

Whitehead Institute for Biomedical Research

Financial Statements

For the year ended June 30, 2021

Whitehead Institute for Biomedical Research
Index
June 30, 2021 and 2020

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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, 2021 and 2020, and the related statements of activities for the year ended June 30, 2021 and of cash flows for the years ended June 30, 2021 and 2020.

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, 2021 and 2020, and the changes in its net assets for the year ended June 30, 2021, and its cash flows for the years ended June 30, 2021 and 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the statement of financial position as of June 30, 2020, 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 30, 2020, 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, 2020 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers

Boston, MA
October 29th, 2021

Whitehead Institute for Biomedical Research
Statements of Financial Position
As of June 30, 2021 and 2020

| | 2021 | 2020 |
|--|------------------------------|------------------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 8,909,868 | \$ 7,317,346 |
| Research receivables | 7,812,685 | 6,834,429 |
| Pledges receivable | 250,000 | 1,054,356 |
| Other receivables | 10,948,154 | 7,878,868 |
| Prepaid expenses and other assets | 12,761,163 | 10,763,027 |
| Cash and cash equivalents, designated | 17,882,639 | 50,709,213 |
| Cash and cash equivalents, restricted | 225,000 | 225,000 |
| Short-term investments, designated | 2,000,000 | 3,000,000 |
| Investments | 758,698,563 | 552,456,163 |
| Land, buildings and equipment, net | 76,644,584 | 72,014,640 |
| Total assets | <u>\$ 896,132,656</u> | <u>\$ 712,253,042</u> |
| Liabilities and net assets: | | |
| Accounts payable and other accrued expenses | \$ 5,924,953 | \$ 5,026,093 |
| Other liabilities | 7,902,760 | 7,033,954 |
| Deferred revenue | 4,428,012 | 5,194,565 |
| Accrued post-retirement health plan obligation | 3,104,614 | 4,512,267 |
| Borrowings | 106,571,756 | 131,506,621 |
| Total liabilities | <u>127,932,095</u> | <u>153,273,500</u> |
| Net assets: | | |
| Without donor restrictions | 717,433,336 | 518,907,556 |
| With donor restrictions | 50,767,225 | 40,071,986 |
| Total net assets | <u>768,200,561</u> | <u>558,979,542</u> |
| Total liabilities and net assets | <u>\$ 896,132,656</u> | <u>\$ 712,253,042</u> |

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, 2021 (with summarized comparative information for
the year ended June 30, 2020)

| | Without Donor Restrictions | With Donor Restrictions | 2021 Total | 2020 Total |
|---|-------------------------------|----------------------------|-----------------------|-----------------------|
| Operating revenues: | | | | |
| Research grants | | | | |
| Direct cost reimbursement | \$ 9,534,660 | \$ - | \$ 9,534,660 | \$ 9,071,359 |
| Indirect cost reimbursement | 6,611,745 | - | 6,611,745 | 6,348,014 |
| Other sponsored research | - | 8,758,254 | 8,758,254 | 6,033,438 |
| Total research grants | 16,146,405 | 8,758,254 | 24,904,659 | 21,452,811 |
| Gifts and pledges | 808,602 | 2,673,306 | 3,481,908 | 4,857,911 |
| Rental income | 1,296,983 | - | 1,296,983 | 866,146 |
| Intellectual property and related revenue | 35,097,474 | - | 35,097,474 | 17,081,770 |
| Other income | 1,528,605 | - | 1,528,605 | 2,785,898 |
| Total gift and other revenues | 38,731,664 | 2,673,306 | 41,404,970 | 25,591,725 |
| Investment return designated for operations | 27,587,545 | - | 27,587,545 | 24,496,699 |
| Net assets released from restrictions | 13,026,667 | (13,026,667) | - | - |
| Total operating revenues | 95,492,281 | (1,595,107) | 93,897,174 | 71,541,235 |
| Operating expenses: | | | | |
| Research | 78,192,703 | - | 78,192,703 | 61,126,082 |
| General and administrative | 16,649,958 | - | 16,649,958 | 14,248,272 |
| Total operating expenses | 94,842,661 | - | 94,842,661 | 75,374,354 |
| Net operating activities | 649,620 | (1,595,107) | (945,487) | (3,833,119) |
| Non-operating activities: | | | | |
| Total investment return, net | 223,538,922 | 12,090,346 | 235,629,268 | 23,120,651 |
| Investment return designated for operations | (27,587,545) | - | (27,587,545) | (24,496,699) |
| Gain on retirement of borrowings | - | - | - | 488,006 |
| Endowment gifts | - | 200,000 | 200,000 | 200,000 |
| Postretirement related changes | 1,924,783 | - | 1,924,783 | (2,089,291) |
| Net non-operating activities | 197,876,160 | 12,290,346 | 210,166,506 | (2,777,333) |
| Change in net assets | 198,525,780 | 10,695,239 | 209,221,019 | (6,610,452) |
| Net assets, beginning of year | 518,907,556 | 40,071,986 | 558,979,542 | 565,589,994 |
| Net assets, end of year | \$ 717,433,336 | \$ 50,767,225 | \$ 768,200,561 | \$ 558,979,542 |

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, 2021 and June 30, 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Increase (Decrease) in net assets | \$ 209,221,019 | \$ (6,610,452) |
| Adjustments to reconcile change in net assets to net cash used for operating activities | | |
| Depreciation | 5,647,617 | 5,625,338 |
| Amortization of borrowing discount/premium | 65,135 | 361,604 |
| Loss on disposal of fixed assets | 74,357 | 149,463 |
| Noncash contribution received | (81,622) | (61,447) |
| Proceeds from sale of donated securities | 81,622 | 61,447 |
| (Decrease) in receivables discount | (16,082) | (169,411) |
| Net realized and unrealized gain on investments | (228,657,691) | (16,722,355) |
| Restricted endowment gifts | (200,000) | (200,000) |
| Changes in operating assets and liabilities | | |
| Research receivables | (1,010,309) | 2,513,663 |
| Pledges receivable | 852,491 | 1,097,740 |
| Other receivables | (3,069,286) | (6,219,947) |
| Prepaid expenses and other assets | (1,998,136) | (5,066,625) |
| Accounts payable and other accrued expenses | 898,860 | 4,843,827 |
| Other liabilities | 868,806 | 1,986,579 |
| Deferred revenue | (766,553) | 3,774,706 |
| Accrued retirement obligation | (1,407,653) | 2,501,955 |
| Net cash used for operating activities | <u>(19,497,425)</u> | <u>(12,133,915)</u> |
| Cash flows from investing activities: | | |
| Purchases of land, buildings and equipment | (10,402,525) | (12,098,266) |
| Purchases of investments | (102,056,846) | (174,338,430) |
| Proceeds from the sale of investments | 124,481,463 | 191,583,188 |
| Proceeds from sale of equipment | 50,607 | - |
| Decrease (Increase) in short-term investments, designated | 1,000,000 | (3,000,000) |
| Decrease in short-term investments, restricted | - | 4,000,000 |
| Net cash provided by investing activities | <u>13,072,699</u> | <u>6,146,492</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of borrowings | - | 55,234,005 |
| Payments on borrowings | (25,000,000) | - |
| Restricted endowment gifts | 200,000 | 200,000 |
| Net cash (used for) provided by financing activities | <u>(24,800,000)</u> | <u>55,434,005</u> |
| Increase in cash and cash equivalents, designated cash, and restricted cash | (31,224,726) | 49,446,582 |
| Cash and cash equivalents, designated cash, and restricted cash | | |
| Beginning of year | <u>80,957,758</u> | <u>31,511,176</u> |
| End of year | <u>\$ 49,733,032</u> | <u>\$ 80,957,758</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 3,648,670 | \$ 3,880,006 |
| Contributions of marketable securities | 81,622 | 61,447 |
| 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, 2021 and 2020

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, 2020, 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, 2021 and 2020

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

Restricted cash and cash equivalents consist of amounts to be held as required by the Institute's letter of credit agreement (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:

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 8,909,868 | \$ 7,317,346 |
| Cash equivalents in investments balance | 22,715,525 | 22,706,199 |
| Cash and cash equivalents, designated | 17,882,639 | 50,709,213 |
| 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>\$ 49,733,032</u> | <u>\$ 80,957,758</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, 2021 and 2020

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 receivables on the Statement of Financial Position. As of June 30, 2021 and 2020, the Institute had \$27,967,688 and \$35,655,235, 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, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standards

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, Disclosure Framework— Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for fair value measurements. The Institute adopted ASU 2018-13 on a retrospective basis as of July 1, 2020. The adoption of this accounting guidance did not have a significant impact on the fair value measurement disclosures presented in the Institute's financial statements.

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 2018-14 - *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. The amendments are effective for fiscal years ending after December 15, 2021.

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, 2021, financial assets available within one year to meet general expenditures were as follows:

| | 2021 |
|--|----------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 8,909,868 |
| Cash and cash equivalents, designated | 17,882,639 |
| Research grants receivable | 5,831,340 |
| Pledges receivable | 250,000 |
| Other receivables | 10,948,154 |
| Subsequent year's budgeted Endowment support | 22,959,000 |
| Total financial assets available within one year | <u>\$ 66,781,001</u> |
| Liquidity resources: | |
| Bank line of credit (no outstanding balance as of June 30, 2021) | <u>\$ 25,000,000</u> |

Whitehead Institute for Biomedical Research

Notes to Financial Statements

June 30, 2021 and 2020

3. Financial Assets and Liquidity Resources (continued)

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 approximately \$459,006,000 of liquid investments without donor restrictions should the Board of Directors approve an additional draw to meet unanticipated needs.

4. Investments

The Institute's investments are stated at fair value. Common stock and mutual funds are valued at quoted market prices. The Institute utilizes net asset value ("NAV") as a practical expedient for estimates of fair value of its investments in real estate and resource funds, private equity investments and hedge funds. 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, 2021 and 2020. 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, 2021 and 2020 was \$27,587,545 and \$24,496,699, respectively.

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.

The Institute is obligated under certain limited partnership investments and investment agreements to periodically advance additional funding up to contractual levels. At June 30, 2021 and 2020, the Institute had unfunded commitments of \$123,080,502 and \$115,641,779, 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.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2021 and 2020

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.

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, 2021 and 2020.

| | Total | 2021 | | | Investments Measured at NAV |
|---|----------------------|--|---|---|-----------------------------|
| | | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | |
| Cash equivalents | \$ 22,715,525 | \$ 22,715,525 | \$ - | \$ - | \$ - |
| Common stock | 26,122,401 | 26,122,401 | - | - | - |
| Global & emerging markets equity securities | 448,372,212 | 448,372,212 | - | - | - |
| Private equity | 261,488,425 | - | - | - | 261,488,425 |
| Total investments | <u>\$758,698,563</u> | <u>\$ 497,210,138</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 261,488,425</u> |

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2021 and 2020

5. Fair Value Measurements (continued)

| | Total | 2020 | | | |
|--|----------------------|--|---|--|-----------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Investments Measured at NAV |
| Cash equivalents | \$ 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 |
| Total investments | <u>\$552,456,163</u> | <u>\$ 393,581,865</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 158,874,298</u> |

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 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, 2021 and 2020.

The following table includes information related to the Institute's investments valued at NAV at June 30, 2021:

| | 2021 Fair Value | 2021 Unfunded Commitments |
|------------------------------------|----------------------|---------------------------------|
| Private equity | | |
| Funds of funds | 246,304,371 | 116,729,133 |
| Industry-various | 4,763,838 | 482,223 |
| Real estate and resources | <u>10,420,216</u> | <u>5,869,146</u> |
| Total investments valued at NAV | <u>\$261,488,425</u> | <u>\$123,080,502</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 permitted. 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.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2021 and 2020

6. Receivables

Research grants and contributions and pledges were estimated to be received as follows at June 30, 2021 and 2020:

| | 2021 | |
|------------------------------|---------------------------------|-------------------------------|
| | Research Receivables | Pledges Receivable |
| Less than one year | \$ 5,831,340 | \$ 250,000 |
| One to five years | 2,025,079 | - |
| Less: present value discount | (43,734) | - |
| Net receivable balance | <u>\$ 7,812,685</u> | <u>\$ 250,000</u> |

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

Pledges are recorded at their net realizable value. No allowance was recorded for unfulfilled pledges or contributions at June 30, 2021 and 2020.

Fundraising expenses for the years ended June 30, 2021 and 2020 were \$1,408,258 and \$1,555,945 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 |

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Notes to Financial Statements
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7. Land, Buildings and Equipment (continued)

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.

Land, buildings, and equipment consisted of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Land | \$ 3,977,500 | \$ 3,977,500 |
| Buildings and improvements | 130,040,525 | 118,116,263 |
| Equipment | 31,346,778 | 30,969,843 |
| Art collection | 463,374 | 463,374 |
| Construction in progress | 1,720,013 | 7,033,886 |
| Total land, buildings and equipment | <u>167,548,190</u> | <u>160,560,866</u> |
| Accumulated depreciation | <u>(90,903,606)</u> | <u>(88,546,226)</u> |
| Total land, buildings and equipment, net | <u>\$ 76,644,584</u> | <u>\$ 72,014,640</u> |

8. Borrowings

The following schedule summarizes borrowings as of June 30, 2021 and 2020:

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| Whitehead Institute for Biomedical Research Taxable Bonds | | |
| 2020 Bonds, 3.28%, due 2050 | \$ 37,400,000 | \$ 37,400,000 |
| Term Loans | | |
| Century Loan, 3.23%, due 2049 | 71,000,000 | 71,000,000 |
| Line of Credit drawdown | <u>-</u> | <u>25,000,000</u> |
| Subtotal borrowings | 108,400,000 | 133,400,000 |
| Less: Unamortized deferred financing fees | <u>(1,828,244)</u> | <u>(1,893,379)</u> |
| Total borrowings, net | <u>\$ 106,571,756</u> | <u>\$ 131,506,621</u> |

The Institute has a Line of Credit agreement for \$25,000,000 with Bank of America, N.A. to support operations. At June 30, 2021 there was no outstanding balance on the Line of Credit. The Line of Credit agreement expires on February 28, 2022.

As of June 30, 2021, 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, 2021 and June 30, 2020 was \$3,648,670 and \$3,361,356, respectively.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
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9. Net Assets

The Institute's net assets as of June 30, 2021 and 2020 consist of:

| | 2021 | 2020 |
|--|----------------------|-----------------------|
| Without Donor Restrictions: | | |
| Board-designated endowment | \$677,094,999 | \$ 498,355,499 |
| Board-designated - research and other | 40,338,337 | 20,552,057 |
| Total net assets without donor restrictions | <u>717,433,336</u> | <u>518,907,556</u> |
| With Donor Restrictions: | | |
| Time or purpose | 31,216,720 | 20,721,481 |
| Perpetual | 19,550,505 | 19,350,505 |
| Total net assets with donor restrictions | <u>50,767,225</u> | <u>40,071,986</u> |
| Total net assets | <u>\$768,200,561</u> | <u>\$ 558,979,542</u> |

10. Endowment Funds

At June 30, 2021 and 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. 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.

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

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10. Endowment Funds (continued)

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, 2021 and 2020 there were no underwater funds.

Changes in endowment net assets for the years ended June 30, 2021 and 2020 were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|----------------------|
| Endowment net assets, July 1, 2020 | \$498,355,499 | \$ 22,961,597 | \$521,317,096 |
| Investment return | 201,633,287 | 9,496,198 | 211,129,485 |
| Investment return designated for operations | (22,893,787) | - | (22,893,787) |
| Contributions | - | 200,000 | 200,000 |
| Amounts appropriated for expenditure | - | (840,152) | (840,152) |
| Endowment net assets, June 30, 2021 | <u>\$677,094,999</u> | <u>\$ 31,817,643</u> | <u>\$708,912,642</u> |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, July 1, 2019 | \$ 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) |
| Endowment net assets, June 30, 2020 | <u>\$ 498,355,499</u> | <u>\$ 22,961,597</u> | <u>\$ 521,317,096</u> |

Whitehead Institute for Biomedical Research

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June 30, 2021 and 2020

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 \$2,073,579 and \$1,910,196 in 2021 and 2020, respectively. In accordance with the plan documents, \$14,085 and \$10,007 of forfeitures were utilized to reduce Institute contributions during 2021 and 2020, 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, 2021 and 2020 totaled \$5,430,008 and \$4,352,039, 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.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2021 and 2020

11. Retirement Plans (continued)

The following table sets forth the funded status of the plan at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Change in Benefit Obligation: | | |
| Postretirement benefit obligation at beginning of year | \$ 10,243,544 | \$ 7,670,089 |
| Service cost | 597,676 | 492,925 |
| Interest cost | 271,843 | 304,239 |
| Assumption changes and actuarial loss (gain) | (668,242) | 1,918,913 |
| Benefits paid | <u>(204,399)</u> | <u>(142,622)</u> |
| Postretirement benefit obligation at end of year | <u>10,240,422</u> | <u>10,243,544</u> |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of year | 5,731,277 | 5,659,777 |
| Actual return on plan assets net of expenses | 1,528,384 | 133,861 |
| Employer contribution to VEBA trust | 80,546 | 80,261 |
| Benefits paid | <u>(204,399)</u> | <u>(142,622)</u> |
| Fair value of plan assets at end of year | <u>7,135,808</u> | <u>5,731,277</u> |
| Unfunded status | <u>\$ (3,104,614)</u> | <u>\$ (4,512,267)</u> |
| Cumulative Amounts Recognized in Net Assets Without Donor Restrictions | | |
| Net gain at beginning of year | \$ (518,186) | \$ (2,739,711) |
| Amortization of net gain | - | 48,999 |
| Assumption changes and actuarial (gain) loss | (668,242) | 1,918,913 |
| (Gain) loss on fair value of plan assets | <u>(1,136,270)</u> | <u>253,613</u> |
| Net gain at end of year | <u>\$ (2,322,698)</u> | <u>\$ (518,186)</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 2021 and 5.0% in 2026.

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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.

| | 2021 | 2020 |
|--|-------------------|-------------------|
| Components of Net Periodic Benefit Cost | | |
| Service cost | \$ 597,676 | \$ 492,925 |
| Interest cost | 271,843 | 304,239 |
| Expected return on plan assets | (392,114) | (387,474) |
| Amortization of net gain | - | (48,999) |
| Net periodic benefit cost | <u>\$ 477,405</u> | <u>\$ 360,691</u> |

As an indicator of sensitivity, a one-percentage point change in the assumed health care cost trend rate would affect 2021 and 2020 as shown in the following table:

| | 2021 | 2020 |
|--|-------------|-------------|
| Impact of 1% increase change in health care cost trend rate | | |
| On interest cost plus service cost during past year | \$ 218,000 | \$ 229,000 |
| On accumulated postretirement benefit obligation | 1,874,000 | 1,937,000 |
| Impact of 1% decrease change in health care cost trend rate | | |
| On interest cost plus service cost during past year | (167,000) | (173,000) |
| On accumulated postretirement benefit obligation | (1,502,000) | (1,541,000) |

The significant assumptions underlying the actuarial computations at June 30, 2021 and 2020 were as follows:

| | 2021 | 2020 |
|--|-------------|-------------|
| Assumptions used to determine benefit obligations | | |
| Discount rate | 2.84 % | 2.78 % |
| Assumptions used to determine net periodic benefit cost | | |
| Discount rate | 2.78 % | 3.56 % |
| Expected return on assets | 7.00 % | 7.00 % |

There are no required contributions to the postretirement health care benefit plan for fiscal 2022. The expected employer contributions for fiscal 2022 is \$75,000.

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Notes to Financial Statements
June 30, 2021 and 2020

11. Retirement Plans (continued)

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

| | |
|-------------|------------|
| 2022 | \$ 329,000 |
| 2023 | 326,000 |
| 2024 | 330,000 |
| 2025 | 336,000 |
| 2026 | 341,000 |
| 2027 - 2031 | 2,144,000 |

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, 2021 and 2020 are as follows:

| Asset category | Target Allocation | 2021 | 2020 |
|---------------------------|------------------------------|--------------|--------------|
| Cash and equivalents | 5 % | 2 % | 2 % |
| Fixed income mutual funds | 30 % | 30 % | 33 % |
| Equity mutual funds | 65 % | 68 % | 65 % |
| | | <u>100 %</u> | <u>100 %</u> |

The following is a summary of the Institute's postretirement medical benefits plan assets at June 30, 2021 and 2020.

| | 2021 | 2020 |
|----------------------|---------------------|---------------------|
| Cash and equivalents | \$ 119,762 | \$ 122,879 |
| Equity mutual funds | 4,887,394 | 3,730,053 |
| Fixed income | 2,128,650 | 1,878,344 |
| Total investments | <u>\$ 7,135,806</u> | <u>\$ 5,731,276</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.

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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, 2021 and 2020 were as follows:

| | 2021 | | |
|------------------------------------|----------------------|---|----------------------|
| | Research | General & Administrative | Total |
| Salaries and benefits | \$ 23,758,699 | \$ 8,388,166 | \$ 32,146,865 |
| Operating expenses | 46,274,488 | 6,965,385 | 53,239,873 |
| Depreciation and loss on disposals | 4,937,492 | 784,483 | 5,721,975 |
| Interest and debt administration | 3,222,024 | 511,924 | 3,733,948 |
| Total expenses | <u>\$ 78,192,703</u> | <u>\$ 16,649,958</u> | <u>\$ 94,842,661</u> |

| | 2020 | | |
|------------------------------------|----------------------|---|----------------------|
| | Research | General & Administrative | Total |
| 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> |

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 for the year ended June 30, 2021, and square footage and usage of proceeds for the year ended June 30, 2020.

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, 2021, neither party had indicated an intention to terminate the agreement. Various financial commitments may result should the Institute initiate termination. Revenue from MIT totaled \$2,950,103 and \$3,969,894 for the years ended June 30, 2021 and 2020, respectively. Total MIT revenue for the years ended June 30, 2021 and 2020 included \$64,000 and \$64,000 of contributed data center storage space, respectively. The Institute incurred charges of \$6,036,619 and \$5,036,576 in the years ended June 30, 2021 and 2020, respectively. Accounts receivable balances as of June 30, 2021 and 2020 were \$164,906 and \$170,766, respectively.

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June 30, 2021 and 2020

14. Commitments and Contingencies

Lease Commitments

The Institute is committed under a certain operating lease for property rental. The related asset and obligation are 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, 2021 were as follows:

| | 2021 |
|----------------------|-------------------|
| Operating lease cost | \$ 244,819 |
| Variable lease cost | - |
| Total lease cost | <u>\$ 244,819</u> |

Future lease payments for operating leases with initial terms of one year or more as of June 30, 2021 are as follows:

| | |
|-------------------------------|---------------------|
| 2022 | \$ 239,502 |
| 2023 | 249,083 |
| 2024 | 259,046 |
| 2025 | 269,408 |
| 2026 | 280,184 |
| Thereafter | <u>801,787</u> |
| Total undiscounted cash flows | <u>2,099,010</u> |
| Discount | <u>(82,849)</u> |
| Lease liability | <u>\$ 2,016,161</u> |

Whitehead Institute for Biomedical Research
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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, 2021:

| | 2021 |
|----------------------|--------------|
| Lease liability | \$ 2,016,161 |
| Right-of-use asset | 2,016,161 |
| Remaining lease term | 7.67 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. As of June 30, 2021, the Institute had submitted a proposed rate for approval from the federal government for the period July 1, 2021 through June 30, 2024. 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, 2021. The employee benefit cost rate is negotiated annually and as of June 30, 2021, the Institute had submitted the proposed rate for the fiscal year ended June 30, 2022.

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, 2021, there was no outstanding balance on the letter of credit.

15. Subsequent Events

The Institute has evaluated subsequent events through October 29, 2021, which is the date the financial statements were issued. There were no subsequent events that require adjustment to the audited financial statements or disclosures.