

# **Whitehead Institute for Biomedical Research**

**Financial Statements**

**For the year ended June 30, 2020**

**Whitehead Institute for Biomedical Research**  
**Index**  
**June 30, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Directors of  
Whitehead Institute for Biomedical Research

We have audited the accompanying financial statements of Whitehead Institute for Biomedical Research (the "Institute"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities for the year ended June 30, 2020 and of cash flows for the years ended June 30, 2020 and 2019.

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

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

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

Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Institute's preparation and fair presentation of the 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 Institute'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Whitehead Institute for Biomedical Research as of June 30, 2020 and 2019, and the changes in its net assets for the year ended June 30, 2020, and its cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the Institute changed the manner in which it presents restricted cash and certain other cash balances within the statements of cash flows. Our opinion is not modified with respect to this matter.

***Other Matter***

We previously audited the statement of financial position as of June 30, 2019, and the related statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated October 25, 2019, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2019 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

***PricewaterhouseCoopers LLP***

Boston, MA  
October 30, 2020

**Whitehead Institute for Biomedical Research**  
**Statements of Financial Position**  
**As of June 30, 2020 and 2019**

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	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 7,317,346	\$ 7,993,815
Research receivables	6,834,429	9,251,183
Pledges receivable	1,054,356	2,079,594
Other receivables	7,878,868	1,658,921
Prepaid expenses and other assets	10,763,027	5,696,402
Cash and cash equivalents, designated	50,709,213	898,887
Cash and cash equivalents, restricted	225,000	225,000
Short-term investments, designated	3,000,000	-
Short-term investments, restricted	-	4,000,000
Investments	552,456,163	552,665,841
Land, buildings and equipment, net	72,014,640	65,691,175
<b>Total assets</b>	<b><u>\$ 712,253,042</u></b>	<b><u>\$ 650,160,818</u></b>
<b>Liabilities and net assets:</b>		
Accounts payable and other accrued expenses	\$ 5,026,093	\$ 182,266
Other liabilities	7,033,954	5,047,375
Deferred revenue	5,194,565	1,419,859
Accrued post-retirement health plan obligation	4,512,267	2,010,312
Borrowings	131,506,621	75,911,012
<b>Total liabilities</b>	<b><u>153,273,500</u></b>	<b><u>84,570,824</u></b>
<b>Net assets:</b>		
Without donor restrictions	518,907,556	521,988,569
With donor restrictions	40,071,986	43,601,425
<b>Total net assets</b>	<b><u>558,979,542</u></b>	<b><u>565,589,994</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 712,253,042</u></b>	<b><u>\$ 650,160,818</u></b>

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

**Whitehead Institute for Biomedical Research**  
**Statements of Activities**  
**For the year ended June 30, 2020 (with summarized comparative information for**  
**the year ended June 30, 2019)**

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>Operating revenues:</b>				
Research grants				
Direct cost reimbursement	\$ 9,071,359	\$ -	\$ 9,071,359	\$ 11,242,052
Indirect cost reimbursement	6,348,014	-	6,348,014	7,606,805
Other sponsored research	-	6,033,438	6,033,438	17,445,613
<b>Total research grants</b>	<b>15,419,373</b>	<b>6,033,438</b>	<b>21,452,811</b>	<b>36,294,470</b>
Gifts and pledges	2,051,072	2,806,839	4,857,911	5,196,666
Rental income	866,146	-	866,146	815,200
Intellectual property and related revenue	17,081,770	-	17,081,770	8,929,626
Other income	2,785,898	-	2,785,898	4,285,231
<b>Total gift and other revenues</b>	<b>22,784,886</b>	<b>2,806,839</b>	<b>25,591,725</b>	<b>19,226,723</b>
Investment return designated for operations	24,496,699	-	24,496,699	25,223,816
Net assets released from restrictions	13,955,914	(13,955,914)	-	-
<b>Total operating revenues</b>	<b>76,656,872</b>	<b>(5,115,637)</b>	<b>71,541,235</b>	<b>80,745,009</b>
<b>Operating expenses:</b>				
Research	61,126,082	-	61,126,082	59,277,364
General and administrative	14,248,272	-	14,248,272	12,659,534
<b>Total operating expenses</b>	<b>75,374,354</b>	<b>-</b>	<b>75,374,354</b>	<b>71,936,898</b>
<b>Net operating activities</b>	<b>1,282,518</b>	<b>(5,115,637)</b>	<b>(3,833,119)</b>	<b>8,808,111</b>
<b>Non-operating activities:</b>				
Total investment return, net	21,734,453	1,386,198	23,120,651	43,254,164
Investment return designated for operations	(24,496,699)	-	(24,496,699)	(25,223,816)
Gain on retirement of borrowings	488,006	-	488,006	-
Endowment gifts	-	200,000	200,000	-
Postretirement related changes	(2,089,291)	-	(2,089,291)	(477,571)
<b>Net non-operating activities</b>	<b>(4,363,531)</b>	<b>1,586,198</b>	<b>(2,777,333)</b>	<b>17,552,777</b>
<b>Change in net assets</b>	<b>(3,081,013)</b>	<b>(3,529,439)</b>	<b>(6,610,452)</b>	<b>26,360,888</b>
Net assets, beginning of year	521,988,569	43,601,425	565,589,994	539,229,106
<b>Net assets, end of year</b>	<b>\$ 518,907,556</b>	<b>\$ 40,071,986</b>	<b>\$ 558,979,542</b>	<b>\$ 565,589,994</b>

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

**Whitehead Institute for Biomedical Research**  
**Statements of Cash Flows**  
**For the years ended June 30, 2020 and June 30, 2019**

	2020	2019
<b>Cash flows from operating activities:</b>		
(Decrease) Increase in net assets	\$ (6,610,452)	\$ 26,360,888
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	5,625,338	4,671,222
Amortization of borrowing discount/premium	361,604	(91,736)
Loss on disposal of fixed assets	149,463	59,748
Noncash contribution received	(61,447)	(100,499)
Proceeds from sale of donated securities	61,447	100,499
(Decrease) increase in receivables discount	(169,411)	36,087
Net realized and unrealized gain on investments	(16,722,355)	(36,514,273)
Restricted endowment gifts	(200,000)	-
Changes in operating assets and liabilities		
Research receivables	2,513,663	(6,940,818)
Pledges receivable	1,097,740	473,764
Other receivables	(6,219,947)	(173,206)
Prepaid expenses and other assets	(5,066,625)	(358,190)
Accounts payable and other accrued expenses	4,843,827	(1,791,508)
Other liabilities	1,986,579	359,525
Deferred revenue	3,774,706	(1,963,776)
Accrued retirement obligation	2,501,955	770,053
Net cash used for operating activities	<u>(12,133,915)</u>	<u>(15,102,220)</u>
<b>Cash flows from investing activities:</b>		
Purchases of land, buildings and equipment	(12,098,266)	(12,993,905)
Purchases of investments	(174,338,430)	(56,449,299)
Proceeds from the sale of investments	191,583,188	77,336,524
Proceeds from sale of equipment	-	46,440
(Increase) decrease in short-term investments, designated	(3,000,000)	9,437,672
Decrease in short-term investments, restricted	4,000,000	1,000,000
Net cash provided by investing activities	<u>6,146,492</u>	<u>18,377,432</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of borrowings	55,234,005	-
Payments on borrowings	-	(1,010,000)
Restricted endowment gifts	200,000	-
Net cash provided by (used for) for financing activities	<u>55,434,005</u>	<u>(1,010,000)</u>
Increase in cash and cash equivalents, designated cash, and restricted cash	49,446,582	2,265,212
<b>Cash and cash equivalents, designated cash, and restricted cash</b>		
Beginning of year	<u>31,511,176</u>	<u>29,245,964</u>
End of year	<u>\$ 80,957,758</u>	<u>\$ 31,511,176</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 3,880,006	\$ 3,522,988
Contributions of marketable securities	61,447	100,499
Non-cash proceeds from issuance of debt	76,415,579	-
Use of non-cash proceeds to defease and modify debt	(76,415,579)	-

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

# Whitehead Institute for Biomedical Research

## Notes to Financial Statements

### June 30, 2020 and 2019

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#### 1. Corporate Organization and Purpose

Whitehead Institute for Biomedical Research (the "Institute"), located in Cambridge, Massachusetts, is a nonstock, nonprofit corporation existing under the laws of the State of Delaware. The Institute engages in basic biomedical research and education to foster the understanding of biological systems, organisms, and processes, with the ultimate goal of improving human health and well-being.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Presentation**

The financial statements of the Institute have been prepared on the accrual basis of accounting.

The financial statements include certain prior year summarized comparative information, which is presented in total but not by net asset class. Such information does not include sufficient detail to conform with generally accepted accounting principles ("GAAP"). Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2019, from which the summarized comparative information is derived.

##### **Net Asset Classifications**

The Institute classifies net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute are classified and reported as follows:

Net assets without donor restrictions include all net assets derived from Institute operations that are not subject to donor-imposed stipulations such as certain research grants and contracts, intellectual property, and certain types of philanthropy. Included in this category are assets and liabilities associated with the Institute's land, buildings and equipment, funds designated by the Board of Directors for specific initiatives, and the board-designated funds functioning as endowment.

Net assets with donor restrictions include all net assets subject to explicit donor-imposed stipulations on the expenditure of contributions or the income and gains on contributed assets. These net assets include gifts and certain research grants or contracts donated for a particular purpose or with a particular time restriction. Net assets with donor restrictions also include gifts that are subject to donor-imposed stipulations that the principal be retained in perpetuity. In accordance with Massachusetts law, the income on these endowments is restricted until appropriated for spending.

##### **Net Operating Activities**

Operating revenues and expenses consist of those activities attributable to the Institute's current annual research programs, intellectual property activities, and gifts received, except those that are intended to function as an endowment. Non-operating activities include donor-restricted endowment gifts, postretirement plan related changes, investment income, realized and unrealized gains and losses on investment balances, including donor-restricted and board-designated endowments, and certain non-recurring items unrelated to the Institute's main activities.



**Whitehead Institute for Biomedical Research**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**2. Summary of Significant Accounting Policies (continued)**

**Income Taxes**

The Institute is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Institute complies with authoritative guidance on accounting for and disclosure of uncertainty in tax positions.

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase.

**Cash and Cash Equivalents, Designated**

Cash designated for internal purposes consists of unexpended proceeds of borrowings to be used for operating liquidity and for long-term purposes as designated by the Board of Directors (Note 8), to support the costs of renovations, equipment and furnishings of the Institute, and other working capital needs.

**Restricted Cash and Cash Equivalents and Short-Term Investments**

Restricted cash and cash equivalents and short-term investments consist of amounts to be held as required by the Institute's letter of credit agreement and certain other borrowings (Note 14).

The following table provides a reconciliation of cash and cash equivalents, designated cash, and restricted cash from the Statements of Financial Position to the total of the same as shown on the Statements of Cash Flows:

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 7,317,346	\$ 7,993,815
Cash equivalents included in investments	22,706,199	22,393,474
Cash and cash equivalents, designated	50,709,213	898,887
Cash and cash equivalents, restricted	<u>225,000</u>	<u>225,000</u>
Total cash, cash equivalents, designated cash and restricted cash shown in the Statement of Cash Flows	<u>\$ 80,957,758</u>	<u>\$ 31,511,176</u>

**Short-term Investments, Designated**

Short-term investments include holdings in highly liquid, low-risk investment vehicles with maturities exceeding three months at time of purchase. The balance consists of unexpended proceeds of borrowings to be used for long-term purposes as designated by the Board of Directors (Note 8), to support the costs of renovations, equipment and furnishings of the Institute, and other working capital needs.

**Prepaid Expenses and Other Assets**

Included in prepaid expenses and other assets are mortgage notes receivable. In determining present value, management assesses the adequacy of the allowance for credit losses by evaluating the individuals with loans outstanding and the terms of the underlying loan agreements and the mortgaged assets.

# Whitehead Institute for Biomedical Research

## Notes to Financial Statements

### June 30, 2020 and 2019

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## 2. Summary of Significant Accounting Policies (continued)

### Research Revenues

Research grants that are considered conditional contributions primarily consist of federal government grants and are recorded as revenue when qualified expenditures are incurred. Amounts received in advance of amounts expended are recorded as deferred revenue on the Statement of Financial Position. Amounts expended in excess of amounts received are included as research grants receivable on the Statement of Financial Position. As of June 30, 2020 and 2019, the Institute had \$35,655,235 and \$43,928,576, respectively, of research contributions that were awarded but not yet expended.

Research revenue from unconditional contributions is recognized in the period received and is classified as net assets with donor restrictions. Net assets are transferred to assets without donor restrictions as research spending occurs.

Indirect costs allowances under certain government and private grants follow the respective revenue recognition described above.

### Gifts and Pledges

Unconditional gifts are recognized as revenue in the period received and are classified in the appropriate net asset category based on the existence or absence of donor-imposed restrictions. As donor-imposed restrictions are met, net assets are transferred from assets with donor restrictions to assets without donor restrictions. Pledges are unconditional promises to give that are expected to be collected in future years and are recorded at the present value of estimated future cash flows, net of an applicable reserve for collectability. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution.

### Intellectual Property and Related Revenue

Intellectual property and related revenue consists primarily of income resulting from intellectual property arrangements, including royalties. These arrangements are exchange transactions and revenue is recognized when the contractual performance obligations have been met. Some of these arrangements include payments due to the Institute upon the completion of certain milestones. Future payments related to these developmental milestones, regulatory milestones, and royalties are excluded from the transaction price, considered variable consideration, and are constrained until achieved. The royalties are subject to the sales-based exception and will be recorded as revenue when the corresponding sale occurs.

Occasionally the Institute receives an equity interest in a company resulting from an intellectual property licensing agreement. The Institute recognizes revenue associated with its equity interest on the date the shares are granted based on the estimated fair value of the shares on that date.

### Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Whitehead Institute for Biomedical Research**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**2. Summary of Significant Accounting Policies (continued)**

**Recently Adopted Accounting Standards**

On July 1, 2019, the Institute adopted ASU 2016-02, *Leases* and subsequent amendments, which requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The Institute elected to apply the practical expedients to account for lease and non-lease components as a single lease component, and to not recognize right-of-use assets and lease liabilities for short-term leases under the guidance. The Institute also did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases and did not reassess any initial direct costs for existing leases.

Modified retrospective adoption has been applied and prior periods have not been restated. Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset of \$2,444,275 and lease liability of \$2,444,275 at July 1, 2019. There was no material impact to the timing of expense recognition in the Institute's Statement of Activities. Disclosures about the Institute's leasing activities are presented in Note 14.

On July 1, 2019 the Institute adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. The adoption of this guidance did not have a significant impact on the Institute's financial statements.

In March 2017, the FASB issued final guidance on ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires employers that sponsor defined benefit pension and other postretirement benefit plans to report the service cost component of net benefit cost in the same line item as employee benefit costs during the period. Employers are required to present the other components of net benefit cost separately from the service cost components in the income statement outside a subtotal of income from operations.

The Institute adopted this guidance as of July 1, 2019, using the full retrospective method. The impact of the retrospective presentation on the Statement of Activities for the year ended June 30, 2019 is shown below:

	<b>Year ended June 30, 2019</b>		
	<b>Reported</b>	<b>Adjusted</b>	<b>Change</b>
Research expenses	\$ 59,064,530	\$ 59,277,364	212,834
General and administrative expenses	12,584,755	12,659,534	74,779
Total operating expenses	71,649,285	71,936,898	287,613
Postretirement related changes	(765,184)	(477,571)	(287,613)
Net non-operating activities	17,265,164	17,552,777	(287,613)

**Whitehead Institute for Biomedical Research**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**2. Summary of Significant Accounting Policies (continued)**

On July 1, 2019, the Institute adopted ASU 2016-15 - *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which provides clarification on classifying a variety of activities within the Statements of Cash Flows. The adoption of this standard did not have a material impact to the Institute's Statements of Cash Flows.

In November 2016, the FASB issued clarifying guidance on ASU 2016-18 - *Statement of Cash Flows* (Topic 230): *Restricted Cash*. The amendments in the update require that a statement of cash flows explain the change during the period in 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 amendments in the update do not provide a definition of restricted cash or restricted cash equivalents.

The Institute adopted this guidance effective July 1, 2019 using the retrospective transition method. The impact of the retrospective presentation on the Statement of Cash Flows for the year ending June 30, 2019 is shown below:

	<b>2019</b>
<b>Reported</b>	
Net cash provided by investing activities	\$ 19,680,490
Increase in cash and cash equivalents	3,568,270
Cash and cash equivalents	
Beginning of year	4,425,545
End of year	7,993,815
<b>Adjusted</b>	
Net cash provided by investing activities	\$ 18,377,432
Increase in cash, cash equivalents, designated cash, and restricted cash	2,265,212
Cash, cash equivalents, designated cash, and restricted cash	
Beginning of year	29,245,964
End of year	31,511,176

**New Accounting Pronouncements**

The following pronouncements are not yet effective, and the Institute is currently evaluating the impact they will have on the financial statements.

In August 2018, the FASB issued ASU 2018-13 - *Fair Value Measurement* (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively.

**Whitehead Institute for Biomedical Research**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**2. Summary of Significant Accounting Policies (continued)**

In August 2018, the FASB issued ASU 2018-14 - *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments are effective for fiscal years ending after December 15, 2020.

**3. Financial Assets and Liquidity Resources**

The Institute regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Institute has various sources of liquidity at its disposal, including cash and cash equivalents, marketable equity securities, and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Institute considers all expenditures related to its ongoing activities of research and education, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As of June 30, 2020 financial assets available within one year to meet general expenditures were as follows:

	<b>2020</b>
<b>Financial assets:</b>	
Cash and cash equivalents	\$ 7,317,346
Cash and cash equivalents, designated	50,709,213
Release of short-term investments, designated	1,000,000
Research grants receivable	5,332,129
Pledges receivable	852,491
Other receivables	7,878,868
Subsequent year's budgeted Endowment support	22,894,000
Total financial assets available within one year	<u>\$ 95,984,047</u>

The Institute utilizes a bank line of credit as a liquidity resource. As of June 30, 2020, the line of credit was drawn and the balance of \$25,000,000 was held in cash and cash equivalents, designated.

The Institute structures its financial assets to be available as its general expenditures, liabilities and obligations come due. Draws from pooled investments as provided for in the approved annual budget are executed over the course of the year as operational cash flows demand. The Institute holds \$345,322,000 of liquid investments without donor restrictions should the Board of Directors approve an additional draw to meet unanticipated needs.

**Whitehead Institute for Biomedical Research**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**4. Investments**

The Institute's investments are stated at fair value. Common stock and mutual funds are valued at quoted market prices. The valuation of alternative investments including real estate and resource funds, private equity investments and hedge funds are measured at estimated fair value provided by the investee general partners. The Institute reviews and evaluates the values provided by the investee general partners, agrees with the valuation methods and assumptions used in determining the fair value of investments, and believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2020 and 2019. The estimated values as determined by the investee general partners may differ significantly from the values that would have been used if a readily determinable market value for the investments existed. Such differences could be material.

Investment transactions are recorded on a trade date basis. Total investment return is reported in the Statement of Activities and consists of interest and dividend income, and realized and unrealized capital gains and losses, net of expenses.

The Institute pools certain assets for general investment purposes. Related income and expenses, and realized and change in unrealized gains or losses, are allocated among participating funds.

The Institute follows a spending guideline to determine the amount that may be drawn from its endowment funds. The guideline prescribes a formula that weights 70% based on inflating prior year spending by the Biomedical Research and Development Price Index and 30% weighted on 4.5% of the average of investment valuation for the periods June through October of the prior year. This total draw is further restricted by a spending cap that increases 4.3% annually from a predetermined base year. The Institute may allocate additional amounts from investment returns to fund obligations and various strategic initiatives, subject to board approval. The board approved draw from investments for the years ended June 30, 2020 and 2019 was \$24,496,699 and \$25,223,816, respectively.

The table below presents the Institute's investments at their aggregate fair value by major type as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Cash equivalents	\$ 22,706,199	\$ 22,393,474
Common stock	13,139,180	18,885,971
Global & emerging markets equity securities	295,367,290	304,847,220
Bond funds	62,369,196	-
Hedge funds - absolute return	-	51,694,214
Private equity - funds of funds	145,671,686	137,231,836
Private equity - industry/various	3,523,781	4,757,664
Private equity - real estate and resources	9,678,831	12,855,462
Total investments	<u>\$ 552,456,163</u>	<u>\$ 552,665,841</u>

Common stock investments were received as a result of the Institute's intellectual property activities. These investments are held separately from the Institute's pooled investments. The unrealized gain and loss on shares is included in total investment return on the Statement of Activities.

# Whitehead Institute for Biomedical Research

## Notes to Financial Statements

### June 30, 2020 and 2019

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#### 4. Investments (continued)

The Institute is obligated under certain limited partnership investments and investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2020 and 2019, the Institute had unfunded commitments of \$115,641,779 and \$105,150,779, respectively.

The Institute has engaged a number of external investment management firms that deploy the Institute's investments across a series of diversified funds. The Institute conducts ongoing due diligence of this investment strategy.

#### 5. Fair Value Measurements

The Institute complies with accounting guidance for fair value measurements which defines fair value, establishes a framework for measuring fair value under GAAP, and enhanced disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to dispose of a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

- Level 1 Quoted prices in active markets for identical assets. Market price data is generally obtained from exchange or dealer markets. The Institute does not adjust the quoted price for such assets.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as: quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.
- Level 3 Unobservable inputs that are supported by little or no market activity which require the Institute to develop its own assumptions.

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

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**5. Fair Value Measurements (continued)**

The following tables present information about the Institute's investment assets measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations as of June 30, 2020 and 2019.

		<b>2020</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Investments Measured at NAV</b>
Cash	\$ 22,706,199	\$ 22,706,199	\$ -	\$ -	\$ -
Common stock	13,139,180	13,139,180	-	-	-
Global & emerging markets equity securities	295,367,290	295,367,290	-	-	-
Bond funds	62,369,196	62,369,196	-	-	-
Private equity	158,874,298	-	-	-	158,874,298
<b>Total investments</b>	<b>\$552,456,163</b>	<b>\$ 393,581,865</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 158,874,298</b>

		<b>2019</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Investments Measured at NAV</b>
Cash	\$ 22,393,474	\$ 22,393,474	\$ -	\$ -	\$ -
Common stock	18,885,971	18,885,971	-	-	-
Global & emerging markets equity securities	304,847,220	304,847,220	-	-	-
Hedge funds	51,694,214	-	-	-	51,694,214
Private equity	154,844,962	-	-	-	154,844,962
<b>Total investments</b>	<b>\$552,665,841</b>	<b>\$ 346,126,665</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 206,539,176</b>

The Institute has classified cash and cash equivalents, designated cash and cash equivalents, and restricted cash and cash equivalents as Level 1 based upon the above hierarchy.

The value of certain alternative investments represents the ownership interest in the net asset value ("NAV") of the respective investment. The fair values of the securities held by these investees that do not have readily determinable fair values are determined by the general partner and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the replacement cost of the assets and prices of recent significant market placements. The Institute has performed due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30, 2020 and 2019.

All financial instruments are valued using a market approach involving identical or comparable assets.



**Whitehead Institute for Biomedical Research**  
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**5. Fair Value Measurements (continued)**

The following table includes redemption information related to the Institute's investments valued at NAV at June 30, 2020:

	<b>2020 Fair Value</b>	<b>2020 Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
<b>Private equity</b>				
Funds of funds	145,671,686	108,699,133	At maturity, 2020-2031	n/a
Industry-various	3,523,781	488,500	At maturity, 2020-2021	n/a
Real estate and resources	<u>9,678,831</u>	<u>6,454,146</u>	At maturity, 2020-2028	n/a
Total investments valued at NAV	<u>\$ 158,874,298</u>	<u>\$ 115,641,779</u>		

The Institute's investments in private equity, which are limited partnerships, are stated to be illiquid in the investee's audited financial statements. These limited partnership funds are expected to mature at the end of the stated term or upon the close of the extension period, if one exists. Redemption prior to the close of the stated or extension term is not expected by the Institute. At the sole discretion of the limited partnership, the Institute may be notified of an option to redeem a portion of its investment within a related notice period. There were no such options outstanding as of June 30, 2020.

**6. Receivables**

Research grants and contributions and pledges were estimated to be received as follows at June 30, 2020 and 2019:

	<b>2020</b>	
	<b>Research Grants Receivable</b>	<b>Pledges Receivable</b>
Less than one year	\$ 5,332,129	\$ 852,491
One to five years	1,513,981	250,000
Less: present value discount	<u>(11,681)</u>	<u>(48,135)</u>
Net receivable balance	<u>\$ 6,834,429</u>	<u>\$ 1,054,356</u>

**Whitehead Institute for Biomedical Research**  
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**6. Receivables (continued)**

	<b>2019</b>	
	<b>Research Grants Receivable</b>	<b>Pledges Receivable</b>
Less than one year	\$ 6,204,674	\$ 847,740
One to five years	3,155,099	1,352,491
Less: present value discount	<u>(108,590)</u>	<u>(120,637)</u>
Net receivable balance	<u>\$ 9,251,183</u>	<u>\$ 2,079,594</u>

Pledges are recorded at their net realizable value. No allowance was recorded for unfulfilled pledges or contributions at June 30, 2020 and 2019.

Fundraising expenses for the years ended June 30, 2020 and 2019 were \$1,555,945 and \$1,631,919 respectively.

**7. Land, Buildings and Equipment**

Land, buildings, and equipment are stated at cost at the date of acquisition. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reported as operating gain or loss in the Statement of Activities. The cost of maintenance is expensed as incurred, while significant improvements are capitalized.

The Institute depreciates capital assets based upon their useful lives. Leasehold improvements are depreciated over the shorter of their useful life or the term of the related lease.

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

Building and improvements	10 - 60 years
Leasehold improvements	Life of lease
Equipment	3 - 20 years

Equipment or other assets purchased through the use of federal or other grants are retained by the Institute after the expiration of the respective grant agreement.

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**7. Land, Buildings and Equipment (continued)**

Land, buildings, and equipment consisted of the following at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Land	\$ 3,977,500	\$ 3,977,500
Buildings and improvements	118,116,263	113,712,006
Leasehold improvements	-	1,400,249
Equipment	30,969,843	30,188,692
Art collection	463,374	353,374
Construction in progress	7,033,886	1,662,890
Total land, buildings and equipment	<u>160,560,866</u>	<u>151,294,711</u>
Accumulated depreciation	<u>(88,546,226)</u>	<u>(85,603,536)</u>
Total land, buildings and equipment, net	<u>\$ 72,014,640</u>	<u>\$ 65,691,175</u>

**8. Borrowings**

The following schedule summarizes borrowings as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
<b>Whitehead Institute for Biomedical Research Taxable Bonds</b>		
2020 Bonds, 3.28%, due 2050	\$ 37,400,000	\$ -
<b>Massachusetts Development Finance Agency (MDFA) Revenue Bonds</b>		
2011A Bonds, fixed rate, due 2017 - 2036*	-	29,415,001
<b>Term Loans</b>		
Century Loan, 3.23%, due 2049	71,000,000	-
Century Loan, 4.51%, due 2045	-	45,000,000
<b>Line of Credit drawdown</b>	<u>25,000,000</u>	<u>-</u>
Subtotal borrowings	133,400,000	74,415,001
Plus: Unamortized bond premium	-	2,071,662
Less: Unamortized deferred financing fees	<u>(1,893,379)</u>	<u>(575,651)</u>
<b>Total borrowings, net</b>	<u>\$ 131,506,621</u>	<u>\$ 75,911,012</u>

\*Interest rates ranging from 4.00% to 5.00%.

In December 2019, Whitehead entered a term loan agreement with Century bank for \$71,000,000. A portion of the proceeds were used to fully refund the existing Century loan and the remaining proceeds are designated to fund long-term capital projects. The fees associated with this debt modification are capitalized over the life of the loan. The principal balance is due in 2049.

**Whitehead Institute for Biomedical Research**  
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**8. Borrowings (continued)**

In February 2020, Whitehead Institute Series 2020 Taxable Bonds were issued to advance refund the 2011A tax-exempt revenue bonds and to fund long-term capital projects. The proceeds of the Series 2020 bonds were placed in escrow funds pursuant to an escrow agreement with the bond trustee. The 2011A bonds were legally defeased and derecognized at the date of refunding. These refunds resulted in a gain on extinguishment of debt of \$488,006. The bonds mature in 2050.

The Institute has a Line of Credit agreement for \$25,000,000 with Bank of America, N.A. to support operations. At June 30, 2020 the outstanding balance is \$25,000,000 which is being held in cash and cash equivalents, designated. The Line of Credit agreement expires on February 28, 2022.

As of June 30, 2020, the Institute must maintain a minimum credit rating under a covenant associated with its Line of Credit agreement.

Interest expense recognized in the Statement of Activities during the years ended June 30, 2020 and June 30, 2019 was \$3,361,356 and \$3,045,753, respectively.

**9. Net Assets**

The Institute's net assets as of June 30, 2020 and 2019 consist of:

	<b>2020</b>	<b>2019</b>
<b>Without Donor Restrictions:</b>		
Board-designated endowment	\$ 498,355,499	\$ 505,871,391
Board-designated - research and other	<u>20,552,057</u>	<u>16,117,178</u>
<b>Total net assets without donor restrictions</b>	<u>518,907,556</u>	<u>521,988,569</u>
<b>With Donor Restrictions:</b>		
Time or purpose	20,721,481	24,450,920
Perpetual	<u>19,350,505</u>	<u>19,150,505</u>
<b>Total net assets with donor restrictions</b>	<u>40,071,986</u>	<u>43,601,425</u>
<b>Total net assets</b>	<u>\$ 558,979,542</u>	<u>\$ 565,589,994</u>

**10. Endowment Funds**

At June 30, 2020, the Institute's endowment consists of six individual donor-restricted endowment funds and one Board-designated endowment fund, which are utilized to support the Institute's primary mission of basic biomedical research. At June 30, 2019, the Institute's endowment consisted of five individual donor-restricted endowment funds and one Board-designated endowment fund. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Massachusetts' enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") allows the Institute to appropriate for expenditure or accumulate so much of an endowment fund as the Institute determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless otherwise stated in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure.

**Whitehead Institute for Biomedical Research**  
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**10. Endowment Funds (continued)**

Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. the duration and preservation of the fund
- b. the purposes of the Institute and the donor-restricted endowment fund
- c. general economic conditions
- d. the possible effect of inflation and deflation
- e. the expected total return from income and the appreciation and depreciation of investments
- f. other resources of the Institute
- g. the investment policies of the Institute

The Institute adopted endowment investment and spending policies (Note 4) that attempt to provide a predictable stream of funding to support the Institute's mission, while seeking to maintain the purchasing power of endowment assets. The Institute's investment objective is to seek long-term growth of assets while maximizing long-term return, in a partnership in which the managers reflect the Institute's views.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts ("underwater funds"). When underwater endowment funds exist, they are classified as a reduction of net assets with donor restrictions. At June 30, 2020 and 2019 there were no underwater funds.

Changes in endowment net assets for the years ended June 30, 2020 and 2019 were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, July 1, 2019</b>	\$ 505,871,391	\$ 22,024,769	\$ 527,896,160
Investment return	25,266,032	1,126,954	26,392,986
Investment return designated for operations	(22,281,924)	-	(22,281,924)
Net assets redesignated	(10,500,000)	-	(10,500,000)
Contributions	-	200,000	200,000
Amounts appropriated for expenditure	-	(390,126)	(390,126)
<b>Endowment net assets, June 30, 2020</b>	<u>\$ 498,355,499</u>	<u>\$ 22,961,597</u>	<u>\$ 521,317,096</u>

**Whitehead Institute for Biomedical Research**  
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**10. Endowment Funds (continued)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, July 1, 2018</b>	\$ 498,027,892	\$ 21,149,359	\$ 519,177,251
Investment return	29,498,933	1,113,787	30,612,720
Investment return designated for operations	(21,655,434)	-	(21,655,434)
Amounts appropriated for expenditure	-	(238,377)	(238,377)
<b>Endowment net assets, June 30, 2019</b>	<u>\$ 505,871,391</u>	<u>\$ 22,024,769</u>	<u>\$ 527,896,160</u>

**11. Retirement Plans**

**Employee Retirement Plans**

The Institute sponsors a retirement plan for employees of Whitehead Institute for Biomedical Research which is a noncontributory defined contribution plan designed to provide retirement benefits for employees of the Institute. Contributions by the Institute are dependent on salary levels and are payable monthly. Contributions by the Institute to the Retirement Plan totaled \$1,910,196 and \$1,874,932 in 2020 and 2019, respectively. In accordance with the plan documents, \$10,007 and \$24,789 of forfeitures were utilized to reduce Institute contributions during 2020 and 2019, respectively.

The Institute also maintains a plan under IRS code 403(b), which is funded exclusively from employee voluntary contributions through payroll deductions.

**Deferred Compensation Plans**

The Institute has two deferred compensation plans, established in accordance with the provisions of Section 457 of the Internal Revenue Code, which provide benefits to present and future members of a select group of management and postdoctoral fellows. The deferred compensation plans permit those eligible to defer a portion of their salary until future years. Deferred compensation amounts are not available for dispersion to employees until termination, retirement, death or an unforeseeable emergency. All amounts of compensation deferred under the plan are held for the exclusive benefit of participants and their beneficiaries. The amounts deferred at June 30, 2020 and 2019 totaled \$4,352,039 and \$4,139,941, respectively, and are included in prepaid expenses and other assets, and other liabilities in the Statements of Financial Position. The plan asset balances are considered Level 2 investments based on the fair value hierarchy discussed in Note 5.

**Postretirement Health Care Benefits Plan**

The Institute maintains a postretirement health care benefits plan (the "Plan"). The Plan reimburses eligible retirees for a portion of the cost of purchasing a Medicare supplement plan, with the Institute's share ranging from at 50% to 70% of MIT's Medex Plan or its successor program cost. All employees of the Institute who are 55 years of age, who have at least 10 years of retirement plan eligible service after age 45, and who have retired from the Institute are eligible to participate.

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**11. Retirement Plans (continued)**

The following table sets forth the funded status of the plan at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
<b>Change in Benefit Obligation:</b>		
Postretirement benefit obligation at beginning of year	\$ 7,670,089	\$ 6,707,565
Service cost	492,925	372,585
Interest cost	304,239	267,943
Assumption changes and actuarial loss (gain)	1,918,913	503,735
Benefits paid	<u>(142,622)</u>	<u>(181,739)</u>
Postretirement benefit obligation at end of year	<u>10,243,544</u>	<u>7,670,089</u>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of year	5,659,777	5,467,306
Actual return on plan assets net of expenses	133,861	294,107
Employer contribution to VEBA trust	80,261	80,103
Benefits paid	<u>(142,622)</u>	<u>(181,739)</u>
Fair value of plan assets at end of year	<u>5,731,277</u>	<u>5,659,777</u>
Unfunded status	<u>\$ (4,512,267)</u>	<u>\$ (2,010,312)</u>
<b>Cumulative Amounts Recognized in Net Assets</b>		
<b>Without Donor Restrictions</b>		
Net gain at beginning of year	\$ (2,739,711)	\$ (3,504,895)
Amortization of net gain	48,999	178,011
Assumption changes and actuarial loss (gain)	1,918,913	503,735
Loss (gain) on fair value of plan assets	<u>253,613</u>	<u>83,438</u>
Net gain at end of year	<u>\$ (518,186)</u>	<u>\$ (2,739,711)</u>

There are no unrecognized prior service costs or transition obligations.

Assumptions are made about discount rate, return on investments, compensation increases, and anticipated trends in the cost of health care. Per capita increase in health care and prescription drug benefits were assumed to increase by 7.0% in fiscal year 2020 and 5.0% in 2025.

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**11. Retirement Plans (continued)**

The components of the annual cost of the postretirement health care benefit plan include costs for service, interest, expected return on plan assets and actuarial changes related to composition of employee base and/or retention estimates. The components of net periodic benefit cost other than the service cost component are included in postretirement related changes on the Statement of Activities.

	<b>2020</b>	<b>2019</b>
<b>Components of Net Periodic Benefit Cost</b>		
Service cost	\$ 492,925	\$ 372,585
Interest cost	304,239	267,943
Expected return on plan assets	(387,474)	(377,545)
Amortization of net gain	(48,999)	(178,011)
Net periodic benefit cost	<u>\$ 360,691</u>	<u>\$ 84,972</u>

As an indicator of sensitivity, a one-percentage point change in the assumed health care cost trend rate would affect 2020 and 2019 as shown in the following table:

	<b>2020</b>	<b>2019</b>
<b>Impact of 1% increase change in health care cost trend rate</b>		
On interest cost plus service cost during past year	\$ 229,000	\$ 56,000
On accumulated postretirement benefit obligation	1,937,000	1,438,000
<b>Impact of 1% decrease change in health care cost trend rate</b>		
On interest cost plus service cost during past year	(173,000)	(44,000)
On accumulated postretirement benefit obligation	(1,541,000)	(1,147,000)

The significant assumptions underlying the actuarial computations at June 30, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
<b>Assumptions used to determine benefit obligations</b>		
Discount rate	2.78 %	3.56 %
<b>Assumptions used to determine net periodic benefit cost</b>		
Discount rate	3.56 %	4.20 %
Expected return on assets	7.00 %	7.00 %

There are no required contributions to the postretirement health care benefit plan for fiscal 2021. The expected employer contributions for fiscal 2021 is \$75,000.



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**11. Retirement Plans (continued)**

The following table shows projected future expected benefit payments by fiscal year:

2021	\$ 317,000
2022	317,000
2023	312,000
2024	316,000
2025	323,000
2026 - 2030	2,007,000

In selecting the long-term rate of return on assets, the Institute considered the average rate of earnings expected on the funds invested to provide for the benefit of the Plan. This included considering asset allocation and the expected returns likely to be earned over the life of the Plan as well as assessing current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. This basis is consistent with prior years.

The investment objective and strategy of the Plan is to achieve returns above the balanced composite benchmark and maintain a level of volatility that approximates that of the composite benchmark.

The Plan's target and actual asset allocations at June 30, 2020 and 2019 are as follows:

<b>Asset category</b>	<b>Target Allocation</b>	<b>2020</b>	<b>2019</b>
Cash and equivalents	5 %	2 %	2 %
Fixed income mutual funds	30 %	33 %	33 %
Equity mutual funds	65 %	65 %	65 %
		<u>100 %</u>	<u>100 %</u>

The following is a summary of the Institute's postretirement medical benefits plan assets at June 30, 2020 and 2019.

	<b>2020</b>	<b>2019</b>
Cash and equivalents	\$ 122,879	\$ 98,921
Equity mutual funds	3,730,053	3,705,514
Fixed income	1,878,344	1,855,342
Total investments	<u>\$ 5,731,276</u>	<u>\$ 5,659,777</u>

All investments are considered Level 1 investments in the fair value hierarchy based upon the lowest level of significant input to the valuations as discussed in Note 5.

The Institute believes the Plan asset portfolio has appropriate levels of diversification through the investment in multiple mutual fund and bond offerings, the underlying assets of which are representative across industries. As such, the Institute does not believe there is significant concentration risk within the Plan asset portfolio. There are no unfunded commitments associated with the Institute's postretirement health care benefits plan assets.

**Whitehead Institute for Biomedical Research**  
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**12. Functional and Natural Classification of Expenses**

The Institute's expenses by functional and natural classification for the years ended June 30, 2020 and 2019 were as follows:

	<b>2020</b>		
	<b>Research</b>	<b>General &amp; Administrative</b>	<b>Total</b>
Salaries and benefits	\$ 22,475,964	\$ 8,024,009	\$ 30,499,973
Operating expenses	30,394,066	4,916,031	35,310,097
Depreciation and loss on disposals	4,868,119	906,623	5,774,742
Interest and debt administration	3,387,933	401,609	3,789,542
Total expenses	<u>\$ 61,126,082</u>	<u>\$ 14,248,272</u>	<u>\$ 75,374,354</u>

  

	<b>2019</b>		
	<b>Research</b>	<b>General &amp; Administrative</b>	<b>Total</b>
Salaries and benefits	\$ 22,004,220	\$ 7,647,148	\$ 29,651,368
Operating expenses	30,479,792	4,075,223	34,555,015
Depreciation and loss on disposals	4,111,694	619,276	4,730,970
Interest and debt administration	2,681,658	317,887	2,999,545
Total expenses	<u>\$ 59,277,364</u>	<u>\$ 12,659,534</u>	<u>\$ 71,936,898</u>

The expenses reported within each functional classification reflect both direct costs and an allocation of relevant indirect costs that support the Institute's research. Indirect costs are allocated to research operations using reasonable cost allocation methods. Depreciation is allocated based on square footage. Interest and debt administration is allocated based on square footage and usage of proceeds.

**13. Related Parties**

Under the terms of an affiliation agreement (the "Agreement") between the Institute and Massachusetts Institute of Technology ("MIT"), the Institute is obligated to reimburse MIT for certain costs, as defined, associated with joint faculty members. The terms of the Agreement address the academic affiliation between the Institute and MIT. This Agreement may be terminated by either party with two years' written notice. As of June 30, 2020, neither party had indicated an intention to terminate the agreement. Various financial commitments may result should the Institute initiate termination. Revenue from MIT totaled \$3,969,894 and \$3,970,282 for the years ended June 30, 2020 and 2019, respectively. Total MIT revenue for the years ended June 30, 2020 and 2019 included \$64,000 and \$64,000 of contributed data center storage space, respectively. The Institute incurred charges of \$5,036,576 and \$5,023,993 in the years ended June 30, 2020 and 2019, respectively. Accounts receivable balances as of June 30, 2020 and 2019 were \$170,766 and \$29,546, respectively.

**Whitehead Institute for Biomedical Research**  
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**14. Commitments and Contingencies**

**Lease Commitments**

The Institute is committed under a certain operating lease for property rental. The related asset and obligation is recorded at the present value of the remaining lease payments. The cash flows are discounted using an estimated incremental borrowing rate based on information available upon adoption of the new lease standard. When the lease offers the option to extend the lease term, the Institute has included this extension in its calculation to the extent that the option is reasonably assured of being exercised. The right-of-use asset and lease liability are included in prepaid expenses and other assets and other liabilities, respectively, in the Statement of Financial Position.

The Institute made an accounting policy election to not apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less. The Institute also made an accounting policy election to not separate non-lease components from lease components for all classes of assets.

The components of total lease cost for the year ending June 30, 2020 were as follows:

	<b>2020</b>
Operating lease cost	\$ 205,455
Variable lease cost	-
Total lease cost	<u>\$ 205,455</u>

Future lease payments for operating leases with initial terms of one year or more as of June 30, 2020 are as follows:

2021	\$ 230,291
2022	239,502
2023	249,083
2024	259,046
2025	269,408
Thereafter	<u>1,081,970</u>
Total undiscounted cash flows	<u>\$ 2,329,300</u>
Discount	<u>(90,197)</u>
Lease liability	<u>\$ 2,239,103</u>

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**14. Commitments and Contingencies (continued)**

The table below shows the balance of the lease liability and right-of-use asset, and other lease information as of June 30, 2020:

	<b>2020</b>
Lease liability	\$ 2,239,103
Right-of-use asset	2,239,103
Remaining lease term	8.66 years
Discount rate	1.74%

**Research Grants**

Research grants provide for the recovery of direct and indirect costs. Direct and indirect costs charged to federal grants are subject to federal audit. Related indirect costs from federal grants are recorded at a predetermined rate that was negotiated with the federal government for the period beginning July 1, 2018 through June 30, 2021. The Institute was reimbursed for employee benefit costs from grantors at a fixed rate, which was negotiated with the federal government effective for the fiscal year ended June 30, 2019. The employee benefit cost rate is negotiated annually and as of June 30, 2020, the Institute had submitted the proposed rate for the fiscal year ended June 30, 2021.

**Letter of Credit**

The Institute has available a letter of credit in the amount of \$225,000. In accordance with the terms of the letter of credit, the Institute holds \$225,000 in cash as collateral. At June 30, 2020, there was no outstanding balance on the letter of credit.

**15. Subsequent Events**

The Institute has evaluated subsequent events through October 30, 2020, which is the date the financial statements were issued. There were no subsequent events that require adjustment to the audited financial statements or disclosures. On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic. Management continues to evaluate the potential negative economic impacts resulting from the global COVID-19 pandemic. Given the uncertainty of these circumstances, any related impact on the Institute's operations cannot be reasonably estimated at this time.