

BOSTON UNIVERSITY

Consolidated Financial Statements
JUNE 30, 2020 AND 2019

BOSTON UNIVERSITY
ALAN & SHERRY LEVENTHAL CENTER

Boston University

Consolidated Financial Statements
June 30, 2020 and 2019



Letter from the Treasurer—Fiscal Year 2020:

For fiscal year 2020, Boston University experienced another successful year of financial growth despite the significant challenges presented by the COVID-19 pandemic. The University closed the year with assets totaling more than \$7.2 billion.

Beginning in the last quarter of the fiscal year, the global spread of COVID-19 impacted the normal business of the University. Converting to a remote delivery of courses and substantively ceasing on-campus housing and dining operations had measurable impacts in causing both revenue losses and decreased expenditures. However, the University's considerable care and success in the management and reallocation of resources supported the realization of a fiscal year net gain from operations of \$98.6 million.

A few key performance highlights for the fiscal year include:

- The generosity of Boston University's donors and friends continues to increase in support of our mission—raising an annual record of \$179 million in gifts and payments on pledges, including foundation grants, during the year.
- New research awards for the fiscal year totaled \$574.1 million. In addition to the continued research activity across the University, several faculty members began engaging directly in COVID-19 virus research projects.
- University endowment assets ended the year at more than \$2.44 billion, representing a year over year increase of more than \$129 million after providing annual support from income distributions of more than \$80 million.

As a result, net assets of the University increased by more than \$64 million for the year to total \$4.2 billion and contributed to continuing balance sheet strength by growing net assets at a compound annual growth rate of 8.1% over the past five years.

In anticipation of the continued financial impact from COVID-19 in fiscal year 2021, the University's prudent management of resources and targeted budget actions have positioned the University to absorb COVID-19 related pressures without endangering Boston University's capacity to sustain its mission. These actions have included salary freezes, targeted operating and personnel budget reductions, and the suspension of retirement contributions for fiscal year 2021.

We are grateful for the enormous effort by faculty, staff, and students in the redesign of almost every element of campus life in order to fulfill our mission of teaching, research, and service. We are confident the continued nimbleness and resiliency of the University community will bring us through these challenging times.

A handwritten signature in black ink, appearing to read "Martin J. Howard".

Martin J. Howard
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 (the University), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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, 2020 and 2019, 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.



Emphasis of Matter

As discussed in note 1 to the consolidated financial statements, in 2020, the University adopted Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

KPMG LLP

Boston, Massachusetts
September 17, 2020

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019
(\$000)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 440,879	\$ 187,190
Cash and cash equivalents-restricted	285,966	181,455
Short-term investments	464,657	899,426
Accounts and loans receivable, net.	224,318	233,526
Pledges receivable, net	218,845	226,307
Prepaid expenses and other assets	83,721	36,579
Investment in residual asset note	52,711	62,366
Right-of-use assets-operating leases	100,533	103,817
Long-term investments.	2,572,754	2,369,215
Property, plant, and equipment, net.	2,766,178	2,724,857
Total assets	\$ 7,210,562	\$ 7,024,738
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued payroll and related expenses	\$ 136,546	\$ 117,831
Accounts payable and accrued expenses	107,886	123,799
Deferred revenue	69,909	73,812
Student deposits.	111,594	120,783
Residual asset note obligation	16,014	26,665
Operating lease obligations	103,748	106,643
Finance lease obligations	81,066	132,528
Other long-term obligations	56,154	62,736
Deferred ground lease revenue.	96,392	97,554
Fair value of interest rate exchange agreements.	460,830	343,162
Bonds and notes payable, net	1,770,879	1,684,078
Total liabilities	3,011,018	2,889,591
Net assets:		
Without donor restrictions	2,423,654	2,415,508
With donor restrictions	1,775,890	1,719,639
Total net assets	4,199,544	4,135,147
Total liabilities and net assets	\$ 7,210,562	\$ 7,024,738

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019
(\$000)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Student tuition and fees, net of student aid of \$456.6 million in 2020	\$ 1,168,192	\$	\$ 1,168,192
Sponsored programs-direct	333,773		333,773
Sponsored programs-indirect	105,695		105,695
External fringe benefit recoveries	44,457		44,457
Contributions	47,106		47,106
Sales and services	89,399		89,399
Spending formula amount and other investment income	92,044		92,044
Sponsored program income for student aid	31,038		31,038
Auxiliary enterprises, net of student aid of \$18.0 million in 2020	224,480		224,480
Contributions used for operations	12,661		12,661
Total operating revenues	2,148,845		2,148,845
OPERATING EXPENSES			
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
Total operating expenses	2,050,288		2,050,288
Change in net assets from operating activities	98,557		98,557
NONOPERATING ACTIVITIES			
Contributions		33,826	33,826
Contributions used for operations		(12,661)	(12,661)
Reinvested endowment and other investment income	14,160	17,528	31,688
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 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)
Net nonoperating activities	(90,411)	56,251	(34,160)
Change in net assets	8,146	56,251	64,397
Beginning net assets	2,415,508	1,719,639	4,135,147
Ending net assets	\$ 2,423,654	\$ 1,775,890	\$ 4,199,544

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019
(\$000)

		2019		
Without Donor Restrictions	With Donor Restrictions	Total		
\$ 1,164,242	\$	\$ 1,164,242		OPERATING REVENUES
304,614		304,614		Student tuition and fees, net of student aid of \$433.9 million in 2020
97,854		97,854		Sponsored programs-direct
39,951		39,951		Sponsored programs-indirect
43,049		43,049		External fringe benefit recoveries
107,415		107,415		Contributions
				Sales and services
97,786		97,786		Spending formula amount and other investment income
16,345		16,345		Sponsored program income for student aid
				Auxiliary enterprises, net of student aid of \$15.9 million in 2019
288,576		288,576		Contributions used for operations
10,821		10,821		Total operating revenues
<u>2,170,653</u>		<u>2,170,653</u>		OPERATING EXPENSES
				Salaries and wages
925,524		925,524		Employee benefits
273,213		273,213		Supplies and services
524,553		524,553		Utilities, rent, and repairs
99,207		99,207		Depreciation
128,846		128,846		Interest
61,461		61,461		Total operating expenses
<u>2,012,804</u>		<u>2,012,804</u>		Change in net assets from operating activities
157,849		157,849		NONOPERATING ACTIVITIES
	44,312	44,312		Contributions
	(10,821)	(10,821)		Contributions used for operations
15,316	17,547	32,863		Reinvested endowment and other investment income
				Net realized and unrealized gains on investments and other assets
95,320	66,066	161,386		Spending formula amount
(33,087)	(46,246)	(79,333)		Net realized and unrealized losses on interest rate exchange agreements
(97,914)		(97,914)		Net assets released from restrictions- building funds and other
31,077	(31,077)			Other additions (deductions) and transfers, net
2,006	4,852	6,858		Net nonoperating activities
<u>12,718</u>	<u>44,633</u>	<u>57,351</u>		Change in net assets
170,567	44,633	215,200		Beginning net assets
2,244,941	1,675,006	3,919,947		Ending net assets
<u>\$ 2,415,508</u>	<u>\$ 1,719,639</u>	<u>\$ 4,135,147</u>		

See accompanying notes to consolidated financial statements.

BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019
(\$000)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 64,397	\$ 215,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	131,397	128,846
Amortization of debt premium and issuance costs, net	(3,767)	(1,422)
Amortization of right-of-use assets-financing	2,141	2,384
Amortization of right-of-use assets-operating	13,339	17,363
Loss on disposal of property and equipment	1,639	1,200
Unrealized losses on interest rate exchange agreements	117,668	73,536
Settlements on swap replacement transactions, net	9,654	9,520
Net realized and unrealized gains on investments	(155,032)	(179,357)
Contributions and pledge payments restricted for long-term investment . .	(41,285)	(52,924)
Gifts of securities and property	(25)	(2,959)
Unrealized gains on currency exchange	(657)	(998)
Bond issuance costs-redeemed debt	115	15
Changes in operating assets and liabilities:		
Decrease in accounts and loans receivable, net	5,885	18,042
Decrease in pledges receivable, net	7,462	8,613
Decrease in prepaid expenses and other assets	7,302	5,001
Increase (decrease) in accrued payroll and related expenses	18,715	(3,938)
(Decrease) increase in accounts payable and accrued expenses	(12,337)	617
Decrease in operating lease obligations	(12,950)	(15,942)
(Decrease) increase in deferred revenue	(3,903)	10,744
(Decrease) increase in student deposits	(9,189)	6,852
Decrease in other long-term obligations	(6,888)	(897)
Decrease in deferred ground lease revenue	(1,162)	(1,161)
Net cash provided by operating activities	<u>132,519</u>	<u>238,335</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,166,779)	(2,396,540)
Proceeds from sales and maturities of investments	2,559,382	2,143,541
Purchases of property and equipment	(233,083)	(192,514)
Net cash provided by (used in) investing activities	<u>159,520</u>	<u>(445,513)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bonds and notes	285,765	300,000
Bond premium received	12,240	
Payment of bonds, notes, and mortgages	(106,240)	(42,623)
Payment of bond issuance costs	(655)	(815)
Payment of finance lease obligations	(2,467)	(1,931)
Funds transferred to escrow for bond defeasance	(100,000)	
Prepayment to escrow of interest and refunding premiums	(54,444)	
Increase (decrease) in other long-term liabilities - annuity obligations . .	306	(4,225)
Contributions and pledge payments restricted for long-term investment . .	41,285	52,924
Proceeds from sale of restricted gifts of securities	25	2,351
Settlements on swap replacement transactions, net	(9,654)	(9,520)
Net cash provided by financing activities	<u>66,161</u>	<u>296,161</u>
Net increase in cash, cash equivalents, and restricted cash	358,200	88,983
Cash, cash equivalents, and restricted cash beginning of year	368,645	279,662
Cash, cash equivalents, and restricted cash end of year	<u>\$ 726,845</u>	<u>\$ 368,645</u>

For the years ended June 30, 2020 and 2019

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, the 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 of the pandemic, beginning in March 2020, the University suspended in-person education and other campus-based activities 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 future revenues and expected incremental costs required as a result of COVID-19 such as the transition to online education and enhanced work environments and required investments in testing as well as health and safety protocols, the University has taken proactive budget actions to build significant contingent budget reserves. These actions have included salary freezes, targeted operating and personnel budget reductions, and the suspension of retirement contributions for fiscal 2021 as described in note 9. As described later in note 1, the University received \$14,995,000 of funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), used to provide emergency financial aid to students during the year ended June 30, 2020.

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.

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.

Net assets classified as with donor restrictions that expire by the passage of time totaled \$916,705,000 and \$880,982,000 as of June 30, 2020 and 2019, respectively. Net assets classified as with perpetual donor restrictions totaled \$859,185,000 and \$838,657,000 as of June 30, 2020 and 2019, respectively.

For the years ended June 30, 2020 and 2019

The composition of net assets as of June 30, 2020 and 2019, in thousands of dollars, is as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
General purpose	\$ 808,793	\$ 326,589	\$ 1,135,382
Scholarships	102,900	462,327	565,227
Professorships	101,641	409,622	511,263
Awards, prizes, fellowships, and other	25,068	97,579	122,647
Research	15,614	55,351	70,965
Annuities		15,631	15,631
Total endowment and annuity funds	<u>1,054,016</u>	<u>1,367,099</u>	<u>2,421,115</u>
Other funds:			
General and plant funds	1,176,367	98,502	1,274,869
Building and gift funds	98,489	31,168	129,657
Pledges		218,845	218,845
Student loan funds	19,178	36,093	55,271
Unexpended endowment distributions	75,604	24,183	99,787
Total other funds	<u>1,369,638</u>	<u>408,791</u>	<u>1,778,429</u>
Total net assets	<u>\$ 2,423,654</u>	<u>\$ 1,775,890</u>	<u>\$ 4,199,544</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
General purpose	\$ 762,248	\$ 317,044	\$ 1,079,292
Scholarships	91,778	437,239	529,017
Professorships	98,349	385,749	484,098
Awards, prizes, fellowships, and other	23,755	92,764	116,519
Research	14,946	53,202	68,148
Annuities		15,463	15,463
Total endowment and annuity funds	<u>991,076</u>	<u>1,301,461</u>	<u>2,292,537</u>
Other funds:			
General and plant funds	1,249,509	98,565	1,348,074
Building and gift funds	87,371	36,106	123,477
Pledges		226,307	226,307
Student loan funds	22,287	35,121	57,408
Unexpended endowment distributions	65,265	22,079	87,344
Total other funds	<u>1,424,432</u>	<u>418,178</u>	<u>1,842,610</u>
Total net assets	<u>\$ 2,415,508</u>	<u>\$ 1,719,639</u>	<u>\$ 4,135,147</u>

For the years ended June 30, 2020 and 2019

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. These amounts are carried at cost, which approximates fair value.

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, 2020 and 2019

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, 2020 and 2019, the University acquired equipment and other assets of approximately \$5,145,000 and \$5,181,000, 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, 2020 and 2019 was \$131,397,000 and \$128,846,000, 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, 2020 and 2019

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, 2020 and 2019 was \$12,808,000 and \$13,496,000, 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, 2020 and 2019, in thousands of dollars:

	2020	2019
Undergraduate	\$ 707,357	\$ 695,329
Postgraduate	431,451	441,139
Other	29,384	27,774
Total	<u>\$ 1,168,192</u>	<u>\$ 1,164,242</u>

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2020 and 2019, in thousands of dollars:

	2020	2019
Residence and dining services, net of student aid	\$ 152,196	\$ 204,217
Arena, parking, and retail operations	72,284	84,359
Total	<u>\$ 224,480</u>	<u>\$ 288,576</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, 2020 and 2019

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 nonprofit 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 \$470,506,000 and \$418,813,000 for the years ended June 30, 2020 and 2019, respectively. Payments received from sponsors in advance of conditions being met are reported as deferred revenue, and totaled \$59,884,000 and \$58,127,000 as of June 30, 2020 and 2019, respectively. Conditional awards from federal and other sponsors outstanding as of June 30, 2020 and 2019 were \$445,152,000 and \$269,024,000, respectively.

As a result of the COVID-19 pandemic, the University received \$14,995,000 from the Higher Education Emergency Relief Fund (HEERF). The funds were used for emergency financial aid grants to students under the 18004(a)(1) CARES Act and recognized as revenue under sponsored program income for student aid.

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, 2020 the University's federal net operating loss carryforwards prior to fiscal year 2019 are \$22,757,000, 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, 2020 are \$10,270,000 and may be carried forward indefinitely, but may only be used to offset income from the activity generating the loss. The University believes that unrelated business activities will generate future taxable income during the periods in which these operating loss carryforwards will become deductible and has recorded deferred tax assets totaling \$2,647,000 and \$2,857,000 as of June 30, 2020 and 2019, respectively. The University has no material uncertain tax positions.

For the years ended June 30, 2020 and 2019

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, 2020 and 2019, in thousands of dollars:

	2020	2019
Interest paid in cash, net of capitalized interest of \$679 and \$1,235	\$ 61,665	\$ 58,834
Noncash investing activities:		
Decrease in accounts payable for property, plant, and equipment	7,590	818
Increase (decrease) in payables for purchases of investments	4,014	(3,511)
Decrease in receivables for sales of investments	3,323	27,942

In January 2020, the University executed the purchase option of a finance lease releasing the obligation and disposing of the right-of-use assets at the net present value of \$48,995,000. The purchase of this property resulted in an increase in long-term investments.

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, 2020 and 2019, in thousands of dollars:

	2020	2019
Operating cash flows from finance leases	\$ 4,606	\$ 5,468
Operating cash flows from operating leases	16,982	18,767
Financing cash flows from finance leases	2,467	1,931

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 statement of cash flows. The University adopted ASU 2016-18 in fiscal year 2020 and applied the changes retrospectively. Accordingly, amounts on the 2019 Consolidated Statements of Cash Flows have been restated.

The following table summarizes cash, cash equivalents, and restricted cash reported on the Consolidated Statements of Cash Flows as of June 30, 2020 and 2019, in thousands of dollars:

	2020	2019
Cash and cash equivalents	\$ 440,879	\$ 187,190
Cash and cash equivalents-restricted	285,966	181,455
Total cash, cash equivalents, and restricted cash	\$ 726,845	\$ 368,645

Reclassifications:

Certain 2019 balances previously reported have been reclassified to conform to the 2020 presentation.

For the years ended June 30, 2020 and 2019

2. Financial Assets and Liquidity Resources

As of June 30, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Financial assets, at year-end	\$ 4,260,130	\$ 4,159,485
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Donor restricted endowment	1,367,099	1,301,461
Pledges receivable due in greater than one year or restricted for use	209,856	214,971
Restricted cash and cash equivalents.	285,966	181,455
Student loans receivable due in greater than one year.	44,895	50,693
Investment in residual asset note.	52,711	62,366
Board designations:		
Quasi-endowment funds.	1,054,016	991,076
Add: approved endowment spending distribution for next fiscal year	<u>88,874</u>	<u>83,463</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,334,461</u>	<u>\$ 1,440,926</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 six 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, 2020 and 2019

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, 2020 and 2019, 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 6.1%. 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, 2020 and 2019 were as follows, in thousands of dollars:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 440,879	\$ 187,190
Cash and cash equivalents-restricted	285,966	181,455
Short-term investments	464,657	899,426
Investment in residual asset note	52,711	62,366
Long-term investments	<u>2,572,754</u>	<u>2,369,215</u>
	<u>3,816,967</u>	<u>3,699,652</u>
Less: assets not reported at fair value:		
Investment in residual asset note	(52,711)	(62,366)
Real estate partnerships accounted for under the equity method	<u>(26,966)</u>	<u>(25,468)</u>
Total cash and investments at fair value	<u>\$ 3,737,290</u>	<u>\$ 3,611,818</u>

For the years ended June 30, 2020 and 2019

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2020 and 2019, in thousands of dollars:

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

As of June 30, 2019	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	\$	\$ 368,645	\$	\$	\$ 368,645
Common and preferred equities:					
Domestic	114,784	50,937			165,721
International	302,274	63,479	74,840		440,593
	417,058	114,416	74,840		606,314
Fixed income:					
Domestic		826	1,239		2,065
International		19	180		199
U.S. government and agencies		1,085,490	1,441		1,086,931
		1,086,335	2,860		1,089,195
Alternatives:					
Hedge	610,814				610,814
Natural resources	88,015				88,015
Private	482,653			333	482,986
Real estate	63,360			289,961	353,321
	1,244,842			290,294	1,535,136
Funds held in trust by others				12,528	12,528
Total assets at fair value	\$ 1,661,900	\$ 1,569,396	\$ 77,700	\$ 302,822	\$ 3,611,818

For the years ended June 30, 2020 and 2019

The following tables present a summary of the University's activity for the years ended June 30, 2020 and 2019 for investment classified in Level 3, in thousands of dollars:

2020	Alternatives		Funds	Total
	Private	Real Estate	Held in Trust by Others	Assets at 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 loss			(721)	(721)
Fair value, June 30, 2020	\$ 333	\$ 342,641	\$ 11,807	\$ 354,781

2019	Alternatives		Funds	Total
	Private	Real Estate	Held in Trust by Others	Assets at Level 3
Fair value, July 1, 2018	\$ 333	\$ 265,184	\$ 12,292	\$ 277,809
Additions		15,899	79	15,978
Sales or redemptions		(3,548)	(46)	(3,594)
Unrealized gains		12,426	203	12,629
Fair value, June 30, 2019	\$ 333	\$ 289,961	\$ 12,528	\$ 302,822

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2020 and 2019, there were no transfers between Level 1 and Level 2, and no transfers between Level 2 and Level 3.

Investment Related Derivatives:

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

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

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

During the fiscal year 2020, the University sold these derivative investments; therefore, no notional exposure remains as of June 30, 2020. Realized losses on these assets were \$14,010,000 for the year ended June 30, 2020. As of June 30, 2019, the aggregate notional exposure on long-term assets was \$78,045,000. The associated unrealized gain on these assets was \$1,860,000 as of June 30, 2019.

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

For the years ended June 30, 2020 and 2019

purchase price of the note was \$25,244,000 and is non-recourse to the University. As of June 30, 2020 and 2019, the carrying value of the investment in residual asset note receivable is \$52,711,000 and \$62,366,000, respectively.

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 2021. Upon expected extinguishment of the note in 2021, 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, 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: change in value of designated non-core	(2)		(2)
Less: other non-endowment income	(23,989)	(141)	(24,130)
	(60,150)	(48,900)	(109,050)
Excess of investment return over spending formula amount	\$ 33,482	\$ 43,314	\$ 76,796

For the year ended June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Dividend and interest income	\$ 38,869	\$ 12,448	\$ 51,317
Net realized and unrealized gains on investments and other assets	95,320	66,066	161,386
Total return on investments and other assets . . .	134,189	78,514	212,703
Less: spending formula	(33,087)	(46,246)	(79,333)
Less: change in value of designated non-core	(12,426)		(12,426)
Less: other non-endowment income	(66,281)	(250)	(66,531)
	(111,794)	(46,496)	(158,290)
Excess of investment return over spending formula amount	\$ 22,395	\$ 32,018	\$ 54,413

For the years ended June 30, 2020 and 2019

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, 2020 and 2019 was \$436,463,000 and \$422,620,000, respectively. Of this amount, approximately 10% and 5% of commitments as of June 30, 2020 and 2019, respectively, was for funds whose investment period had expired. The timing and amount of capital calls expected to be exercised in any particular future year is uncertain.

Liquidity:

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

As of June 30, 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
	123,901	227,719	125,164	92,924	92,783	662,491
Fixed income:						
Domestic	2,838	57				2,895
International	300	19				319
U.S. government and agencies .	580,163					580,163
	583,301	76				583,377
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
			137,438	721,429	893,903	1,752,770
Funds held in trust by others					11,807	11,807
	\$1,434,047	\$ 227,795	\$ 262,602	\$ 814,353	\$ 998,493	\$3,737,290

*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.

For the years ended June 30, 2020 and 2019

As of June 30, 2019	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents*	\$ 368,645	\$	\$	\$	\$	\$ 368,645
Common and preferred equities:						
Domestic	50,005	1,025	62,880	51,811		165,721
International	138,292	159,291	49,549	41,212	52,249	440,593
	<u>188,297</u>	<u>160,316</u>	<u>112,429</u>	<u>93,023</u>	<u>52,249</u>	<u>606,314</u>
Fixed income:						
Domestic	2,008	57				2,065
International	180	19				199
U.S. government and agencies .	1,086,931					1,086,931
	<u>1,089,119</u>	<u>76</u>				<u>1,089,195</u>
Alternatives:						
Hedge			232,703	228,318	149,793	610,814
Natural resources.			5,375	6,184	76,456	88,015
Private			126	95	482,765	482,986
Real estate				287,785	65,536	353,321
			<u>238,204</u>	<u>522,382</u>	<u>774,550</u>	<u>1,535,136</u>
Funds held in trust by others					12,528	12,528
	<u>\$1,646,061</u>	<u>\$ 160,392</u>	<u>\$ 350,633</u>	<u>\$ 615,405</u>	<u>\$ 839,327</u>	<u>\$3,611,818</u>

*Cash and cash equivalents includes \$169,566,000 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 \$770,729,000 and \$761,856,000, as well as investments with rolling lockup periods totaling \$227,764,000 and \$77,471,000 as of June 30, 2020 and 2019, respectively.

4. Endowment Funds

Total endowment assets as of June 30, 2020 and 2019 are \$2,440,824,000 and \$2,311,388,000, 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, 2020 and 2019, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 4.0% and 3.6%.

For the years ended June 30, 2020 and 2019

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 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, 2020, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions			Total Funds 2020
		Original Gift	Accumulated Gains	Total	
Quasi	\$ 1,054,016	\$	\$	\$	\$1,054,016
Donor restricted:					
Underwater funds		690,652	676,447	1,367,099	1,367,099
All other funds					
Endowment net assets at end of year	\$ 1,054,016	\$ 690,652	\$ 676,447	\$ 1,367,099	\$2,421,115

For the years ended June 30, 2020 and 2019

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	<u>(36,159)</u>	<u>(48,759)</u>	<u>(84,918)</u>
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	<u>11,857</u>	<u>(1,056)</u>	<u>10,801</u>
Endowment net assets at end of year	<u>\$ 1,054,016</u>	<u>\$ 1,367,099</u>	<u>\$ 2,421,115</u>

The following table represents endowment net asset composition by type of fund as of June 30, 2019, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions			Total Funds 2019
		Original Gift	Accumulated Gains (Losses)	Total	
Quasi	\$ 991,076	\$	\$	\$	\$ 991,076
Donor restricted:					
Underwater funds		2,012	(12)	2,000	2,000
All other funds		<u>662,523</u>	<u>636,938</u>	<u>1,299,461</u>	<u>1,299,461</u>
Endowment net assets at end of year	<u>\$ 991,076</u>	<u>\$ 664,535</u>	<u>\$ 636,926</u>	<u>\$ 1,301,461</u>	<u>\$ 2,292,537</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2019, in thousands of dollars:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 874,959	\$ 1,253,224	\$ 2,128,183
Reinvested income distribution	6,427	1,693	8,120
Realized and unrealized gains	55,482	78,264	133,746
Less: spending formula	<u>(33,087)</u>	<u>(46,246)</u>	<u>(79,333)</u>
Undistributed investment income.	28,822	33,711	62,533
Contributions	3,907	7,908	11,815
Pledge payments	26	25,019	25,045
Net assets released from restrictions-other	21,818	(21,818)	
Other additions (deductions), transfers, and net asset reclassifications	<u>61,544</u>	<u>3,417</u>	<u>64,961</u>
Endowment net assets at end of year	<u>\$ 991,076</u>	<u>\$ 1,301,461</u>	<u>\$ 2,292,537</u>

For the years ended June 30, 2020 and 2019

5. Accounts Receivable and Pledges Receivable

Accounts Receivable:

Accounts and loans receivable at June 30, 2020 and 2019, in thousands of dollars, consist of the following:

	2020	2019
Accounts receivable, net:		
Students	\$ 19,135	\$ 18,679
Less: allowances	(6,469)	(7,398)
	12,666	11,281
Grants and contracts	77,517	68,767
Unsettled investment trades	47,062	50,385
Departmental sales, services, and other	42,598	50,826
Less: allowances	(8,941)	(9,109)
	158,236	160,869
Student loans	58,705	66,445
Less: allowances	(5,289)	(5,069)
	53,416	61,376
Total accounts and loans receivable, net	\$ 224,318	\$ 233,526

Federally sponsored student loans receivable represented \$27,088,000 and \$32,286,000 as of June 30, 2020 and 2019, 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 \$34,012,000 and \$40,200,000 as of June 30, 2020 and 2019, 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% and 5.15% at June 30, 2020 and 2019, respectively, to certain employees. The aggregate amount as of June 30, 2020 and 2019 is \$9,104,000 and \$8,534,000, respectively.

Pledges Receivable:

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2020 and 2019, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2020	2019
In one year or less	\$ 59,272	\$ 61,621
Between one year and five years	171,734	162,067
More than five years	29,075	46,775
	260,081	270,463
Discount to present value (at rates ranging from 1.16% to 4.02%) . .	(18,490)	(25,356)
Less: allowance for unfulfilled pledges	(22,746)	(18,800)
Total pledges receivable, net	\$ 218,845	\$ 226,307

As of June 30, 2020 and 2019, 70% of the gross contributions receivable were due from five donors.

For the years ended June 30, 2020 and 2019

6. Property, Plant, and Equipment

Property, plant, and equipment and related accumulated depreciation and amortization of right-of-use assets at June 30, 2020 and 2019, in thousands of dollars, consist of the following:

	2020	2019
Land	\$ 217,191	\$ 241,543
Buildings and improvements	3,477,121	3,469,243
Construction in progress	315,345	162,851
Software	57,558	57,558
Equipment	321,597	302,593
Library books	261,005	249,385
	<u>4,649,817</u>	<u>4,483,173</u>
Less: accumulated depreciation	(1,858,413)	(1,733,742)
Less: amortization of right-of-use assets	(25,226)	(24,574)
Total property, plant, and equipment, net.	<u>\$ 2,766,178</u>	<u>\$ 2,724,857</u>

As of June 30, 2020 and 2019, gross land, buildings and improvements and equipment include \$95,116,000 and \$148,346,000, respectively, associated with equipment and office, research, and retail space finance leases.

7. Other Long-Term Obligations

Other long-term obligations at June 30, 2020 and 2019, in thousands of dollars, were as follows:

	2020	2019
Federal Perkins loan advances	\$ 34,012	\$ 40,200
Conditional asset retirement obligation	12,808	13,496
Annuities and split-interest agreements payable	7,645	7,340
Other	1,689	1,700
Total other long-term obligations	<u>\$ 56,154</u>	<u>\$ 62,736</u>

For the years ended June 30, 2020 and 2019

8. Indebtedness

Bonds and Notes Payable:

The principal amounts of bonds and notes payable at June 30, 2020 and 2019, 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, 2020	Interest Rate at June 30, 2019	Outstanding Principal 2020	Outstanding Principal 2019
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 Z-1	08/01/2019	n/a	1.50%		63,170
MDFA Series Z-2	08/01/2019	n/a	1.50%		10,200
MDFA Series BB-1	10/01/2046	4.78%	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%	n/a	63,965	
MDFA Series DD-2	10/01/2033	5.00%	n/a	21,800	
Series CC (taxable)	10/01/2048	4.06%	4.06%	300,000	300,000
Series EE (taxable)	10/01/2050	3.17%	n/a	150,000	
Series EE (taxable)	10/01/2035	2.58%	n/a	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	2,290
Various notes payable (taxable)	various	various	various	598	910
Total fixed rate bonds and notes payable				<u>1,201,283</u>	<u>990,345</u>
Variable rate bonds and notes payable:					
HEFA Series H	12/01/2029	n/a	1.82%		25,000
HEFA Series N (taxable)	10/01/2034	0.15%	2.36%	26,650	27,715
MDFA Series U-1	10/01/2040	0.72%	2.16%	50,000	50,000
MDFA Series U-2	10/01/2040	0.51%	2.33%	50,000	50,000
MDFA Series U-3	10/01/2040	0.10%	1.78%	50,000	50,000
MDFA Series U-5A	10/01/2031	0.64%	2.46%	28,600	30,400
MDFA Series U-5B	10/01/2031	0.64%	2.46%	29,900	31,700
MDFA Series U-6A	10/01/2042	0.62%	2.39%	62,850	62,850
MDFA Series U-6C	10/01/2042	0.10%	1.80%	52,545	52,545
MDFA Series U-6E	10/01/2042	0.10%	1.87%	62,695	62,695
Royal Bank of Scotland (taxable)	08/15/2029	0.74%	1.26%	21,289	23,695
MDFA Series Y	10/01/2039	0.57%	2.34%	35,000	35,000
MDFA Series AA-1	10/01/2039	0.49%	2.30%	81,370	81,370
MDFA Series AA-2	10/01/2039	0.75%	2.30%	81,370	81,370
Total variable rate bonds and notes payable				<u>632,269</u>	<u>664,340</u>
Total bonds and notes payable				1,833,552	1,654,685
Plus: unamortized bond premium and discount, net				41,954	33,810
Less: unamortized bond issuance costs				(4,627)	(4,417)
Less: trust assets to refund Century notes				(100,000)	
Total bonds and notes payable, net				<u>\$ 1,770,879</u>	<u>\$ 1,684,078</u>

For the years ended June 30, 2020 and 2019

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 \$41,552,000 and \$42,550,000 as of June 30, 2020 and 2019, 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, 2020 and 2019.

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

Fiscal Year	Scheduled Principal Maturities
2021	\$ 8,629
2022	7,955
2023	8,274
2024	7,990
2025	9,205
Thereafter	<u>1,791,499</u>
Total	<u>\$ 1,833,552</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2020, the University’s debt portfolio includes variable rate demand bonds (VRDBs) of \$191,890,000 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, 2020, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$31,982,000, \$63,963,000, \$63,963,000, and \$31,982,000 in fiscal years 2021, 2022, 2023, and 2024, respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In August 2018, the University issued \$300,000,000 Series CC taxable bonds at a fixed interest rate of 4.06%. Final maturity of the bonds is through October 1, 2048. A portion of the Series CC bond proceeds were used to redeem a term loan in the amount of \$34,506,000 issued in June 2018 to defease Wheelock College Series C, tax exempt bonds assumed as a result of the merger with Wheelock College.

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 remaining proceeds of approximately \$45,000,000 from the Series EE issuance will be utilized for operations.

For the years ended June 30, 2020 and 2019

Bank Lines:

The University has a total of \$190,000,000 in committed lines of credit with six financial institutions. There were no draws or outstanding loans under these lines of credit as of and for the years ended June 30, 2020 and 2019. One line of credit totaling \$50,000,000 is set to expire in April 2021, while the remainder expire in January 2023. 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, 2020 and 2019, in thousands of dollars:

Swap	Notional Amount	Fair Value		Effective Date	Termination Date	University Pays	University Receives
		6/30/20	6/30/19				
Series DD-1	\$ 94,610	\$ (2,925)	\$	08/01/2019	10/01/2023	SIFMA	1.15%
Series DD-2	25,000	8,835	7,636	10/03/2008	12/01/2027	5.28%	SIFMA
Series N	19,855	7,751	6,654	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1-3	75,000	39,391	27,858	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1-3	75,000	38,964	27,353	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5	58,500	14,092	11,638	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6	59,750	55,977	40,783	10/03/2008	10/01/2042	5.39%	SIFMA
Series U6	90,000	85,237	62,262	10/03/2008	10/01/2042	5.44%	SIFMA
Series U6	30,000	28,399	20,746	07/01/2008	10/01/2042	5.44%	SIFMA
Series U6	59,750	55,951	40,768	07/01/2008	10/01/2042	5.39%	SIFMA
Series U6	8,200	456	599	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y	35,000	23,611	17,090	10/01/2014	10/01/2039	4.70%	SIFMA
Series Z			108	10/01/2014	08/01/2019	SIFMA	1.265%
Series AA-1	81,370	54,562	40,381	10/01/2015	10/01/2039	4.95%	79% of 1-Mo. USD LIBOR -.0705%*
Series AA-2	81,370	53,112	39,673	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR +.024%**
Royal Bank of Scotland	21,289	5,548	5,729	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment . . .		(8,131)	(6,116)				
Total		<u>\$ 460,830</u>	<u>\$ 343,162</u>				

*Until April 1, 2025: thereafter SIFMA

**Until April 1, 2021: thereafter SIFMA

SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index

LIBOR—London Interbank Offered Rate

For the years ended June 30, 2020 and 2019

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 included within Level 2 of the valuation hierarchy.

In 2020 and 2019, the University's net settlement payments on interest rate exchange agreements were \$27,353,000 and \$24,378,000, 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 \$313,585,000 at June 30, 2020, are considered financing activities. During 2020 and 2019, respectively, \$9,654,000 and \$9,520,000 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, 2020 and 2019, the University was required to post collateral of \$285,043,000 and \$165,877,000, 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 contributes a specified percentage of each employee's salary to the plan. Contributions for the years ended June 30, 2020 and 2019, respectively, were \$82,019,000 and \$78,954,000. In response to COVID-19, the University has suspended these contributions for the fiscal year 2021.

For the years ended June 30, 2020 and 2019

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:

	2020	2019
<i>Lease cost:</i>		
Finance lease expense:		
Amortization of right-of-use assets	\$ 2,141	\$ 2,384
Interest on lease liabilities	4,606	5,468
Operating lease expense	18,043	19,782
Short-term lease expense	3,920	8,859
Total lease expense	\$ 28,710	\$ 36,493
<i>Other Information:</i>		
Right-of-use assets obtained in exchange for new operating lease liabilities . . .	\$ 10,055	\$ 556
Weighted-average remaining lease term-finance leases	45 years	36 years
Weighted-average remaining lease term-operating leases	7.8 years	7.6 years
Weighted-average discount rate-finance leases	4.28%	4.17%
Weighted-average discount rate-operating leases	3.21%	3.26%

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, 2020:

Fiscal Year	Operating	Finance
2021	\$ 16,648	\$ 4,189
2022	16,564	4,189
2023	14,306	4,064
2024	12,618	4,064
2025	12,719	4,064
Thereafter	46,056	164,408
	118,911	184,978
Less: amounts representing interest . .	(15,163)	(103,912)
Total lease obligations	\$ 103,748	\$ 81,066

The University is the lessor in several long-term non-cancellable leases for commercial space through fiscal year 2040. Future minimum rental revenue due is summarized below as of June 30, 2020, in thousands of dollars:

Fiscal Year	Operating
2021	\$ 10,500
2022	8,674
2023	6,460
2024	5,713
2025	5,149
Thereafter	31,994
Total	\$ 68,490

For the years ended June 30, 2020 and 2019

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, 2020 and 2019, the University recognized rental revenue of \$515,000 related to the ground lease. The unamortized deferred ground lease revenue as of June 30, 2020 and 2019 is \$34,762,000 and \$35,278,000, 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, 2020 and 2019, the University recognized rental revenue of \$646,000 related to the ground lease. The unamortized deferred rent as of June 30, 2020 and 2019 is \$61,630,000 and \$62,276,000, respectively.

Other:

As of June 30, 2020, the University has commitments of approximately \$419,113,000 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 2020 was approximately \$8,879,000.

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, 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>

For the years ended June 30, 2020 and 2019

Expenses presented by functional classification for the year ended June 30, 2019 are as follows, in thousands of dollars:

	Instruction and Departmental Research	Educational Support Activities	Sponsored Programs	Institutional Support	Auxiliary Enterprises	Total
Salaries and wages	\$ 559,734	\$ 98,798	\$ 139,466	\$ 99,106	\$ 28,420	\$ 925,524
Employee benefits	166,402	29,132	28,890	41,273	7,516	273,213
Supplies and services	163,124	62,521	132,355	56,753	109,800	524,553
Utilities, rent, and repairs	48,861	4,515	2,654	11,856	31,321	99,207
Depreciation	81,586	8,535	3,926	7,602	27,197	128,846
Interest	31,065	357		11,635	18,404	61,461
Total operating expenses	<u>\$ 1,050,772</u>	<u>\$ 203,858</u>	<u>\$ 307,291</u>	<u>\$ 228,225</u>	<u>\$ 222,658</u>	<u>\$ 2,012,804</u>

13. Subsequent Events

The University has assessed the impact of subsequent events through September 17, 2020, the date the Consolidated Financial Statements were issued.

THE CORPORATION

THE FOUNDERS	Lee Claflin	Isaac Rich	Jacob Sleeper	
THE ASSOCIATE FOUNDERS	Augusta E. Corbin Chester C. Corbin Albert V. Danielsen Edward H. Dunn Rafik B. al-Hariri Charles Hayden	Arthur G. B. Metcalf Stephen P. Mugar Anne A. Ramsey John R. Robinson Roswell R. Robinson	Alden Speare Dewey David Stone Harry K. Stone Gerald Tsai, Jr. An Wang	
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