KPMG

BENTLEY UNIVERSITY

Financial Statements

June 30, 2020

(With Independent Auditors’ Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Bentley University:

We have audited the accompanying financial statements of Bentley University (the University), which comprise the statement of financial position as of June 30, 2020, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Bentley University as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(s) to the financial statements, in 2020, the University adopted Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-18. As part of our audit of the 2020 financial statements, we also audited the adjustments described in Note 2(s) that were applied to adopt ASU 2016-18 retrospectively in the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

Boston, Massachusetts
October 30, 2020

BENTLEY UNIVERSITY

Statement of Financial Position

June 30, 2020
(with comparative totals as of June 30, 2019)

(Dollars in thousands)

Assets		**2020**	**2019**
Cash and cash equivalents	$	73,786	41,013
Restricted cash		15,230	9,724
Pledges and accounts receivable, net		7,537	3,394
Other assets		4,571	4,592
Student loans, net		3,077	4,275
Investments		272,819	286,144
Property, plant, and equipment, net		304,062	308,633
Total assets	$	681,082	657,775
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	33,084	28,796
Student deposits and deferred income		12,232	7,841
Other liabilities		8,188	8,112
Interest rate swaps		27,357	20,823
Line of credit		25,000	—
Refundable U.S. government grants		2,921	4,872
Bonds and notes payable, net		160,805	165,843
Total liabilities		269,587	236,287
Net assets:			
Without donor restrictions		293,027	300,804
With donor restrictions		118,468	120,684
Total net assets		411,495	421,488
Total liabilities and net assets	$	681,082	657,775

See accompanying notes to financial statements.

BENTLEY UNIVERSITY

Statement of Activities

June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	2020 Total	2019 Total
Changes in unrestricted net assets:				
Operating activities:				
Revenues:				
Tuition, fees, room and board, net	$ 199,110	—	199,110	206,670
Other education programs	1,084	—	1,084	1,142
Endowment return utilized in operations	11,978	—	11,978	11,886
Contributions and private grants	2,009	—	2,009	2,260
Government grants	4,079	—	4,079	1,236
Other sources	1,976	—	1,976	3,755
Other auxiliary enterprises	4,131	—	4,131	5,265
Net assets released from restrictions	2,675	—	2,675	2,065
Total operating revenues	227,042	—	227,042	234,279
Expenses:				
Salaries and wages	107,526	—	107,526	107,599
Employee benefits	27,926	—	27,926	28,156
Supplies and services	45,777	—	45,777	50,882
Utilities	4,926	—	4,926	6,067
Depreciation and amortization	20,163	—	20,163	21,718
Interest	7,196	—	7,196	7,460
Total expenses	213,514	—	213,514	221,882
Increase in net assets from operating activities	13,528	—	13,528	12,397
Nonoperating activities:				
Contributions and private grants	—	6,816	6,816	3,659
Investment return	(1,874)	(1,271)	(3,145)	7,216
Endowment return utilized in operations	(7,020)	(4,958)	(11,978)	(11,886)
Change in fair value of interest rate swaps	(6,534)	—	(6,534)	(4,669)
Net assets released from restrictions	—	(2,675)	(2,675)	(2,065)
Voluntary retirement costs	(5,040)	—	(5,040)	—
Other	(837)	(128)	(965)	55
Decrease in net assets from nonoperating activities	(21,305)	(2,216)	(23,521)	(7,690)
Change in net assets	(7,777)	(2,216)	(9,993)	4,707
Net assets at beginning of year	300,804	120,684	421,488	416,781
Net assets at end of year	$ 293,027	118,468	411,495	421,488

See accompanying notes to financial statements.

BENTLEY UNIVERSITY

Statement of Cash Flows

June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(Dollars in thousands)

		2020	2019
Operating activities:			
Change in net assets	$	(9,993)	4,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		20,163	21,718
Net realized and unrealized losses (gains) on investments		2,386	(6,719)
Contributions restricted for long-term purposes		(1,794)	(1,953)
Change in fair value of interest rate swaps		6,534	4,669
Changes in operating assets, net		(2,923)	463
Changes in operating liabilities, net		8,014	(1,324)
Net cash provided by operating activities		22,387	21,561
Investing activities:			
Proceeds from sales and maturities of investments		85,911	44,511
Purchases of investments		(56,872)	(24,622)
Additions of property, plant, and equipment		(17,396)	(18,877)
Net cash provided by investing activities		11,643	1,012
Financing activities:			
Contributions restricted for long-term purposes		1,794	1,953
Payments on borrowings and refinancing of debt		(4,445)	(4,250)
Proceeds from line of credit		25,000	—
Net cash provided by (used in) financing activities		22,349	(2,297)
Net increase in cash, cash equivalents, and restricted cash		56,379	20,276
Cash, cash equivalents, and restricted cash at beginning of year		60,456	40,180
Cash, cash equivalents, and restricted cash at end of year	$	116,835	60,456
Supplemental disclosures:			
Cash and cash equivalents	$	73,786	41,013
Restricted cash		15,230	9,724
Cash held in investments		27,819	9,719
Total cash, cash equivalents and restricted cash	$	116,835	60,456
Cash paid for interest	$	7,494	7,447
Change in accounts payable from capital additions		(1,211)	1,979

See accompanying notes to financial statements.

(1) Description of the University

Bentley University is a lifelong-learning community that creates successful leaders who make business a force for positive change. With a combination of business and the arts and sciences and a flexible, personalized approach to education, Bentley provides students with critical thinking and practical skills that prepare them to lead successful, rewarding careers. Founded in 1917, the university enrolls 4,200 undergraduate and 1,000 graduate and PhD students and is set on 163 acres in Waltham, Massachusetts, 10 miles west of Boston.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and have been prepared to focus on the University as a whole and to present balances and transactions according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions – net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties.

With donor restrictions – net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

(b) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include treasuries and short-term instruments not held for future long-term investment with original maturities of three months or less.

(c) Restricted Cash

Restricted cash represents required deposits with a bond holder, in accordance with the bond covenants, and collateral cash for certain interest rate swaps.

(d) Pledges and Accounts Receivable

Pledges and accounts receivable are stated net of allowance for doubtful accounts and discount to present value.

(e) Tuition and Related Revenues

Under Accounting Standards Codification Topic 606, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

(Dollars in thousands)

Revenue from student tuition, fees, room and board is recognized over the academic year, which generally aligns with the University's fiscal year, as services are provided. Revenues associated with academic programs that cross fiscal years are recognized based on the period the services are provided in each fiscal year. Revenues are presented at stated transaction prices, which are determined based on standard published rates for the services less institutional aid awarded to qualifying students and any incentive discounts. Aid in excess of students' tuition and fees is reflected as a reduction of residence hall and dining charges.

The amount of revenue per student varies based on the specific program or class in which the student enrolls as well as whether the student resides in University housing. In addition, students who adjust their course load, residence assignment, board assignment, or withdraw completely within the specified period published in the University's academic calendar may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments are generally due prior to the start of the academic term.

The composition of student tuition, fee, residence hall and dining revenues was as follows for the years ended June 30, 2020 and 2019:

		2020	2019
Undergraduate tuition and fees	$	217,606	211,095
Postgraduate tuition and fees		30,164	32,571
Residence hall and dining		42,230	52,144
Gross tuition, fees, room and board		290,000	295,810
Financial aid		(90,890)	(89,140)
Net tuition, fees, room and board	$	199,110	206,670

Revenues and deposits from students received in advance of services provided are included in student deposits and deferred income in the statements of financial position and totaled $10,899 and $3,508 at June 30, 2020 and 2019, respectively

(f) Contributions

Contributions, including unconditional promises from donors, are nonreciprocal, unconditional transfers of assets, or cancellations of liabilities, and are initially recognized at fair value. Contributions received without donor-imposed restrictions are recorded as revenue without donor restrictions. Contributions received with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Contributions of noncash assets are recorded at estimated fair value on the date of the contribution. Conditional pledges become unconditional and are recognized as revenues when the conditions are satisfied.

(g) Property, Plant, and Equipment

Land, buildings, plant renovations, and equipment are stated at cost at the date of acquisition or renovation or at estimated fair value at the date of donation in the case of gifts. Purchases of library books are expensed as incurred. Minor renovations and repairs are charged to operations as incurred. Depreciation of plant and equipment is computed on a straight-line basis over the useful lives of buildings (40–60 years), building and improvements (5–30 years), and equipment and furnishings (2–15 years). Interest incurred on tax-exempt debt used to finance building construction is added to the cost of the asset, net of any income earned on temporarily invested debt proceeds during construction.

(h) Bond Premiums and Issuance Costs

Bond premiums and issuance costs are amortized through the final maturity date of the respective bond issues.

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(j) Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to Section 501(a) of the Code, as amended. Accordingly, it is generally not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University believes it has taken no significant uncertain tax positions as of June 30, 2020 or 2019.

(k) Statement of Activities

The statement of activities reports the changes in net assets from operating and nonoperating activities. Nonoperating activities reflect contributions for long-term investments and capital projects and the investment return in excess of the amount utilized in operations, as described in note 8. In addition, nonoperating activities include changes in the values of split-interest agreements and interest rate swaps, net assets released from restrictions for capital purposes, and certain other nonrecurring transactions. All other activity is classified in operating activities.

Grants and contracts awarded by federal and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. Other grants and contracts are considered contribution revenue in accordance with ASU 2018-08 *Contributions Received and Contributions Made*, which is recognized when any donor-imposed conditions (if any) have been met. There were no significant conditional contributions or advance payments from sponsored support at June 30, 2020. Total revenue from grants and contracts recognized in net assets without donor restrictions was $4,079 and $1,236 for the years ended June 30, 2020 and 2019, respectively.

(Continued)

The University offered a voluntary early retirement package to all active nonfaculty employees with a combination of age and years of service totaling 75 as of June 30, 2020. Participants in the program had a retirement date of June 30, 2020, unless they received approval to extend to an agreed upon date. The cost of the program was $5,040 and is included in nonoperating activities on the statement of activities for the year ended June 30, 2020 and accounts payable and accrued liabilities on the statement of financial position as of June 30, 2020

Dividends, interest, and realized and unrealized gains (losses) on long-term investments are reported as follows:

- Increases in net assets with donor restrictions if the terms of the gift require these to be added to the principal
- Increases (decreases) in net assets with donor restrictions if the terms of the gift or relevant state law imposes restrictions on the use of the income and gains
- Increases (decreases) in net assets without donor restrictions in all other cases

(l) Split-Interest Agreements

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held by the University. For such split-interest agreements, the contributed assets are included as part of investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University and liabilities are recorded for the present value of the estimated future payments to the beneficiaries. These liabilities amounted to $2,303 and $2,427 at June 30, 2020 and 2019, respectively, and are reported within other liabilities on the statement of financial position. The split-interest liabilities are adjusted during the term of the agreements consistent with changes in the value of the assets and actuarial assumptions.

(m) Derivative Instruments

The University utilized interest-rate swap agreements with counterparties to effectively convert its variable-rate debt to fixed rates. The swaps' fair values and changes therein are recognized in the University's financial statements. Differences between the fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense. The fair value of the swap instruments considers the estimated benefit or cost to the University to cancel the agreements as of the reporting dates, and is based on option pricing models that consider interest rates and other market factors, as well as the credit risks of the parties to the agreements. Interest rate volatility, remaining outstanding principal, and time to maturity will affect the swaps' fair values at subsequent reporting dates.

(n) Related-Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees may participate in any decision in which he or she has a material financial interest. Each Trustee and senior manager are required to certify compliance with the conflict of interest policy on an annual basis as well as disclose any potential related-party transactions to the audit committee. When such a relationship exists, the University requires that such transactions be conducted at arms' length, with terms that are fair and reasonable to and for the benefit of the University. For senior management, the University requires annual disclosure of significant financial interests in, or governance of employment or consulting relationships with, entities doing business with the University. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interest of the University.

(o) Fair Value Measurements

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities
- Level 2 – Observable prices that are based on inputs not quoted in active markets, but corroborated by market data
- Level 3 – Unobservable inputs are used when little or no market data is available

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Investments measured using net asset value as a practical expedient to estimate fair value, as described in note 4, are not classified in the fair value hierarchy.

(p) Benefit Plans

Defined-Contribution Plan – Eligible faculty and staff of the University are participants in a defined-contribution 403(b) retirement plan. The University contributes, for the benefit of the participants, 10% of eligible earnings annually to the plan, up to the IRS maximum per employee. Total expense under this plan for the years ended June 30, 2020 and 2019 amounted to $8,242 and $7,933, respectively.

Postretirement Benefits – The University provides certain healthcare benefits for retired employees covered under the Bentley University Retiree Medical Benefits Plan (the Plan). This plan is closed to employees hired after December 31, 1999. Benefits are paid through an insurance company as claims are settled. The Plan is a noncontributory, defined-benefit plan. The liability as of June 30, 2020 and 2019 amounted to $5,885 and $5,685, respectively, and is reported in other liabilities on the statement of financial position.

(q) Prior Year Information

Prior year information presented is not intended to constitute a full presentation in accordance with GAAP. Accordingly, summarized 2019 information should be read in conjunction with the University's financial statements for the year ended June 30, 2019.

(r) Reclassifications

Certain reclassifications have been made to the 2019 information to conform to the 2020 presentation.

(s) Recent Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which requires the statement of cash flows to explain changes during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash, and investments should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The University adopted ASU 2016-18 in fiscal year 2020 and applied the changes retrospectively. Accordingly, amounts in the 2019 summarized comparative cash flows information have been restated.

(t) Risks and Uncertainties – Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Although it is not possible to determine the pandemic's ultimate length, severity, or impacts on the economy or the University's finances, the University could experience material adverse effects posed by the risks, or our stakeholders' perceptions of the risks, related to COVID-19. As a result of the pandemic, beginning in March 2020, the University suspended in-person education and other campus-based activities, resulting in foregone revenues, the most significant of which resulted from the refunding of a portion of residence and dining revenues. Although the University incurred certain incremental costs due to the pandemic, including transitioning to online education and work environments, it also took certain steps resulting in reductions in recurring costs, such as travel, utilities, and certain benefits. In addition, the University received funding under the CARES Act that was used to provide aid to students and to offset the costs of the pandemic during the year ended June 30, 2020.

The pandemic could impact the University's future cost of its operations, and the generation of certain revenue from enrollment, campus housing, international activities, and other operating activities, as well as from financial markets and fundraising. The full extent of the impact of COVID-19 on the University will depend on the length and extent of the pandemic, which is dependent on emerging medical treatments and any health and safety regulations the University is required to follow.

(Continued)

(Dollars in thousands)

(3) Liquidity

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows:

		2020
Financial assets:		
Cash and cash equivalents	$	73,493
Restricted cash held for debt service		4,407
Accounts receivable, net		2,752
Pledge payments available for operations, net		1,110
Fiscal year 2021 board-approved endowment appropriation		12,336
Total financial assets available within one year	$	94,098

The University's Board of Trustees approves the annual spending distribution. For fiscal year 2021, the Board has approved a total spending allocation of $12,336. Additionally, the University has board-designated endowment funds of $157,612 as of June 30, 2020. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for operations, amounts could be made available if necessary, subject to investment liquidity provisions.

The University's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. The University has a committed line of credit with a bank for a maximum amount of $25,000 that expires in January 2023. As of June 30, 2020, $25,000 is outstanding on the line of credit.

(4) Investments

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation while providing adequate liquidity with reasonable risk. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Investment Committee of the Board of Trustees, which oversees the University's investment program in accordance with established guidelines.

(a) Investment Strategies

In addition to traditional stocks and fixed income securities, the University may also hold shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs) and commodities, including oil, gas, and gold. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

(Dollars in thousands)

Investments are reported at estimated fair value. If an investment security is owned directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. As of June 30, 2020 and 2019, the University had no plans or intentions to sell investments at amounts different from NAV.

The University's investments are summarized in the following table by strategy and, as applicable, their fair value hierarchy classification as of June 30:

	2020					
	Measured	Measured in fair value hierarchy				2019
	at NAV	Level 1	Level 2	Level 3	Total	Total
Long-term investment strategies:						
Cash and cash equivalents	$ —	27,819	—	—	27,819	9,719
Municipal bonds	—	—	2,742	—	2,742	2,793
Equities:						
Domestic	43,198	9,286	—	591	53,075	76,321
Global	59,396	7,278	—	—	66,674	74,373
U.S. real estate equity	—	14,323	—	—	14,323	16,050
Hedged equity funds of funds	60,436	—	—	—	60,436	62,126
Private equity and venture capital funds	33,446	—	—	—	33,446	25,809
Commodities	—	9,974	—	—	9,974	14,938
Life insurance	—	—	—	4,330	4,330	4,015
Total investments	$ 196,476	68,680	2,742	4,921	272,819	286,144

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

(Dollars in thousands)

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital is called by the manager. These partnerships have a limited term and, under such agreements, may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The University cannot anticipate such changes because they are based on unforeseen events, but should they occur, they might result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital calls in any particular future year are uncertain.

The following table presents liquidity information for investments at June 30, 2020:

	Daily	Monthly	Quarterly	Annual	Rolling lock-ups	Illiquid	Total
Cash and cash equivalents	$ 27,819	—	—	—	—	—	27,819
Municipal bonds	2,742	—	—	—	—	—	2,742
Equities							
Domestic	9,286	—	42,919	—	—	870	53,075
Global	7,279	53,588	—	35	5,208	564	66,674
U.S. real estate equities	14,323	—	—	—	—	—	14,323
Hedged equity funds of funds	—	—	31,195	4,116	20,639	4,486	60,436
Private equity and venture capital funds	—	—	352	—	—	33,094	33,446
Commodities	9,974	—	—	—	—	—	9,974
Life insurance	—	—	—	—	—	4,330	4,330
Total investments	$ 71,423	53,588	74,466	4,151	25,847	43,344	272,819

Included in the equity funds and hedged equity funds of funds is $5,208 subject to three-year rolling lock-ups, which currently expire June 30, 2021. Also included in the equity funds is $20,639 subject to a two-year lock-up, of which $3,854 expires on December 31, 2020, $4,847 expires on August 31, 2021, $8,268 expires on December 31, 2021, and $3,670 on December 31, 2022. Private equity and venture capital funds are expected to liquidate within 5 to 10 years. The University had unfunded future commitments to invest in these funds at June 30, 2020 of $34,442. For redemption purposes, the equity funds require 1–60 days' notice, hedged equity funds require 90–100 days' notice, and all other liquid investments require one-day notice.

(Dollars in thousands)

(5) Property, Plant, and Equipment

Property, plant, and equipment as of June 30 are as follows:

		2020	2019
Land	$	31,871	31,871
Buildings and building improvements		472,687	461,389
Equipment and furnishings		57,434	57,213
Construction in progress		9,101	7,566
		571,093	558,039
Less accumulated depreciation		(267,031)	(249,406)
Property, plant and equipment, net	$	304,062	308,633

Depreciation expense was $20,756 and $22,304 for the years ended June 30, 2020 and 2019, respectively.

(6) Bonds and Notes Payable

The principal amounts of outstanding bonds and notes payable as of June 30 are as follows:

		2020	2019
Massachusetts Development Finance Agency (MDFA): Series 2010 Revenue Bonds, 3.5% to 5.00%, due serially through July 1, 2021	$	3,035	5,130
MDFA: Series 2013A Issue Variable rate (.78% as of June 30, 2020), due serially through July 1, 2030		59,543	61,893
MDFA: Series 2013B Issue Variable rate (.69% as of June 30, 2020), due serially commencing July 1, 2030 through July 1, 2033		37,157	37,157
MDFA: Series 2016 Revenue Bonds, 3.125% to 5.00%, due serially commencing July 1, 2034 through July 1, 2040		36,225	36,225
MDFA: Series 2017 Revenue Bonds, 3.5% to 5.00%, due serially commencing July 1, 2021 through July 1, 2028		19,240	19,240
Total bonds and notes payable		155,200	159,645
Net premium and debt issuance costs		5,605	6,198
Bonds payable, net	$	160,805	165,843

(Continued)

(Dollars in thousands)

The MDFA Series 2013 A and B bonds bear interest on a floating rate basis. Accordingly, the financing was designed to align the basis and amortization of its debt with its outstanding swap agreements, thereby synthetically fixing the rates of all of its floating rate debt, which aggregated $96,700 at June 30, 2020 and matched the swap notionals. The University pays a tax-exempt equivalent of one-month LIBOR plus a variable spread on the Series 2013A Issue. On the Series 2013B Issue, the University pays the tax-exempt equivalent of the sum of the one-month LIBOR plus a fixed spread.

Bond indentures require the maintenance of certain financial covenants which, among other restrictions, require the University to maintain a deposit of $5,000 with the bond holder which is reported as restricted cash.

As of June 30, 2020, the aggregate maturities for all bonds payable for the years ending June 30 were as follows:

		Amount due
Fiscal year:		
2021	$	5,485
2022		3,865
2023		4,905
2024		5,115
2025		5,405
Thereafter		130,425
	$	155,200

The University has a committed line of credit with a bank for a maximum amount of $25,000. During 2020, the University borrowed $25,000. As of June 30, 2020, the outstanding balance is $25,000. During 2019, there were no borrowings and no balances were outstanding under the line as of June 30, 2019. Borrowing rates on this line of credit are at one-month LIBOR plus 35 basis points. As of June 30, 2020, the interest rate was 0.5375%. The line expires in January 2023.

(7) Interest Rate Swaps

As of June 30, the following interest rate swap agreements were outstanding:

Counterparty	Expiration date		Remaining notional balance	Swap fixed rate		Fair value of liability at June 30 2020	2019
JPMorgan	July 1, 2030	$	25,000	3.690 %	$	7,490	5,642
JPMorgan	July 1, 2033		20,000	3.505		7,716	5,383
Bank of America	July 1, 2033		10,100	3.505		3,895	2,718
Bank of America	July 1, 2028		15,000	3.630		3,453	2,701
Bank of New York	July 1, 2028		26,600	4.445		4,803	4,379
Total		$	96,700		$	27,357	20,823

In each case, the counterparty pays the University 67% of one-month LIBOR. The swap agreements require the posting of collateral if the mark-to-market liability payable by the University exceeds $10,000 in the aggregate for the JPMorgan swaps and $12,000 for the Bank of New York swap. The two Bank of America swaps contain no collateral requirements. The University must deposit cash collateral to the extent these thresholds are exceeded. The counterparties are required to maintain a minimum credit rating based on provisions contained in the individual swap agreements. The University was required to post collateral for the JPMorgan swaps in the aggregate amount of $5,610 and $1,178 as of June 30, 2020 and 2019, respectively, which is reported in restricted cash on the statement of financial position.

Interest rate volatility, remaining outstanding principal, and time to maturity will affect each swap's fair value at subsequent reporting dates. Because the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are classified as Level 2 of the fair value hierarchy.

(8) Endowment and Other Net Assets

The University's endowment consists of approximately 400 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

(a) Relevant Law

The University is subject to the Commonwealth of Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This law provides standards to invest in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, consider tax consequences of investment decisions, and ensure investment decisions are made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the University. UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, thereby allowing a fund to be spent below its historical dollar value. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure. Seven criteria are to be used to guide the University in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the University and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the University; and 7) the investment policy of the University.

(Dollars in thousands)

(b) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a mix of several traditional benchmarks reflecting the University's asset allocation while assuming an acceptable level of risk. These benchmarks include the S&P 500 index, Russell 2000, EAFE Index and Barclays Capital Aggregate Bond Index, among others.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, including marketable and nonmarketable equities, fixed income and cash, and real assets to achieve its long-term return objectives within acceptable risk constraints.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University appropriates for distribution up to 5% of the 12-quarter moving average of the market value as of the preceding December 31. The University expects the total return to exceed the current spending policy over time, thereby maintaining the endowment purchasing power. Additional real growth is expected to be provided through new gifts and transfers from operations.

Net assets associated with endowment funds are classified and reported based on the existence or absence associated with donor-imposed restrictions and consisted of the following as of June 30, 2020 and 2019:

	2020					
	Without donor restrictions	With donor restrictions: Original gift	With donor restrictions: Accumulated gains (losses)	With donor restrictions: Total	Total 2020	Total 2019
Quasi	$ 157,612	—	—	—	157,612	166,047
Donor-restricted						
Underwater	—	2,284	(56)	2,228	2,228	
All other funds	—	52,365	51,022	103,387	103,387	110,456
Total endowed net assets at June 30	$ 157,612	54,649	50,966	105,615	263,227	276,503

(Dollars in thousands)

Changes in endowment activities for the year ended June 30, 2020 and summary comparative information for the year ended June 30, 2019 are as follows:

		2020			
		Without donor restrictions	**With donor restrictions**	**Total**	**2019**
Endowment activities for the year ended June 30:					
Beginning fair value	$	166,047	110,456	276,503	279,725
Investment return		(1,865)	(1,206)	(3,071)	7,250
Contributions			1,794	1,794	1,953
Endowment return utilized		(7,020)	(4,958)	(11,978)	(11,886)
Transfer in (out)		450	(471)	(21)	(539)
Total endowment at June 30	$	157,612	105,615	263,227	276,503

Endowed net assets at June 30, 2020 and 2019 were comprised as follows:

		2020			
		Without donor restrictions	**With donor restrictions**	**Total**	**2019**
Instruction	$	—	28,705	28,705	30,320
Scholarship		—	65,915	65,915	68,723
General		157,612	10,995	168,607	177,460
Total endowed net assets at June 30	$	157,612	105,615	263,227	276,503

(Dollars in thousands)

(9) Net Assets

Net assets at June 30, 2020 and 2019 are as follows:

		2020			
		Without donor restrictions	**With donor restrictions**	**Total**	**2019**
Endowment	$	157,612	105,615	263,227	276,503
Net investment in plant		143,257	—	143,257	142,790
Net reduction from interest rate swap liabilities		(27,357)	—	(27,357)	(20,823)
Other		19,515	12,853	32,368	23,018
Total net assets at June 30	$	293,027	118,468	411,495	421,488

(10) Functional Classification of Expenses

The University reports expenses by their natural classification in the Statement of Activities.

The University's primary program service is academic instruction. Expenses reported as student services and auxiliary enterprises are incurred in support of this primary program activity. Operating expenses presented by functional and natural classification for the year ended June 30, 2020 consist of the following:

		Instruction	Academic support	Student services	Institutional support	Auxiliary enterprises	Total
Salaries and wages	$	50,473	9,615	18,374	21,119	7,945	107,526
Employee benefits		12,886	2,421	4,635	6,255	1,729	27,926
Supplies, services, other		6,616	5,681	10,271	11,170	12,039	45,777
Utilities		890	316	705	351	2,664	4,926
Depreciation and amortization		3,484	2,428	2,735	1,085	10,431	20,163
Interest		1,340	373	1,052	418	4,013	7,196
Total	$	75,689	20,834	37,772	40,398	38,821	213,514
Total for year ended June 30, 2019	$	79,614	21,170	38,141	40,271	42,686	221,882

Indirect costs such as depreciation, interest, and operations and maintenance expenses, including utilities, have been allocated to functional classifications based on square footage of building space used for that function.

Total fund-raising costs, which are included in institutional support expense, were $5,502 and $6,047 for the years ended June 30, 2020 and 2019, respectively.

(Continued)

(11) Contingencies

The University is engaged in legal cases that have arisen in the normal course of its operations. The University believes that the outcome of these cases will not have a material adverse effect on the financial position of the University.

(12) Subsequent Events

Management has evaluated events subsequent to June 30, 2020 and through October 30, 2020, the date on which the financial statements were issued.