Fair value of interest rate exchange agreements. . . . .	356,776	460,830
Bonds and notes payable, net . . . . .	1,761,122	1,770,879
<b>Total liabilities . . . . .</b>	<b>2,943,365</b>	<b>3,011,018</b>
Net assets:		
Without donor restrictions . . . . .	3,018,463	2,423,654
With donor restrictions . . . . .	2,330,054	1,775,890
<b>Total net assets . . . . .</b>	<b>5,348,517</b>	<b>4,199,544</b>
<b>Total liabilities and net assets . . . . .</b>	<b>\$ 8,291,882</b>	<b>\$ 7,210,562</b>

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended June 30, 2021 and 2020  
(\$000)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES</b>			
Student tuition and fees, net of student aid of \$496.2 million in 2021 . . . . .	\$ 1,152,579	\$	\$ 1,152,579
Sponsored programs-direct . . . . .	411,472		411,472
Sponsored programs-indirect . . . . .	108,054		108,054
External fringe benefit recoveries . . . . .	32,511		32,511
Contributions . . . . .	55,102		55,102
Sales and services . . . . .	76,848		76,848
Spending formula amount and other investment income . . . . .	80,607		80,607
Sponsored program income for student aid . . . . .	28,163		28,163
Auxiliary enterprises, net of student aid of \$18.4 million in 2021 . . . . .	153,911		153,911
Contributions used for operations . . . . .	13,720		13,720
<b>Total operating revenues . . . . .</b>	<b>2,112,967</b>		<b>2,112,967</b>
<b>OPERATING EXPENSES</b>			
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
<b>Total operating expenses . . . . .</b>	<b>1,969,478</b>		<b>1,969,478</b>
<b>Change in net assets from operating activities . . . . .</b>	<b>143,489</b>		<b>143,489</b>
<b>NONOPERATING ACTIVITIES</b>			
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 gains (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)
<b>Net nonoperating activities . . . . .</b>	<b>451,320</b>	<b>554,164</b>	<b>1,005,484</b>
<b>Change in net assets . . . . .</b>	<b>594,809</b>	<b>554,164</b>	<b>1,148,973</b>
Beginning net assets . . . . .	2,423,654	1,775,890	4,199,544
<b>Ending net assets . . . . .</b>	<b>\$ 3,018,463</b>	<b>\$ 2,330,054</b>	<b>\$ 5,348,517</b>

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended June 30, 2021 and 2020  
(\$000)

		2020		
Without Donor Restrictions	With Donor Restrictions	Total		
\$ 1,168,192	\$	\$ 1,168,192		<b>OPERATING REVENUES</b>
333,773		333,773		Student tuition and fees, net of student aid of \$456.6 million in 2020
105,695		105,695		Sponsored programs-direct
44,457		44,457		Sponsored programs-indirect
47,106		47,106		External fringe benefit recoveries
89,399		89,399		Contributions
				Sales and services
92,044		92,044		Spending formula amount and other investment income
31,038		31,038		Sponsored program income for student aid
				Auxiliary enterprises, net of student aid of \$18.0 million in 2020
224,480		224,480		Contributions used for operations
12,661		12,661		<b>Total operating revenues</b>
<u>2,148,845</u>		<u>2,148,845</u>		<b>OPERATING EXPENSES</b>
				Salaries and wages
967,193		967,193		Employee benefits
271,852		271,852		Supplies and services
530,351		530,351		Utilities, rent, and repairs
89,376		89,376		Depreciation
131,397		131,397		Interest
60,119		60,119		<b>Total operating expenses</b>
<u>2,050,288</u>		<u>2,050,288</u>		<b>Change in net assets from operating activities</b>
98,557		98,557		<b>NONOPERATING ACTIVITIES</b>
	33,826	33,826		Contributions
	(12,661)	(12,661)		Contributions used for operations
14,160	17,528	31,688		Reinvested endowment and other investment income
				Net realized and unrealized gains on investments and other assets
64,045	80,915	144,960		Spending formula amount
(36,159)	(48,759)	(84,918)		Net realized and unrealized gains (losses) on interest rate exchange agreements
(145,021)		(145,021)		Net assets released from restrictions- building funds and other
	13,612	13,612		Other additions (deductions) and transfers, net
(1,048)	(986)	(2,034)		<b>Net nonoperating activities</b>
<u>(90,411)</u>	<u>56,251</u>	<u>(34,160)</u>		<b>Change in net assets</b>
8,146	56,251	64,397		Beginning net assets
2,415,508	1,719,639	4,135,147		<b>Ending net assets</b>
<u>\$ 2,423,654</u>	<u>\$ 1,775,890</u>	<u>\$ 4,199,544</u>		

See accompanying notes to consolidated financial statements.

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2021 and 2020  
(\$000)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets . . . . .	\$ 1,148,973	\$ 64,397
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation . . . . .	132,653	131,397
Amortization of debt premium and issuance costs, net . . . . .	(4,192)	(3,767)
Amortization of right-of-use assets-finance leases . . . . .	1,807	2,141
Amortization of right-of-use assets-operating leases . . . . .	20,773	13,339
Loss on disposal of property and equipment . . . . .	896	1,639
Unrealized (gains) losses on interest rate exchange agreements . . . . .	(104,054)	117,668
Settlements on swap replacement transactions, net . . . . .	12,138	9,654
Net realized and unrealized gains on investments . . . . .	(967,491)	(155,032)
Contributions and pledge payments restricted for long-term investment . . . . .	(85,330)	(41,285)
Restricted gifts of securities . . . . .	(1,934)	(25)
Unrealized losses (gains) on currency exchange . . . . .	2,594	(657)
Bond issuance costs-redeemed debt . . . . .		115
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and loans receivable, net . . . . .	(20,951)	5,885
Decrease in pledges receivable, net . . . . .	29,469	7,462
Decrease in prepaid expenses and other assets . . . . .	11,540	7,302
Increase in accrued payroll and related expenses . . . . .	32,421	18,715
Increase (decrease) in accounts payable and accrued expenses . . . . .	11,810	(12,337)
Decrease in operating lease obligations . . . . .	(20,940)	(12,950)
Decrease in deferred revenue . . . . .	(721)	(3,903)
Increase (decrease) in student deposits . . . . .	11,389	(9,189)
Decrease in other long-term obligations . . . . .	(8,431)	(6,888)
Decrease in deferred ground lease revenue . . . . .	(1,161)	(1,162)
Net cash provided by operating activities . . . . .	<u>201,258</u>	<u>132,519</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments . . . . .	(2,615,560)	(2,166,779)
Proceeds from sales and maturities of investments . . . . .	2,248,372	2,559,382
Purchases of property and equipment . . . . .	(189,511)	(233,083)
Net cash (used in) provided by investing activities . . . . .	<u>(556,699)</u>	<u>159,520</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bonds and notes . . . . .	179	285,765
Bond premium received . . . . .		12,240
Payment of bonds, notes, and mortgages . . . . .	(8,223)	(106,240)
Payment of bond issuance costs . . . . .	(115)	(655)
Payments for finance lease obligations . . . . .	(723)	(2,467)
Funds transferred to escrow for bond defeasance . . . . .		(100,000)
Prepayment to escrow of interest and refunding premiums . . . . .		(54,444)
(Decrease) increase in other long-term liabilities-annuity obligations . . . . .	(920)	306
Contributions and pledge payments restricted for long-term investment . . . . .	85,330	41,285
Proceeds from sale of restricted gifts of securities . . . . .	1,934	25
Settlements on swap replacement transactions, net . . . . .	(12,138)	(9,654)
Net cash provided by financing activities . . . . .	<u>65,324</u>	<u>66,161</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash . . . . .	(290,117)	358,200
Cash, cash equivalents, and restricted cash beginning of year . . . . .	726,845	368,645
Cash, cash equivalents, and restricted cash end of year . . . . .	<u>\$ 436,728</u>	<u>\$ 726,845</u>

For the years ended June 30, 2021 and 2020

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## 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 and provided a combination of credits and refunds for a portion of residence and dining revenues, as described later in note 1. 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 significant contingent budget reserves. These actions included salary freezes, targeted operating and personnel budget reductions, and the suspension of retirement contributions as described in note 9.

The University received funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in fiscal year 2020 and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA Act) in fiscal year 2021, as described later in note 1. These funds were used to provide emergency financial aid to students, to defray expenses associated with the transition to online education, and to fund required investments in testing and health and safety protocols.

The full extent of the impact of COVID-19 on the University's finances is uncertain and will depend on the duration and depth of the pandemic. The University continually evaluates external available funding resources to support expenses related to the pandemic, including funds available under the American Rescue Plan (ARP Act) and reimbursements from the Federal Emergency Management Agency (FEMA).

### *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, 2021 and 2020

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*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 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.

*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 that are not invested as part of the long-term investment assets.

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

*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 values of investments in funds similar to mutual funds, 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.

For the years ended June 30, 2021 and 2020

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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, 2021 and 2020, the University acquired equipment and other assets of approximately \$7,528,000 and \$5,145,000, 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, 2021 and 2020 was \$132,653,000 and \$131,397,000, 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.

*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.

For the years ended June 30, 2021 and 2020

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, 2021 and 2020 was \$12,487,000 and \$12,808,000, 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, 2021 and 2020, in thousands of dollars:

	2021	2020
Undergraduate . . . . .	\$ 682,769	\$ 707,357
Postgraduate . . . . .	450,584	431,451
Other . . . . .	19,226	29,384
Total . . . . .	<u>\$ 1,152,579</u>	<u>\$ 1,168,192</u>

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2021 and 2020, in thousands of dollars:

	2021	2020
Residence and dining services, net of student aid . . . . .	\$ 116,707	\$ 152,196
Arena, parking, and retail operations . . . . .	37,204	72,284
Total . . . . .	<u>\$ 153,911</u>	<u>\$ 224,480</u>

As a result of the COVID-19 pandemic, the University decided to close the residential campus effective March 22, 2020. Due to this closure, the University issued credits to students for room and board charges based on a prorated amount.

For the years ended June 30, 2021 and 2020

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These credits amounted to \$29,276,000 for room and \$15,529,000 for board charges and resulted in a reduction of auxiliary enterprise revenue for the fiscal year ended June 30, 2020.

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 \$547,689,000 and \$470,506,000 for the years ended June 30, 2021 and 2020, respectively. Payments received from sponsors in advance of conditions being met are reported as deferred revenue, and totaled \$57,995,000 and \$59,884,000 as of June 30, 2021 and 2020, respectively. Conditional awards from federal and other sponsors outstanding as of June 30, 2021 and 2020 were \$313,361,000 and \$445,152,000, respectively.

As a result of the COVID-19 pandemic, the University received funds under the Higher Education Emergency Relief Fund (HEERF). Under Section 18004(a)(1) of the CARES Act and Section 314(a)(1) of the CRRSAA Act, the University provided emergency financial aid grants to students of \$11,438,000 and \$14,995,000 for the years ended June 30, 2021 and 2020, respectively. These funds were recognized as revenue under sponsored program income for student aid. In addition, \$11,755,000 of these funds were used to defray expenses associated with the transition to online education and required investments in testing as well as health and safety protocols during the year ended June 30, 2021. 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 (IRC), except to the extent the University has unrelated business income. As of June 30, 2021 the University's federal net operating loss carryforwards prior to June 30, 2018 are \$22,377,000, 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 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, 2021 are \$22,130,000 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

For the years ended June 30, 2021 and 2020

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, 2021 and 2020. 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, 2021 and 2020, in thousands of dollars:

	2021	2020
Interest paid in cash, net of capitalized interest of \$5,811 and \$679 . . . . .	\$ 54,779	\$ 61,665
Noncash investing activities:		
Increase (decrease) in accounts payable for property, plant, and equipment . . . . .	2,794	(7,590)
(Decrease) increase in payables for purchases of investments . . . . .	(10,853)	4,014
Decrease in receivables for sales of investments. . . . .	39,350	3,323

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, 2021 and 2020, in thousands of dollars:

	2021	2020
Operating cash flows from finance leases . . . . .	\$ 3,584	\$ 4,606
Operating cash flows from operating leases . . . . .	22,117	16,982
Financing cash flows from finance leases. . . . .	723	2,467

*Recent Accounting Pronouncements:*

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* that requires the statement of cash flows to explain changes during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statement of Cash Flows.

The following table summarizes cash, cash equivalents, and restricted cash reported on the Consolidated Statement of Cash Flows as of June 30, 2021 and 2020, in thousands of dollars:

	2021	2020
Cash and cash equivalents. . . . .	\$ 253,258	\$ 440,879
Cash and cash equivalents-restricted . . . . .	183,470	285,966
Total cash, cash equivalents, and restricted cash. . . . .	\$ 436,728	\$ 726,845

*Reclassifications:*

Certain 2020 balances previously reported have been reclassified to conform to the 2021 presentation.

For the years ended June 30, 2021 and 2020

## 2. Financial Assets and Liquidity Resources

As of June 30, 2021 and 2020, 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:

	2021	2020
Financial assets, at year-end . . . . .	\$ 5,273,439	\$ 4,260,130
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Donor restricted endowment . . . . .	1,945,492	1,367,099
Pledges receivable due in greater than one year or restricted for use . . . . .	181,858	209,856
Restricted cash and cash equivalents. . . . .	183,470	285,966
Student loans receivable due in greater than one year. . . . .	38,143	44,895
Investment in residual asset note. . . . .	41,849	52,711
Board designations:		
Quasi-endowment funds. . . . .	1,447,021	1,054,016
Add: approved endowment spending distribution for next fiscal year . . . . .	94,761	88,874
Financial assets available to meet cash needs for general expenditures within one year . . . . .	<u>\$ 1,530,367</u>	<u>\$ 1,334,461</u>

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, 2021 and 2020

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, 2021 and 2020, 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 6.5%. 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, 2021 and 2020 were as follows, in thousands of dollars:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents . . . . .	\$ 253,258	\$ 440,879
Cash and cash equivalents-restricted . . . . .	183,470	285,966
Short-term investments . . . . .	884,959	464,657
Investment in residual asset note . . . . .	41,849	52,711
Long-term investments . . . . .	<u>3,514,608</u>	<u>2,572,754</u>
	4,878,144	3,816,967
Less: assets not reported at fair value:		
Investment in residual asset note . . . . .	(41,849)	(52,711)
Real estate partnerships accounted for under the equity method . . . . .	<u>(27,300)</u>	<u>(26,966)</u>
Total cash and investments at fair value . . . . .	<u>\$ 4,808,995</u>	<u>\$ 3,737,290</u>

**BOSTON UNIVERSITY** • NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

For the years ended June 30, 2021 and 2020

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2021 and 2020, in thousands of dollars:

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
	605,062	206,314	71,460		882,836
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
		1,026,632	13,965		1,040,597
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
	2,092,015			342,974	2,434,989
Funds held in trust by others . . . . .				13,845	13,845
Total assets at fair value . . . . .	\$ 2,697,077	\$ 1,669,674	\$ 85,425	\$ 356,819	\$ 4,808,995

As of June 30, 2020	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 . . . . .	\$	\$ 726,845	\$	\$	\$ 726,845
Common and preferred equities:					
Domestic . . . . .	138,603	50,416			189,019
International . . . . .	333,332	74,284	65,856		473,472
	471,935	124,700	65,856		662,491
Fixed income:					
Domestic . . . . .		889	2,006		2,895
International . . . . .		19	300		319
U.S. government and agencies . . . . .		579,507	656		580,163
		580,415	2,962		583,377
Alternatives:					
Hedge . . . . .	674,620				674,620
Natural resources . . . . .	59,445				59,445
Private . . . . .	600,540			333	600,873
Real estate . . . . .	75,191			342,641	417,832
	1,409,796			342,974	1,752,770
Funds held in trust by others . . . . .				11,807	11,807
Total assets at fair value . . . . .	\$ 1,881,731	\$ 1,431,960	\$ 68,818	\$ 354,781	\$ 3,737,290

For the years ended June 30, 2021 and 2020

The following tables present a summary of the University's activity for the years ended June 30, 2021 and 2020 for investment categorized in Level 3, in thousands of dollars:

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 loss		(2,090)	2,038	(52)
Fair value, June 30, 2021	\$ 333	\$ 342,641	\$ 13,845	\$ 356,819

  

2020	Alternatives		Funds	Total
	Private	Real Estate	Held in Trust by Others	Assets in Level 3
Fair value, July 1, 2019	\$ 333	\$ 289,961	\$ 12,528	\$ 302,822
Additions		53,288		53,288
Sales or redemptions		(608)		(608)
Unrealized gains			(721)	(721)
Fair value, June 30, 2020	\$ 333	\$ 342,641	\$ 11,807	\$ 354,781

*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.

As of June 30, 2021, the aggregate notional exposure on long-term assets was \$12,097,000. The associated unrealized loss on these assets was \$368,000 as of June 30, 2021. During the fiscal year 2020, the University sold certain derivative investments eliminating the notional exposure as of June 30, 2020. Realized losses on these assets were \$14,010,000 for the year ended June 30, 2020.

*Residual Asset Note:*

In June 2006, the University securitized its interest in an investment banking partnership that owned rights to residual future cash flows. To effect the 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 called BU Funding, LLC (LLC). To finance the transaction, the LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust (DBLF), collateralized by the LLC's rights to the future cash flow stream. The note had an initial face value of \$88,227,000, the aggregate amount of scheduled cash flows to be received between 2007 and 2021. The purchase price of the note was \$25,244,000 and is non-recourse to the University. As of June 30, 2021 and 2020, the carrying value of the investment in residual asset note receivable is \$41,849,000 and \$52,711,000, respectively.

For the years ended June 30, 2021 and 2020

The LLC is consolidated in the financial statements of the University. The LLC’s discounted note obligation is recorded as a liability and its investment has been recorded as an asset on the Consolidated Statements of Financial Position. The valuation of this investment was based on a present value analysis using readily available observable market discount factors applied to contractually committed cash inflows and outflows. The discount on the note is amortized over its scheduled maturity using the effective interest method and the note obligation decreases as future residual cash flows are received. As a result, the value of the note obligation is expected to decline to a balance of zero in fiscal 2022. Upon expected extinguishment of the note in fiscal 2022, the University remains the beneficiary of \$39,800,000 of cash flows scheduled for 2022–2025.

*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, 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 . . . . .	403,587	555,653	959,240
Total return on investments and other assets . . .	414,035	562,377	976,412
Less: spending formula . . . . .	(38,508)	(52,643)	(91,151)
Less: other non-endowment income . . . . .	(5,575)	—	(5,575)
	(44,083)	(52,643)	(96,726)
Excess of investment return over spending formula amount . . . . .	\$ 369,952	\$ 509,734	\$ 879,686
For the year ended June 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income . . . . .	\$ 29,587	\$ 11,299	\$ 40,886
Net realized and unrealized gains on investments and other assets . . . . .	64,045	80,915	144,960
Total return on investments and other assets . . .	93,632	92,214	185,846
Less: spending formula . . . . .	(36,159)	(48,759)	(84,918)
Less: other non-endowment income . . . . .	(23,991)	(141)	(24,132)
	(60,150)	(48,900)	(109,050)
Excess of investment return over spending formula amount . . . . .	\$ 33,482	\$ 43,314	\$ 76,796

For the years ended June 30, 2021 and 2020

*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, 2021 and 2020 was \$502,520,000 and \$436,463,000, respectively. Of this amount, approximately 10% of commitments as of June 30, 2021 and 2020, 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, 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.

For the years ended June 30, 2021 and 2020

As of June 30, 2020	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents* . . . . .	\$ 726,845	\$	\$	\$	\$	\$ 726,845
Common and preferred equities:						
Domestic . . . . .	49,644	886	75,161	63,328		189,019
International . . . . .	74,257	226,833	50,003	29,596	92,783	473,472
	<u>123,901</u>	<u>227,719</u>	<u>125,164</u>	<u>92,924</u>	<u>92,783</u>	<u>662,491</u>
Fixed income:						
Domestic . . . . .	2,838	57				2,895
International . . . . .	300	19				319
U.S. government and agencies .	580,163					580,163
	<u>583,301</u>	<u>76</u>				<u>583,377</u>
Alternatives:						
Hedge . . . . .			137,438	380,964	156,218	674,620
Natural resources. . . . .					59,445	59,445
Private . . . . .					600,873	600,873
Real estate . . . . .				340,465	77,367	417,832
			<u>137,438</u>	<u>721,429</u>	<u>893,903</u>	<u>1,752,770</u>
Funds held in trust by others . . . .					11,807	11,807
Total assets at fair value . . . . .	<u>\$1,434,047</u>	<u>\$ 227,795</u>	<u>\$ 262,602</u>	<u>\$ 814,353</u>	<u>\$ 998,493</u>	<u>\$3,737,290</u>

\*Cash and cash equivalents includes \$285,043,000 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. While activity has been reduced in this market due to COVID-19, there continue to be enough market participants to provide opportunities for sale under the right conditions. Notwithstanding that 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 \$1,201,536,000 and \$770,729,000, as well as investments with rolling lockup periods totaling \$471,406,000 and \$227,764,000 as of June 30, 2021 and 2020, respectively.

#### 4. Endowment Funds

Total endowment assets as of June 30, 2021 and 2020 are \$3,397,221,000 and \$2,440,824,000, 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, 2021 and 2020, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.7% and 4.0%.

For the years ended June 30, 2021 and 2020

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, 2021, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions		Total with Donor Restrictions	Total
		Original Gift	Accumulated Gains		
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 and 2020.

For the years ended June 30, 2021 and 2020

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>

The following table represents endowment net asset composition by type of fund as of June 30, 2020, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions			Total
		Original Gift	Accumulated Gains	Total with Donor Restrictions	
Quasi . . . . .	\$ 1,054,016	\$	\$	\$	\$1,054,016
Donor restricted:					
All other funds . . . . .		690,652	676,447	1,367,099	1,367,099
Endowment net assets at end of year . . . . .	<u>\$ 1,054,016</u>	<u>\$ 690,652</u>	<u>\$ 676,447</u>	<u>\$ 1,367,099</u>	<u>\$ 2,421,115</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2020, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year . . . .	\$ 991,076	\$ 1,301,461	\$ 2,292,537
Reinvested income distribution . . . . .	7,959	1,788	9,747
Realized and unrealized gains . . . . .	69,641	92,073	161,714
Less: spending formula . . . . .	(36,159)	(48,759)	(84,918)
Undistributed investment income. . . . .	41,441	45,102	86,543
Contributions . . . . .	5,445	8,902	14,347
Pledge payments . . . . .	46	16,841	16,887
Net assets released from restrictions-other . . . .	4,151	(4,151)	
Other additions (deductions), transfers, and net asset reclassifications . . . . .	11,857	(1,056)	10,801
Endowment net assets at end of year . . . . .	<u>\$ 1,054,016</u>	<u>\$ 1,367,099</u>	<u>\$ 2,421,115</u>

For the years ended June 30, 2021 and 2020

**5. Accounts Receivable and Pledges Receivable**

*Accounts Receivable:*

Accounts and loans receivable at June 30, 2021 and 2020, in thousands of dollars, consist of the following:

	2021	2020
Accounts receivable, net:		
Students . . . . .	\$ 21,245	\$ 19,135
Less: allowances . . . . .	(7,116)	(6,469)
	14,129	12,666
Grants and contracts . . . . .	91,398	77,517
Unsettled investment trades . . . . .	7,712	47,062
Departmental sales, services, and other . . . . .	55,476	42,598
Less: allowances . . . . .	(8,735)	(8,941)
	145,851	158,236
Student loans . . . . .	50,316	58,705
Less: allowances . . . . .	(4,377)	(5,289)
	45,939	53,416
Total accounts and loans receivable, net . . . . .	\$ 205,919	\$ 224,318

Federally sponsored student loans receivable represented \$20,924,000 and \$27,088,000 as of June 30, 2021 and 2020, 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 \$25,916,000 and \$34,012,000 as of June 30, 2021 and 2020, 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 4.46% at June 30, 2021 and 2020, respectively, to certain employees. The aggregate amount as of June 30, 2021 and 2020 is \$9,471,000 and \$9,104,000, respectively.

*Pledges Receivable:*

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2021 and 2020, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2021	2020
In one year or less . . . . .	\$ 52,748	\$ 59,272
Between one year and five years . . . . .	130,813	171,734
More than five years . . . . .	41,620	29,075
	225,181	260,081
Discount to present value (at rates ranging from 1.07% to 4.02%) . .	(13,387)	(18,490)
Less: allowance for unfulfilled pledges . . . . .	(22,418)	(22,746)
Total pledges receivable, net . . . . .	\$ 189,376	\$ 218,845

As of June 30, 2021 and 2020, over 70% of the University’s gross pledges receivable was due from four and five donors, respectively.

For the years ended June 30, 2021 and 2020

## 6. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation and amortization of right-of-use assets at June 30, 2021 and 2020, in thousands of dollars, consist of the following:

	2021	2020
Land . . . . .	\$ 217,191	\$ 217,191
Buildings and improvements . . . . .	3,578,300	3,477,121
Construction in progress . . . . .	379,725	315,345
Software . . . . .	57,558	57,558
Equipment . . . . .	320,446	321,597
Library books . . . . .	273,018	261,005
	<u>4,826,238</u>	<u>4,649,817</u>
Less: accumulated depreciation . . . . .	(1,976,078)	(1,858,413)
Less: amortization of right-of-use assets . . . . .	(27,033)	(25,226)
Total property, plant, and equipment, net. . . . .	<u>\$ 2,823,127</u>	<u>\$ 2,766,178</u>

As of June 30, 2021 and 2020, 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, 2021 and 2020, in thousands of dollars, were as follows:

	2021	2020
Federal loan advances . . . . .	\$ 25,916	\$ 34,012
Conditional asset retirement obligation . . . . .	12,487	12,808
Annuities and split-interest agreements payable . . . . .	6,725	7,645
Residual asset note obligation . . . . .	4,132	16,014
Other . . . . .	1,675	1,689
Total other long-term obligations . . . . .	<u>\$ 50,935</u>	<u>\$ 72,168</u>

For the years ended June 30, 2021 and 2020

8. Indebtedness

*Bonds and Notes Payable:*

The principal amounts of bonds and notes payable at June 30, 2021 and 2020, 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, 2021	Interest Rate at June 30, 2020	Outstanding Principal	
				2021	2020
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
Boston Redevelopment Authority					
note (taxable) . . . . .	06/15/2021	0.00%	0.00%		1,145
WBUR PPP Loan . . . . .	08/03/2026	1.00%	n/a	179	
Various notes payable (taxable) . . . . .	various	various	various	368	598
Total fixed rate bonds and notes payable . . . . .				<u>1,200,087</u>	<u>1,201,283</u>
Variable rate bonds and notes payable:					
HEFA Series N (taxable) . . . . .	10/01/2034	0.07%	0.15%	25,515	26,650
MDFA Series U-1 . . . . .	10/01/2040	0.64%	0.72%	50,000	50,000
MDFA Series U-2 . . . . .	10/01/2040	0.17%	0.51%	50,000	50,000
MDFA Series U-3 . . . . .	10/01/2040	0.01%	0.10%	50,000	50,000
MDFA Series U-5A . . . . .	10/01/2031	0.58%	0.64%	26,800	28,600
MDFA Series U-5B . . . . .	10/01/2031	0.58%	0.64%	28,000	29,900
MDFA Series U-6A . . . . .	10/01/2042	0.52%	0.62%	62,850	62,850
MDFA Series U-6C . . . . .	10/01/2042	0.03%	0.10%	52,545	52,545
MDFA Series U-6E . . . . .	10/01/2042	0.02%	0.10%	62,695	62,695
Royal Bank of Scotland (taxable) . . . . .	08/15/2029	0.54%	0.74%	21,870	21,289
MDFA Series Y . . . . .	10/01/2039	0.47%	0.57%	35,000	35,000
MDFA Series AA-1 . . . . .	10/01/2039	0.17%	0.49%	81,370	81,370
MDFA Series AA-2 . . . . .	10/01/2039	0.42%	0.75%	81,370	81,370
Total variable rate bonds and notes payable . . . . .				<u>628,015</u>	<u>632,269</u>
Total bonds and notes payable . . . . .				1,828,102	1,833,552
Add: unamortized bond premium and discount, net . . . . .				37,413	41,954
Less: unamortized bond issuance costs . . . . .				(4,393)	(4,627)
Less: trust assets to refund Century notes . . . . .				(100,000)	(100,000)
Total bonds and notes payable, net . . . . .				<u>\$ 1,761,122</u>	<u>\$ 1,770,879</u>

*For the years ended June 30, 2021 and 2020*

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 \$40,399,000 and \$41,552,000 as of June 30, 2021 and 2020, 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, 2021 and 2020.

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

Fiscal Year	Scheduled Principal Maturities
2022 .....	\$ 7,940
2023 .....	8,079
2024 .....	8,590
2025 .....	8,925
2026 .....	18,655
Thereafter .....	<u>1,775,913</u>
Total .....	<u>\$ 1,828,102</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2021, the University’s debt portfolio includes variable rate demand bonds (VRDBs) of \$190,755,000, Series N, U-3, 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 December 2021 and January 2023. 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, 2021, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$31,793,000, \$63,585,000, \$63,585,000, and \$31,792,000 in fiscal years 2022, 2023, 2024, and 2025, respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In August 2019, the University issued \$63,965,000 Series DD-1 and \$21,800,000 Series DD-2 tax exempt fixed rate bonds. The bonds were issued at a premium, generating proceeds of \$73,370,000 and \$25,000,000, respectively, which were used to refinance Series Z-1, Series Z-2, and Series H bonds. An associated fixed receiver swap with a notional amount of \$97,110,000 was entered into when the Series DD-1 and Series DD-2 bonds were issued to offset existing long dated fixed payer swaps.

In June 2020, the University issued Series EE of taxable bonds totaling \$200,000,000, structured with two maturities: \$50,000,000 maturing in 15 years (2035) at a rate of 2.58%, and \$150,000,000 maturing in 30 years (2050) at a coupon rate of 3.17%, resulting in an annual net effective rate of 3.04%. Net proceeds of \$154,444,000 from this issuance, as determined and reported by an independent third-party escrow verification agent, were placed in an irrevocable trust for the defeasance of all interest and principal payment obligations of the Century notes through the call date of July 15, 2027. On the call date, the escrow agent will release the final payments due on the Century notes at a redemption price equal to 102.78% of par. Per the Refunding Escrow Agreement and consistent with the determination of the independent third-party escrow verification agent, the funds within the trust have been invested by the escrow agent primarily in U.S. Government securities and, including earnings, will be sufficient to pay all debt service requirements of the Century notes, including interest and principal, in full through the call date. 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 the trust assets remaining as of June 30, 2021 was \$144,247,000. The remaining proceeds of approximately \$45,556,000 from the Series EE issuance will be utilized for operations.

For the years ended June 30, 2021 and 2020

*Bank Lines:*

The University has a total of \$160,000,000 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, 2021 and 2020. 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, 2021 and 2020, in thousands of dollars:

Swap	Notional Amount	Fair Value		Effective Date	Termination Date	University Pays	University Receives
		6/30/21	6/30/20				
Series DD-1	\$ 92,010	\$ (1,930)	\$ (2,925)	08/01/2019	10/01/2023	SIFMA	1.15%
Series DD-2	25,000	6,910	8,835	10/03/2008	12/01/2027	5.28%	SIFMA
Series N	18,915	5,829	7,751	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1-3	75,000	29,969	39,391	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1-3	75,000	29,450	38,964	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5-AB	54,800	10,445	14,092	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	59,750	43,250	55,977	10/03/2008	10/01/2042	5.39%	SIFMA
Series U6	90,000	65,959	85,237	10/03/2008	10/01/2042	5.44%	SIFMA
Series U6	30,000	21,984	28,399	07/01/2008	10/01/2042	5.44%	SIFMA - 1-Mo.
Series U6	59,750	43,246	55,951	07/01/2008	10/01/2042	5.39%	SIFMA - 1-Mo.
Series U6	5,600	194	456	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y	35,000	18,085	23,611	10/01/2014	10/01/2039	4.70%	SIFMA - 1-Mo.
Series AA-1	81,370	42,050	54,562	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR - .027%*
Series AA-2	81,370	41,241	53,112	10/01/2015	10/01/2039	4.95%	79% of 1-Mo. USD LIBOR + .032%**
Royal Bank of Scotland	21,870	4,554	5,548	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment . . .		(4,460)	(8,131)				
Total		<u>\$ 356,776</u>	<u>\$ 460,830</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, 2021 and 2020*

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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 2021 and 2020, the University's net settlement payments on interest rate exchange agreements were \$33,655,000 and \$27,353,000, 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 \$308,750,000 at June 30, 2021, are considered financing activities. During 2021 and 2020, respectively, \$12,138,000 and \$9,654,000 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, 2021 and 2020, the University was required to post collateral of \$181,891,000 and \$285,043,000, 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 defined contribution benefit plans. The University traditionally contributes a specified percentage of each employee's salary to the plan. In response to COVID-19, the University suspended these contributions for the fiscal year 2021. These contributions have been reinstated for fiscal year 2022. Contributions for the year ended June 30, 2020 were \$82,019,000.

For the years ended June 30, 2021 and 2020

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:

	2021	2020
<i>Lease cost:</i>		
Finance lease expense:		
Amortization of right-of-use assets . . . . .	\$ 1,807	\$ 2,141
Interest on lease liabilities . . . . .	3,584	4,606
Operating lease expense . . . . .	23,393	18,043
Short-term lease expense . . . . .	2,469	3,920
Total lease expense . . . . .	\$ 31,253	\$ 28,710

Other Information:

Right-of-use assets obtained in exchange for new operating lease liabilities . . .	\$ 43,375	\$ 10,055
Weighted-average remaining lease term-finance leases . . . . .	44 years	45 years
Weighted-average remaining lease term-operating leases . . . . .	9.1 years	7.8 years
Weighted-average discount rate-finance leases . . . . .	4.28%	4.28%
Weighted-average discount rate-operating leases . . . . .	1.97%	3.21%

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, 2021:

Fiscal Year	Operating	Finance
2022 . . . . .	\$ 16,858	\$ 4,189
2023 . . . . .	14,920	4,064
2024 . . . . .	13,248	4,064
2025 . . . . .	13,363	4,064
2026 . . . . .	13,628	4,064
Thereafter . . . . .	66,047	160,343
	138,064	180,788
Less: amounts representing interest . .	(11,881)	(100,445)
Total . . . . .	\$ 126,183	\$ 80,343

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, 2021, in thousands of dollars:

Fiscal Year	Operating
2022 . . . . .	\$ 9,448
2023 . . . . .	8,203
2024 . . . . .	7,488
2025 . . . . .	6,770
2026 . . . . .	4,867
Thereafter . . . . .	30,389
Total . . . . .	\$ 67,165

For the years ended June 30, 2021 and 2020

## 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, 2021 and 2020, the University recognized rental revenue of \$515,000 related to the ground lease. The unamortized deferred ground lease revenue as of June 30, 2021 and 2020 is \$34,247,000 and \$34,762,000, 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 the years ended June 30, 2021 and 2020, the University recognized rental revenue of \$646,000 related to the ground lease. The unamortized deferred rent as of June 30, 2021 and 2020 is \$60,984,000 and \$61,630,000, respectively.

### *Other:*

As of June 30, 2021, the University has commitments of approximately \$459,759,000 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 2021 was approximately \$8,583,000 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, 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>

*For the years ended June 30, 2021 and 2020*

Expenses presented by functional classification for the year ended June 30, 2020 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages . . . . .	\$ 573,218	\$ 103,388	\$ 147,727	\$ 113,609	\$ 29,251	\$ 967,193
Employee benefits . . . . .	159,562	28,499	30,027	46,455	7,309	271,852
Supplies and services . . . . .	149,539	68,413	151,667	59,977	100,755	530,351
Utilities, rent, and repairs . .	46,228	4,481	3,019	9,688	25,960	89,376
Depreciation . . . . .	81,876	8,747	5,486	7,151	28,137	131,397
Interest . . . . .	30,004	196		11,630	18,289	60,119
Total operating expenses . . . . .	<u>\$ 1,040,427</u>	<u>\$ 213,724</u>	<u>\$ 337,926</u>	<u>\$ 248,510</u>	<u>\$ 209,701</u>	<u>\$ 2,050,288</u>

**13. Subsequent Events**

The University has assessed the impact of subsequent events through September 22, 2021, the date the Consolidated Financial Statements were issued.

## THE CORPORATION

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