

Whitehead Institute for Biomedical Research

Financial Statements

For the year ended June 30, 2023

Whitehead Institute for Biomedical Research
Index
June 30, 2023 and 2022

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Report of Independent Auditors

To the Board of Directors of Whitehead Institute for Biomedical Research

Opinion

We have audited the accompanying financial statements of Whitehead Institute for Biomedical Research (the “Institute”), which comprise the statements of financial position sheets as of June 30, 2023 and 2022, and the related statements of activities for the year ended June 30, 2023 and of cash flows for the years ended June 30, 2023 and 2022, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2023 and 2022, and the changes in net assets for the year ended June 30, 2023 and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the statement of financial position as of June 30, 2022, 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 28, 2022, 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, 2022, and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute’s ability to continue as a going concern for one year after the date the financial statements are issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers

Boston, MA
October 27, 2023

Whitehead Institute for Biomedical Research
Statements of Financial Position
As of June 30, 2023 and 2022

	2023	2022
Assets:		
Cash and cash equivalents	\$ 13,366,326	\$ 12,798,767
Research receivables	9,539,714	10,132,521
Pledges receivable	697,333	-
Other receivables	16,533,055	12,512,616
Prepaid expenses and other assets	17,102,661	14,074,696
Cash and cash equivalents, designated	6,735,891	11,335,769
Cash and cash equivalents, restricted	225,000	225,000
Short-term investments, designated	-	2,000,000
Investments	698,368,142	665,509,783
Land, buildings and equipment, net	79,848,962	78,232,834
Total assets	<u>\$ 842,417,084</u>	<u>\$ 806,821,986</u>
Liabilities and net assets:		
Accounts payable and other accrued expenses	\$ 9,328,053	\$ 6,751,265
Other liabilities	7,839,049	7,345,901
Deferred revenue	5,787,909	5,937,474
Accrued post-retirement health plan obligation	3,872,443	3,793,832
Borrowings	106,702,031	106,636,893
Total liabilities	<u>133,529,485</u>	<u>130,465,365</u>
Net assets:		
Without donor restrictions	651,494,182	623,888,886
With donor restrictions	57,393,417	52,467,735
Total net assets	<u>708,887,599</u>	<u>676,356,621</u>
Total liabilities and net assets	<u>\$ 842,417,084</u>	<u>\$ 806,821,986</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, 2023 (with summarized comparative information for
the year ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Operating revenues:				
Research grants				
Direct cost reimbursement	\$ 9,711,138	\$ -	\$ 9,711,138	\$ 9,694,820
Indirect cost reimbursement	5,653,744	-	5,653,744	6,114,055
Other sponsored research	-	10,156,853	10,156,853	11,834,173
Total research grants	15,364,882	10,156,853	25,521,735	27,643,048
Gifts and pledges	1,663,098	4,112,959	5,776,057	6,895,731
Rental income	1,092,125	-	1,092,125	1,177,825
Intellectual property and related revenue	54,433,762	-	54,433,762	43,153,958
Other income	2,074,370	-	2,074,370	1,866,918
Total gift and other revenues	59,263,355	4,112,959	63,376,314	53,094,432
Investment return designated for operations	31,437,069	-	31,437,069	28,398,613
Net assets released from restrictions	15,033,500	(15,033,500)	-	-
Total operating revenues	121,098,806	(763,688)	120,335,118	109,136,093
Operating expenses:				
Research	103,589,172	-	103,589,172	91,787,882
General and administrative	16,638,726	-	16,638,726	16,152,895
Total operating expenses	120,227,898	-	120,227,898	107,940,777
Net operating activities	870,908	(763,688)	107,220	1,195,316
Non-operating activities:				
Total investment return, net	57,657,822	2,988,718	60,646,540	(65,175,624)
Investment return designated for operations	(31,437,069)	-	(31,437,069)	(28,398,613)
Endowment gifts	-	2,700,652	2,700,652	700,000
Postretirement related changes	513,635	-	513,635	(165,019)
Net non-operating activities	26,734,388	5,689,370	32,423,758	(93,039,256)
Change in net assets	27,605,296	4,925,682	32,530,978	(91,843,940)
Net assets, beginning of year	623,888,886	52,467,735	676,356,621	768,200,561
Net assets, end of year	\$ 651,494,182	\$ 57,393,417	\$ 708,887,599	\$ 676,356,621

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, 2023 and June 30, 2022

	2023	2022
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$ 32,530,978	\$ (91,843,940)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	5,734,124	5,999,700
Amortization of deferred financing fees for borrowings	65,138	65,137
Loss on disposal of fixed assets	190,143	86,873
Noncash contribution received	(132,953)	(1,008,838)
Proceeds from sale of donated securities	132,953	1,008,838
Increase in receivables discount	68,540	164,693
Net realized and unrealized (gain) loss on investments	(52,800,932)	74,507,760
Restricted endowment gifts	(2,700,652)	(700,000)
Changes in operating assets and liabilities		
Research receivables	524,267	(2,484,529)
Pledges receivable	(697,333)	250,000
Other receivables	(4,020,439)	(1,564,462)
Prepaid expenses and other assets	(3,027,965)	(1,313,533)
Accounts payable and other accrued expenses	2,576,788	826,312
Other liabilities	493,148	(556,859)
Deferred revenue	(149,565)	1,509,462
Accrued retirement obligation	78,611	689,218
Net cash used for operating activities	<u>(21,135,149)</u>	<u>(14,364,168)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(7,581,364)	(7,695,962)
Purchases of investments	(56,065,954)	(78,651,878)
Proceeds from the sale of investments	76,848,701	97,371,883
Proceeds from sale of equipment	40,969	21,140
Decrease in short-term investments, designated	2,000,000	-
Net cash provided by investing activities	<u>15,242,352</u>	<u>11,045,183</u>
Cash flows from financing activities:		
Restricted endowment gifts	2,700,652	700,000
Net cash provided by financing activities	<u>2,700,652</u>	<u>700,000</u>
Decrease in cash and cash equivalents, designated cash, and restricted cash	(3,192,145)	(2,618,985)
Cash and cash equivalents, designated cash, and restricted cash		
Beginning of year	47,114,047	49,733,032
End of year	<u>\$ 43,921,902</u>	<u>\$ 47,114,047</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,550,749	\$ 3,550,749
Contributions of marketable securities	132,953	1,008,838

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

Whitehead Institute for Biomedical Research

Notes to Financial Statements

June 30, 2023 and 2022

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 is a world-renowned research institution dedicated to improving human health through basic biomedical research.

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, 2022, 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, 2023 and 2022

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:

	2023	2022
Cash and cash equivalents	\$ 13,366,326	\$ 12,798,767
Cash equivalents in investments balance	23,594,685	22,754,511
Cash and cash equivalents, designated	6,735,891	11,335,769
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>\$ 43,921,902</u>	<u>\$ 47,114,047</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, 2023 and 2022

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, 2023, and 2022, the Institute had \$42,455,072 and \$34,988,200, 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 consist 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, 2023 and 2022

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 research activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As of June 30, 2023, financial assets available within one year to meet general expenditures were as follows:

	2023
Financial assets:	
Cash and cash equivalents	\$ 13,366,326
Cash and cash equivalents, designated	6,735,891
Research grants receivable	7,725,343
Pledges receivable	100,000
Other receivables	16,533,055
Subsequent year's budgeted Endowment support	<u>26,505,000</u>
Total financial assets available within one year	<u><u>\$ 70,965,615</u></u>
 Liquidity resources:	
Bank line of credit (no outstanding balance as of June 30, 2023)	 <u><u>\$ 50,000,000</u></u>

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. The Institute holds approximately \$371,827,000 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, 2023 and 2022. 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.

Whitehead Institute for Biomedical Research

Notes to Financial Statements

June 30, 2023 and 2022

4. Investments (continued)

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, realized gains or losses, and changes 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, 2023 and 2022 was \$31,437,069 and \$28,398,613, 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, 2023 and 2022, the Institute had unfunded commitments of \$126,795,803 and \$126,908,822, respectively.

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

5. Fair Value Measurements

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

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

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

5. Fair Value Measurements (continued)

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, 2023 and 2022.

		2023			
Total		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	\$ 23,594,685	\$ 23,594,685	\$ -	\$ -	-
Common stock	8,583,802	8,583,802	-	-	-
Global & emerging markets equity securities	373,363,363	373,363,363	-	-	-
Private equity	292,826,292	-	-	-	292,826,292
Total investments	\$ 698,368,142	\$ 405,541,850	\$ -	\$ -	\$ 292,826,292

		2022			
Total		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	\$ 22,754,511	\$ 22,754,511	\$ -	\$ -	-
Common stock	8,135,128	8,135,128	-	-	-
Global & emerging markets equity securities	357,481,330	357,481,330	-	-	-
Private equity	277,138,814	-	-	-	277,138,814
Total investments	\$ 665,509,783	\$ 388,370,969	\$ -	\$ -	\$ 277,138,814

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

5. Fair Value Measurements (continued)

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, 2023 and 2022.

The following table includes information related to the Institute's investments valued at NAV at June 30, 2023:

	2023 Fair Value	2023 Unfunded Commitments
Private equity		
Funds of funds	280,862,073	121,045,114
Industry-various	4,487,779	199,543
Real estate and resources	<u>7,476,440</u>	<u>5,551,146</u>
Total investments valued at NAV	<u>\$ 292,826,292</u>	<u>\$ 126,795,803</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, 2023 and 2022

6. Receivables

Research grants and contributions and pledges were estimated to be received as follows at June 30, 2023 and 2022:

	2023	
	Research Receivables	Pledges Receivable
Less than one year	\$ 7,725,343	\$ 100,000
One to five years	1,988,671	700,000
Less: present value discount	<u>(174,300)</u>	<u>(102,667)</u>
Net receivable balance	<u>\$ 9,539,714</u>	<u>\$ 697,333</u>

	2022	
	Research Receivables	Pledges Receivable
Less than one year	\$ 7,059,286	\$ -
One to five years	3,281,662	-
Less: present value discount	<u>(208,427)</u>	<u>-</u>
Net receivable balance	<u>\$ 10,132,521</u>	<u>\$ -</u>

No allowance was recorded for unfulfilled contributions at June 30, 2023 and 2022.

Fundraising expenses for the years ended June 30, 2023 and 2022 were \$1,630,895 and \$1,415,665 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

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022:

	2023	2022
Land	\$ 3,977,500	\$ 3,977,500
Buildings and improvements	136,207,127	131,916,255
Equipment	29,293,513	32,794,419
Art collection	463,374	463,374
Construction in progress	8,057,929	5,960,989
Total land, buildings and equipment	<u>177,999,443</u>	<u>175,112,537</u>
Accumulated depreciation	<u>(98,150,481)</u>	<u>(96,879,703)</u>
Total land, buildings and equipment, net	<u>\$ 79,848,962</u>	<u>\$ 78,232,834</u>

8. Borrowings

The following schedule summarizes borrowings as of June 30, 2023 and 2022:

	2023	2022
Whitehead Institute for Biomedical Research Taxable Bonds		
2020 Bonds, 3.28%, due 2050	\$ 37,400,000	\$ 37,400,000
Term Loans		
Eastern Bank Loan, 3.23%, due 2049	71,000,000	71,000,000
Subtotal borrowings	108,400,000	108,400,000
Less: Unamortized deferred financing fees	<u>(1,697,969)</u>	<u>(1,763,107)</u>
Total borrowings, net	<u>\$ 106,702,031</u>	<u>\$ 106,636,893</u>

The Institute has a Line of Credit agreement for \$50,000,000 with Bank of America, N.A. to support operations. At June 30, 2023 there was no outstanding balance on the Line of Credit. The Line of Credit agreement expires on October 31, 2024.

As of June 30, 2023, 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, 2023 and June 30, 2022 was \$3,550,749 and \$3,681,092, respectively.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

9. Net Assets

The Institute's net assets as of June 30, 2023 and 2022 consist of:

	2023	2022
Without Donor Restrictions:		
Board-designated endowment	\$ 638,545,163	\$ 609,926,245
Board-designated - research and other	<u>12,949,019</u>	<u>13,962,641</u>
Total net assets without donor restrictions	<u>651,494,182</u>	<u>623,888,886</u>
With Donor Restrictions:		
Time or purpose	34,442,260	32,217,230
Perpetual	<u>22,951,157</u>	<u>20,250,505</u>
Total net assets with donor restrictions	<u>57,393,417</u>	<u>52,467,735</u>
Total net assets	<u>\$ 708,887,599</u>	<u>\$ 676,356,621</u>

10. Endowment Funds

At June 30, 2023 and 2022, the Institute's endowment consists of seven 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

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 there were no underwater funds. At June 30, 2022 one fund with an original gift value of \$500,000, fair value of \$431,504, and deficiency of \$68,496 was reported in net assets with donor restrictions. The Institute has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Changes in endowment net assets for the years ended June 30, 2023 and 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2022	\$ 609,926,245	\$ 29,325,835	\$ 639,252,080
Investment return	54,208,954	2,766,417	56,975,371
Investment return designated for operations	(25,590,036)	-	(25,590,036)
Contributions	-	2,700,652	2,700,652
Amounts appropriated for expenditure	-	(1,076,908)	(1,076,908)
Endowment net assets, June 30, 2023	<u>\$ 638,545,163</u>	<u>\$ 33,715,996</u>	<u>\$ 672,261,159</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2021	\$ 677,094,999	\$ 31,817,643	\$ 708,912,642
Investment return	(44,210,231)	(2,218,713)	(46,428,944)
Investment return designated for operations	(22,958,523)	-	(22,958,523)
Contributions	-	700,000	700,000
Amounts appropriated for expenditure	-	(973,095)	(973,095)
Endowment net assets, June 30, 2022	<u>\$ 609,926,245</u>	<u>\$ 29,325,835</u>	<u>\$ 639,252,080</u>

Whitehead Institute for Biomedical Research

Notes to Financial Statements

June 30, 2023 and 2022

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 \$2,219,533 and \$2,181,416 in 2023 and 2022, respectively. In accordance with the plan documents, \$29,693 and \$27,152 of forfeitures were utilized to reduce Institute contributions during 2023 and 2022, 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, 2023 and 2022 totaled \$5,671,088 and \$5,023,556, respectively, and are included in prepaid expenses and other assets, and other liabilities in the Statements of Financial Position.

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, 2023 and 2022

11. Retirement Plans (continued)

The following table sets forth the funded status of the plan at June 30, 2023 and 2022:

	2023	2022
Change in Benefit Obligation:		
Postretirement benefit obligation at beginning of year	\$ 9,916,741	\$ 10,240,422
Service cost	667,246	599,199
Interest cost	469,614	276,449
Assumption changes and actuarial (gain)	(398,727)	(1,010,453)
Benefits paid	<u>(214,377)</u>	<u>(188,876)</u>
Postretirement benefit obligation at end of year	<u>10,440,497</u>	<u>9,916,741</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	6,122,909	7,135,808
Actual return on plan assets net of expenses	584,522	(899,023)
Employer contribution to VEBA trust	75,000	75,000
Benefits paid	<u>(214,377)</u>	<u>(188,876)</u>
Fair value of plan assets at end of year	<u>6,568,054</u>	<u>6,122,909</u>
Unfunded status	<u>\$ (3,872,443)</u>	<u>\$ (3,793,832)</u>
Cumulative Amounts Recognized in Net Assets Without Donor Restrictions		
Net gain at beginning of year	\$ (1,768,834)	\$ (2,322,698)
Amortization of net gain	37,192	174,865
Assumption changes and actuarial (gain)	(398,727)	(1,010,453)
(Gain) loss on fair value of plan assets	<u>(166,962)</u>	<u>1,389,452</u>
Net gain at end of year	<u>\$ (2,297,331)</u>	<u>\$ (1,768,834)</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 7.5% in fiscal year 2024 and 5.0% in 2023.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

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.

	2023	2022
Components of Net Periodic Benefit Cost		
Service cost	\$ 667,246	\$ 599,199
Interest cost	469,614	276,449
Expected return on plan assets	(417,560)	(490,429)
Amortization of net gain	<u>(37,192)</u>	<u>(174,865)</u>
Net periodic benefit cost	<u>\$ 682,108</u>	<u>\$ 210,354</u>

As an indicator of sensitivity, a one-percentage point change in the assumed health care cost trend rate would affect 2023 and 2022 as shown in the following table:

	2023	2022
Impact of 1% increase change in health care cost trend rate		
On interest cost plus service cost during past year	\$ 217,000	\$ 205,000
On accumulated postretirement benefit obligation	1,601,000	1,552,000
Impact of 1% decrease change in health care cost trend rate		
On interest cost plus service cost during past year	(174,000)	(163,000)
On accumulated postretirement benefit obligation	(1,317,000)	(1,271,000)

The significant assumptions underlying the actuarial computations at June 30, 2023 and 2022 were as follows:

	2023	2022
Assumptions used to determine benefit obligations		
Discount rate	5.22 %	4.64 %
Assumptions used to determine net periodic benefit cost		
Discount rate	4.64 %	2.84 %
Expected return on assets	7.00 %	7.00 %

There are no required contributions to the postretirement health care benefit plan for fiscal 2024. The expected employer contributions for fiscal 2024 is \$75,000.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

11. Retirement Plans (continued)

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

2024	\$ 440,000
2025	434,000
2026	472,000
2027	545,000
2028	612,000
2029 - 2033	3,809,000

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, 2023 and 2022 are as follows:

Asset category	Target Allocation	2023	2022
Cash and equivalents	5 %	2%	2%
Fixed income mutual funds	30 %	31%	33%
Equity mutual funds	65 %	67%	65%
		<u>100%</u>	<u>100%</u>

The following is a summary of the Institute's postretirement medical benefits plan assets at June 30, 2023 and 2022.

	2023	2022
Cash and equivalents	\$ 114,873	\$ 142,234
Equity mutual funds	4,399,186	3,944,544
Fixed income	2,053,995	2,036,130
Total investments	<u>\$ 6,568,054</u>	<u>\$ 6,122,908</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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Notes to Financial Statements
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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, 2023 and 2022 were as follows:

	2023		
	Research	General & Administrative	Total
Salaries and benefits	\$ 27,539,577	\$ 7,957,502	\$ 35,497,079
Other expenses	67,740,512	7,361,053	75,101,565
Depreciation and loss on disposals	5,112,050	812,217	5,924,267
Interest and debt administration	3,197,033	507,954	3,704,987
Total expenses	<u>\$ 103,589,172</u>	<u>\$ 16,638,726</u>	<u>\$ 120,227,898</u>

	2022		
	Research	General & Administrative	Total
Salaries and benefits	\$ 25,812,902	\$ 8,218,532	\$ 34,031,434
Other expenses	57,449,697	6,579,842	64,029,539
Depreciation and loss on disposals	5,252,104	834,469	6,086,573
Interest and debt administration	3,273,179	520,052	3,793,231
Total expenses	<u>\$ 91,787,882</u>	<u>\$ 16,152,895</u>	<u>\$ 107,940,777</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, interest, and debt administration are allocated based on square footage.

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, 2023, neither party had indicated an intention to terminate the agreement. Various financial commitments may result should the Institute initiate termination. Revenue from MIT totaled \$2,391,451 and \$2,733,954 for the years ended June 30, 2023 and 2022, respectively. Total MIT revenue for the years ended June 30, 2023 and 2022 included \$64,000, respectively, of contributed data center storage space. The Institute incurred charges of \$5,100,208 and \$5,949,269 in the years ended June 30, 2023 and 2022, respectively. Accounts receivable balances as of June 30, 2023 and 2022 were \$47,007 and \$477,488, respectively.

Whitehead Institute for Biomedical Research
Notes to Financial Statements
June 30, 2023 and 2022

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 ASU 2016-02 *Leases*. 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, 2023 were as follows:

	2023
Operating lease cost	\$ 281,204
Variable lease cost	-
Total lease cost	<u>\$ 281,204</u>

Future lease payments for operating leases with initial terms of one year or more as of June 30, 2023 are as follows:

2024	\$ 259,046
2025	269,408
2026	280,184
2027	291,392
Thereafter	<u>510,365</u>
Total undiscounted cash flows	<u>1,610,395</u>
Discount	<u>(62,895)</u>
Lease liability	<u>\$ 1,547,500</u>

The table below shows the balance of the lease liability and right-of-use asset, and other lease information as of June 30, 2023:

	2023
Lease liability	\$ 1,547,500
Right-of-use asset	1,547,500
Remaining lease term	5.67 years
Discount rate	1.74%

Whitehead Institute for Biomedical Research
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14. Commitments and Contingencies (continued)

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, 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, 2023. The employee benefit cost rate is negotiated annually and as of June 30, 2023, the Institute had negotiated a rate for the fiscal year ended June 30, 2024.

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, 2023, there was no outstanding balance on the letter of credit.

15. Subsequent Events

The Institute has evaluated subsequent events through October 27, 2023, which is the date the financial statements were issued. There were no subsequent events that require adjustment to the audited financial statements or disclosures.