Boston College

Consolidated Financial Statements

May 31, 2021 and 2020

Boston College
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May 31, 2021 and 2020

Report of Independent Auditors

To the Trustees of Boston College:

We have audited the accompanying consolidated financial statements of Boston College and its subsidiaries ("the University"), which comprise the consolidated statements of financial position as of May 31, 2021 and 2020, and the related consolidated statements of activities for the year ended May 31, 2021 and of cash flows for the years ended May 31, 2021 and 2020.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston College and its subsidiaries as of May 31, 2021 and 2020, and the changes in their net assets for the year ended May 31, 2021 and their cash flows for the years ended May 31, 2021 and 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of May 31, 2020, and the related consolidated 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 September 25, 2020, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of May 31, 2020 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Boston, Massachusetts
September 24, 2021

Boston College
Consolidated Statements of Financial Position
As of May 31, 2021 and 2020

(in thousands)	2021	2020
Assets		
Cash and cash equivalents	$ 20,091	$ 21,412
Accounts receivable, net (Note B)	51,716	45,384
Contributions receivable, net (Note C)	179,559	159,946
Notes and other receivables, net (Note B)	26,443	31,145
Investments (Note E)	4,182,832	3,155,299
Funds held by trustees (Note E)	5,949	5,977
Other assets	6,584	7,406
Property, plant and equipment, net (Note G)	1,964,389	1,774,703
Total assets	$ 6,437,563	$ 5,201,272
Liabilities		
Accounts payable	$ 7,449	$ 4,732
Accrued liabilities	259,498	252,433
Deposits payable and deferred revenues	32,841	43,069
Bonds and mortgages payable, net (Note H)	1,279,346	1,313,937
U.S. Government loan advances	9,196	12,301
Total liabilities	1,588,330	1,626,472
Net Assets		
Without donor restrictions (Note I)	2,163,110	1,736,888
With donor restrictions (Note I)	2,686,123	1,837,912
Total net assets	4,849,233	3,574,800
Total liabilities and net assets	$ 6,437,563	$ 5,201,272

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

Boston College
Consolidated Statement of Activities
Year Ended May 31, 2021
(With Summarized Financial Information for the Year Ended May 31, 2020)

(in thousands)	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating				
Revenues and other support				
Tuition and fees	$ 507,632	$ -	$ 507,632	$ 484,272
Auxiliary enterprises	153,744	-	153,744	149,823
Sponsored research and other programs	68,265	-	68,265	57,736
Government financial aid programs	13,003	-	13,003	4,362
Sales and services	5,253	-	5,253	5,028
Other revenues	9,267	-	9,267	13,258
Nonoperating assets utilized or released from restrictions for operations	132,680	-	132,680	155,414
Total revenues and other support	889,844	-	889,844	869,893
Expenses				
Instruction	315,249	-	315,249	314,540
Academic support	101,009	-	101,009	99,962
Research	48,647	-	48,647	47,758
Student services	73,877	-	73,877	72,522
Public service	3,995	-	3,995	4,358
General administration	139,980	-	139,980	134,159
Auxiliary enterprises	206,927	-	206,927	196,440
Total expenses	889,684	-	889,684	869,739
Increase in net assets from operating activities	160	-	160	154
Nonoperating				
Contributions	5,486	146,148	151,634	174,333
Investment return, net	415,882	715,704	1,131,586	137,189
Other gains (losses), net	4,497	(2,966)	1,531	538
Inherent contribution from acquisition	-	122,202	122,202	-
Nonoperating assets utilized or released from restrictions for operations	(29,491)	(103,189)	(132,680)	(155,414)
Net assets reclassified or released from restrictions	29,688	(29,688)	-	-
Increase in net assets from nonoperating activities	426,062	848,211	1,274,273	156,646
Total increase in net assets	426,222	848,211	1,274,433	156,800
Net assets				
Beginning of year	1,736,888	1,837,912	3,574,800	3,418,000
End of year	$ 2,163,110	$ 2,686,123	$ 4,849,233	$ 3,574,800

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

Boston College
Consolidated Statements of Cash Flows
Years Ended May 31, 2021 and 2020

(in thousands)	2021	2020
Cash flows from operating activities		
Total increase in net assets	$ 1,274,433	$ 156,800
Adjustments to reconcile change in net assets to cash, cash equivalents, and restricted cash used in operating activities		
Depreciation, amortization and accretion	94,598	88,514
Allowance for uncollectible contributions	(19,405)	3,477
Discount on contributions	318	(2,529)
Net loss on retirement or disposal of property, plant and equipment	(4)	(3,232)
Gain on recognition of asset retirement obligation	(24)	(794)
Contributions of property and equipment	(948)	(2,183)
Inherent contribution from acquisition	(122,202)	-
Loan cancellations	687	776
Contributed securities	(29,348)	(44,960)
Proceeds from sale of contributed securities	4,958	6,414
Realized and unrealized investment gains, net	(1,108,873)	(121,018)
Gain from partial debt refunding	-	(15,498)
Changes in assets and liabilities		
Accounts receivable, net	(5,642)	(3,977)
Notes and other receivables	447	425
Contributions receivable	(240)	(2,901)
Accounts payable and accrued liabilities	5,935	23,402
Deposits payable and deferred revenue	(10,483)	12,568
Other assets	992	630
Contributions to be used for long-term investment	(82,738)	(120,573)
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	2,461	(24,659)
Cash flows from investing activities		
Proceeds from sales of investments	2,491,698	2,968,211
Purchases of investments	(2,439,268)	(3,175,845)
Student loans granted	(332)	(334)
Student loans collected	3,900	4,249
Purchases of property, plant and equipment	(163,196)	(165,443)
Proceeds from sale of property, plant and equipment	14	15,238
Cash contribution from acquisition	368	-
Change in funds held by trustees	28	(59)
Net cash, cash equivalents, and restricted cash used in investing activities	(106,788)	(353,983)
Cash flows from financing activities		
Proceeds from issuance of debt	-	298,446
Payment of bonds and mortgages payable	(31,535)	(30,475)
Repayment of PMC bonds and notes payable	(8,526)	-
Change in U.S. Government loan advances	(3,105)	(6,522)
Payments to beneficiaries of split interest agreements	(1,551)	(1,531)
Proceeds from sale of contributed securities	24,390	38,546
Contributions to be used for long-term investment	82,738	120,573
Net cash, cash equivalents, and restricted cash provided by financing activities	62,411	419,037
Net (decrease) increase in cash, cash equivalents, and restricted cash	(41,916)	40,395
Cash, cash equivalents, and restricted cash		
Beginning of year	65,358	24,963
End of year	$ 23,442	$ 65,358
Supplemental data		
Interest paid, net of amounts capitalized	$ 47,028	$ 46,018
Change in asset retirement obligations recognized	(135)	(2,737)
Proceeds from issuance of debt	-	189,123
Use of proceeds to refund debt	-	(189,123)

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

A. Accounting Policies

The accompanying consolidated financial statements include certain other entities under the financial control of Boston College, including Boston College Ireland, Ltd. ("BCI"), which is a non-profit entity established as an institute of education in the Republic of Ireland, and Pine Manor College ("PMC") (Note N).

Boston College and entities included herein are referred to individually and collectively as the "University."

The significant accounting policies followed by the University are set forth below and in other sections of these notes.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis with net assets, revenues, expenses, gains, and losses classified into two categories based on the existence or absence of externally imposed restrictions. The net assets of the University are classified and defined as follows:

Without Donor Restrictions
Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.

With Donor Restrictions
Net assets where use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the University.

Net assets with donor restrictions also reflects the historical value of contributions (and in certain circumstances investment returns from those contributions) subject to donor-imposed stipulations, which require the corpus to be invested in perpetuity to produce income for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Operating expenses are reported as decreases in net assets without donor restrictions. Investment return, which includes realized and unrealized gains and losses on investments and investment income, net of investment fees, is reported as an increase or decrease in net assets without donor restrictions unless its use is restricted by explicit donor stipulation or by law.

Revenue Recognition

The University recognizes revenue through the five-step model prescribed by the Financial Accounting Standards Board ("FASB") in the Accounting Standards Codification ("ASC"), *Revenue from Contracts with Customers*: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when a performance obligation is met. The University applies the practical expedient in ASC 606-10-50-14 and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The University's most significant operating revenue streams are tuition and fees, residential life, sponsored research, athletics, and dining services. Residential life, athletics, and dining services revenues are all captured within auxiliary enterprises on the consolidated statement of activities.

The University recognizes revenue as performance obligations are satisfied over time during the course of an academic semester or academic year, typically within one fiscal year. Tuition and fees, residential life, and dining revenues are recognized ratably on straight-line basis over each academic semester.

The University's athletics revenue, which consists primarily of individual and season ticket sales as well as conference revenue sharing, is recognized as events occur over the course of each sports season or academic year.

The University reflects tuition and fees as well as auxiliary revenue net of student aid on the consolidated statement of activities. Student aid of $233,237,000 and $214,633,000 was applied against published tuition and fees rates in the years ended May 31, 2021 and 2020, respectively. Student aid of $6,971,000 and $6,283,000 was applied against auxiliary revenues in the years ended May 31, 2021 and 2020, respectively.

Revenues associated with nonexchange research and other contracts and grants are recognized when related costs are incurred. Facilities and administrative cost recovery on U.S. Government contracts and grants is based upon a predetermined negotiated rate and is recorded as revenue without donor restrictions.

Conditional promises related to sponsored research of $57,914,000 and $68,577,000 as of May 31, 2021 and May 31, 2020, respectively, are not recorded in the consolidated financial statements.

Nonoperating Activity

Nonoperating activity consists primarily of contributions, investment return, inherent contribution from acquisition, and other gains and losses on: postretirement healthcare benefits, life income adjustments, unfulfilled promises to give, foreign currency translation, sale or disposal of property, gains on partial debt refundings, and the recognition of asset retirement obligations. All other activity is classified as operating revenue or expense.

To the extent contributions, investment income, and gains are used for operations, they are reclassified as nonoperating assets utilized or released from restrictions for operations.

Expirations of time and purpose restrictions on net assets or other clarifications from donors are presented as net assets reclassified or released from restrictions.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate net asset category in the year received. Contributions receivable are recorded at the present value of expected future cash flows, net of an allowance for estimated unfulfilled promises to give. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of noncash assets are recorded at fair market value.

Contributions and investment return with donor-imposed restrictions, which are reported as revenues with donor restrictions, are released to net assets without donor restrictions when an expense is incurred that satisfies the restriction.

Contributions restricted for the purchase of property, plant and equipment are reported as nonoperating revenues with donor restrictions and are released to net assets without donor restrictions upon acquisition, when the asset is placed into service, or earlier, based on explicit donor stipulations.

Contributions received for which the designation is pending by the donor are classified as net assets with donor restrictions. Once a designation is made by the donor, the contributions are reclassified to the appropriate net asset category as part of net assets reclassified or released from restrictions.

Contribution and sponsored research revenue with donor restrictions for which the restriction is met in the same period as the contribution or grant is received is recorded as revenue without donor restrictions.

Cash and Cash Equivalents, Restricted Cash, and Investments
Cash and cash equivalents consists of operating funds deposited in cash management accounts and other investments with maturities at the time of purchase of 90 days or less and are carried at market value. Cash and short-term investments held in the investment portfolio are included in investments.

Investment transactions are recorded on the trade date and dividend income is recorded on the ex-dividend date.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sums to the amounts shown in the consolidated statements of cash flows.

(in thousands)	**2021**	**2020**
Cash and cash equivalents	$ 20,091	$ 21,412
Cash and restricted cash included in investments	3,351	43,946
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 23,442	$ 65,358

Amounts included in cash and restricted cash included in investments relate to the endowment and student loans, respectively.

Split-Interest Agreements
The University has split-interest agreements consisting primarily of charitable gift annuities, pooled income funds, charitable remainder trusts, and charitable lead trusts. Split-interest agreements which are included in investments amount to $52,679,000 and $38,358,000 as of May 31, 2021 and 2020, respectively. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted with rates that range from 0.4% to 9.6%. The liability of $18,347,000 and $16,188,000 as of May 31, 2021 and 2020, respectively, is adjusted during the term of the agreements for changes in actuarial assumptions.

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

Income Taxes
The University is a qualified tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

Prior Year Summarized Information
The consolidated financial statements include certain prior year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's audited financial statements for the year ended May 31, 2020, from which the summarized information was derived.

Subsequent Events
The University has assessed the impact of subsequent events through September 24, 2021, the date the audited consolidated financial statements were issued, and concluded there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than one event disclosed in Note H.

Recent Accounting Pronouncements
In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new lease guidance requires lessees to record a right-of-use asset and a lease liability, initially measured at present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The University adopted ASU 2016-02 in the University's 2021 fiscal year using the modified retrospective approach. The University elected the package of practical expedients to not reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any expired or existing leases. The University elected the short-term lease exemption policy as well as the practical expedient that allows lessees to treat lease and non-lease components as a single lease component. In addition, the University elected to use hindsight to reassess lease terms or impairment at the adoption date. There was no material impact to the consolidated financial statements as a result of adoption.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This standard removes the requirements to disclose transfers between level 1 and level 2 of the fair value hierarchy and changes in unrealized gains and losses for recurring Level 3 fair value measurements, among other disclosures. This standard modifies other disclosure requirements regarding transfers into and out of Level 3 of the fair value hierarchy and investments in entities that calculate net asset value. The standard adds requirements for disclosure of information related to the unobservable inputs used to develop Level 3 fair value measurements. The University adopted ASU 2018-13 in the University's 2021 fiscal year. There was no material impact to the consolidated financial statements as a result of adoption.

B. Accounts, Notes and Other Receivables

Accounts receivable and notes receivable are stated net of allowances for doubtful accounts. As of May 31, 2021 and 2020, the allowance related to accounts receivable is $3,330,000 and $3,293,000, respectively.

Notes and other receivables consist of amounts due from students under U.S. Government and University sponsored loan programs and from the Weston Jesuit Community, Inc. under a ground lease agreement. As of May 31, 2021 and 2020, the amount due under the loan programs is $12,778,000 and $17,033,000, respectively. The notes receivable due from students under loan programs are subject to significant restrictions and, accordingly, it is not practicable to determine the fair value of such amounts. As of May 31, 2021 and 2020, the allowance related to student notes receivable is $1,140,000.

C. Contributions Receivable

Contributions receivable are summarized as follows as of May 31:

(in thousands)	2021	2020
Unconditional promises scheduled to be collected in		
Less than one year	$ 74,628	$ 102,908
Between one year and five years	105,080	76,401
More than five years	20,174	20,047
Less: Discount and allowance for unfulfilled promises to give	(20,323)	(39,410)
Contributions receivable, net	$ 179,559	$ 159,946

A present value discount of $12,724,000 and $12,406,000 as of May 31, 2021 and 2020, respectively, has been calculated using discount factors that approximate the risk and expected timing of future contribution payments.

The University has reflected contributions received during Fiscal 2021 and 2020 at fair value as determined in accordance with fair value accounting guidance.

Conditional promises from donors of $49,140,000 and $51,620,000 as of May 31, 2021 and 2020, respectively, are not recorded in the consolidated financial statements.

D. Financial Assets and Liquidity Resources

Financial assets and liquidity resources available within one year consists of the following as of May 31:

(in thousands)	**2021**	**2020**
Financial assets		
Cash and cash equivalents	$ 20,091	$ 21,412
Accounts receivable, net	32,772	26,571
Contributions receivable	9,841	8,678
Short-term investments	429,249	585,231
Estimated endowment distribution	131,773	119,592
Total financial assets available within one year	623,726	761,484
Liquidity resources		
Line of credit	75,000	75,000
Total financial assets and liquidity resources available within one year	$ 698,726	$ 836,484

The University structures financial assets to be available as general expenditures and other obligations come due and invests cash in excess of daily requirements in short-term investments.

The University does not intend to spend from board-designated endowment funds (Note I) other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation process. Amounts from the board-designated endowment could be made available if necessary, subject to the lock-up provisions in Note E.

E. Investments

Investments are stated at fair value and include accrued income. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers or appraisers. Management has established procedures in place to evaluate and monitor third party valuations, including regular communication with fund managers, the review of partnership financial statements and monthly performance metrics, prior to investment and on a regular basis going forward. The University believes that these valuations are a reasonable estimate of fair value as of May 31, 2021 and 2020, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Investments, including funds held by trustees, consist of the following as of May 31:

	2021		**2020**	
(in thousands)	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Equities	$ 1,794,683	$ 3,284,453	$ 1,593,749	$ 2,240,479
Fixed income	766,880	775,470	805,756	807,790
Real assets	141,961	128,858	138,515	113,007
	$ 2,703,524	$ 4,188,781	$ 2,538,020	$ 3,161,276

Equities include common stock, mutual funds, commingled funds, and limited partnership interests. Fixed income includes money market funds, commingled funds, limited partnership interests, and treasury and agency securities. Real assets include limited partnership interests and real estate.

A three level hierarchy of valuation inputs has been established based on the extent to which the inputs are observable in the marketplace. Level I is considered observable based on inputs such as quoted prices in active markets. Level II is considered observable based on inputs other than quoted prices in active markets, and Level III is considered unobservable.

As of May 31, 2021, the University's investments include $809,189,000 of Level I equities, $760,178,000 of Level I fixed income securities, $10,464,000 of Level II fixed income securities and $4,828,000 of Level III fixed income securities. Excluded from the fair value hierarchy at May 31, 2021 are $2,475,264,000 of equities and $96,927,000 of real assets, for which fair value is measured at net asset value per share using the practical expedient. Also excluded from the fair value hierarchy at May 31, 2021 are $31,931,000 of real estate investments valued at cost.

As of May 31, 2020, the University's investments include $659,732,000 of Level I equities, $674,366,000 of Level I fixed income securities, $8,379,000 of Level II fixed income securities and $3,982,000 of Level III fixed income securities. Excluded from the fair value hierarchy at May 31, 2020 are $1,580,747,000 of equities, $121,063,000 of fixed income securities, and $80,576,000 of real assets, for which fair value is measured at net asset value per share using the practical expedient. Also excluded from the fair value hierarchy at May 31, 2020 are $32,431,000 of real estate investments valued at cost.

As of May 31, 2021, $37,387,000, $10,464,000 and $4,828,000 of split interest agreements are included in Level I, Level II, and Level III, respectively. As of May 31, 2020, $25,997,000, $8,379,000 and $3,982,000 of split interest agreements are included in Level I, Level II, and Level III, respectively.

The fair values of limited partnerships are represented by the net asset value of each partnership. The objective of these investments is to generate long-term returns significantly higher than public equity markets on a risk adjusted basis. Redemption terms for those investments valued at net asset value consist of the following as of May 31:

	2021			
(in thousands)	**Equities**	**Fixed Income**	**Real Assets**	**Total**
Redemption terms				
Within 30 days	$ 338,144	$ -	$ -	$ 338,144
Quarterly				
30-90 days prior written notice	517,868	-	-	517,868
Semi-annually, annually				
30-180 days prior written notice	435,541	-	-	435,541
Greater than 1 year	1,183,711	-	96,927	1,280,638
	2,475,264	-	96,927	2,572,191
Level I securities	809,189	760,178	-	1,569,367
Other investments	-	15,292	31,931	47,223
Total investments	$ 3,284,453	$ 775,470	$ 128,858	$ 4,188,781

(in thousands)	2020 Equities	2020 Fixed Income	2020 Real Assets	2020 Total
Redemption terms				
Within 30 days	$ 226,655	$ 121,063	$ -	$ 347,718
Quarterly				
30-90 days prior written notice	258,325	-	-	258,325
Semi-annually, annually				
30-180 days prior written notice	389,887	-	-	389,887
Greater than 1 year	705,880	-	80,576	786,456
	1,580,747	121,063	80,576	1,782,386
Level I securities	659,732	674,366	-	1,334,098
Other investments	-	12,361	32,431	44,792
Total investments	$ 2,240,479	$ 807,790	$ 113,007	$ 3,161,276

The University is committed to invest up to an additional amount of $362,700,000 and $328,700,000 as of May 31, 2021 and 2020, respectively.

F. Endowment

The net assets associated with the University's endowment funds are classified in accordance with relevant state law as interpreted by the Board of Trustees. These classifications are without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions include board-designated funds and any accumulated income and appreciation thereon. Net assets with donor restrictions include contributions not yet designated by donors and accumulated appreciation on funds classified as with donor restrictions. Net assets with donor restrictions also includes contributions designated by donors to be invested in perpetuity to produce income for general or specific purposes.

The long-term performance objective of the endowment portfolio is to attain an average annual total return that exceeds the University's spending rate plus inflation within acceptable levels of risk over a full market cycle. To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield.

The University is subject to the Massachusetts Uniform Prudent Management of Institutional Funds Act of 2009 ("UPMIFA"), under which donor-restricted endowment funds may be appropriated for expenditure by the Board of Trustees of the University in accordance with the standard of prudence prescribed by UPMIFA.

The University has a spending policy for its donor restricted endowment, as approved by the University's Board of Trustees, that aims to provide a stable and predictable source of funding for the University's academic and strategic initiatives and also to protect the real value of the endowment over time. Under this policy the amount that can be expended for current operations is a weighted average based on two components: prior year spending adjusted for an inflationary factor and 5% of a twelve quarter moving average of market values.

The University does not distribute from funds with market values less than historical value. To the extent that the fair value of a donor restricted endowment fund falls below its historic dollar value it is reported as a reduction of net assets with donor restrictions. As of May 31, 2021 and 2020, there are no endowment funds with a market value less than historical value.

G. Property, Plant and Equipment

The physical plant assets of the University are stated at cost on the date of acquisition or at fair market or in the case of contributions appraised value on the date of donation. Physical plant assets consist of the following as of May 31:

(in thousands)	2021	2020
Land and improvements	$ 459,809	$ 339,080
Buildings	2,009,870	1,924,796
Equipment	276,574	249,009
Library books	240,934	231,912
Rare book and art collections	33,361	32,504
Purchase options	2,855	2,855
Plant under construction	141,486	101,429
Property, plant and equipment, gross	3,164,889	2,881,585
Accumulated depreciation	(1,200,500)	(1,106,882)
Property, plant and equipment, net	$ 1,964,389	$ 1,774,703

Annual provisions for depreciation of physical plant assets are computed on a straight-line basis over the expected useful lives of the individual assets, averaging 20 years for land improvements, 25-60 years for buildings, 2-15 years for equipment, and 10 or 50 years for library books. Rare book and art collections are reflected at historical cost and are not depreciated. Depreciation for the years ended May 31, 2021 and 2020 amounted to $96,715,000 and $90,186,000, respectively.

Maintenance and repairs are expensed as incurred and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts and gains or losses are included in the consolidated statement of activities. The University retired or disposed of $3,454,000 and $53,093,000 in gross plant assets for the years ended May 31, 2021 and 2020, respectively.

Property, plant and equipment additions of $17,219,000 and $17,247,000 are included in accrued liabilities on the consolidated statements of financial position for the years ended May 31, 2021 and 2020, respectively.

The University recognized $678,000 and $760,000 of operating expenses relating to the accretion of liabilities associated with the retirement of long-lived assets for the years ended May 31, 2021 and 2020, respectively. Conditional asset retirement obligations of $13,730,000 and $12,965,000 as of May 31, 2021 and 2020, respectively, are included in accrued liabilities.

The University has commitments of $59,281,000 to complete various capital projects as of May 31, 2021.

H. Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following as of May 31:

(in thousands)	2021	2020
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Boston College Issues (fixed rate)		
Series M, 5.00 - 5.50%, due 2023 - 2035	$ 129,360	$ 129,360
Massachusetts Development Finance Agency (MDFA)		
Boston College Issues (fixed rate)		
Series Q, 4.25 - 5.00%, due 2021-2029	-	7,245
Series R, 4.00 - 5.00%, due 2021-2040	-	5,695
Series S, 4.12 - 5.00%, due 2021-2038	95,100	100,390
Series T, 3.37 - 5.00%, due 2033-2042	129,305	129,305
Series U, 5.00%, due 2021-2040	148,820	148,820
Trustees of Boston College (fixed rate)		
Taxable bonds, Series 2013, 3.51 - 5.09%, due 2021-2043	147,600	152,975
Taxable bonds, Series 2017, 2.45 - 3.99%, due 2021-2047	272,745	279,985
Taxable bonds, Series 2019, 3.13%, due 2049-2053	300,000	300,000
Department of Education (fixed rate)		
Library building bonds, 3.41%, due 2021-2022	1,460	2,150
Bonds and mortgages payable, par	1,224,390	1,255,925
Unamortized original bond issue premium	61,300	64,643
Unamortized issuance cost on bonds	(6,344)	(6,631)
Bonds and mortgages payable, net	$ 1,279,346	$ 1,313,937

As of May 31, 2021, principal payments due on all long-term bonds and mortgages payable are as follows: $30,690,000 in 2022, $32,355,000 in 2023, $33,750,000 in 2024, $37,610,000 in 2025, $36,295,000 in 2026, and $1,053,690,000 thereafter.

Interest expense for the years ended May 31, 2021 and 2020 amounted to $45,831,000 and $43,644,000, respectively. The University capitalized interest of $3,887,000 and $4,263,000 for the years ended May 31, 2021 and 2020, respectively.

The University has an agreement for a $75,000,000 unsecured line of credit. As of May 31, 2021 and 2020, there was no balance outstanding on the line of credit.

In March 2020, the University issued $148,820,000 of MDFA Series U Revenue Bonds (“Series U”). The Series U was issued with an original issue premium of $38,645,000, which will be amortized over the life of the bonds. The entire net proceeds from Series U, $186,408,000, were used to refund a portion of existing Series M, Series Q, and Series R bonds. The retirement of Series M was comprised of $4,925,000 repayment of par value and $105,000 interest prepayment. The retirement of Series Q was comprised of $41,660,000 of par value and $565,000 of interest prepayment. The retirement of Series R was comprised of $135,980,000 of par value and $3,361,000 of interest prepayment. The University incurred costs of $1,162,000 associated with the issuance of Series U, which were capitalized and will be amortized over the life of the bonds, and recognized a net gain of $15,498,000 on the partial refunding, which was recorded within other gains (losses), net in the consolidated statement of activities.

In June 2021, subsequent to year end, the University issued $101,960,000 of MDFA Series V Revenue Bonds (“Series V”) and $135,000,000 of Trustees of Boston College Taxable Bonds Series 2021 (“Series 2021”). The proceeds from Series V will be used to finance certain capital needs, including the construction of the Schiller Institute for Integrated Science and Society and project costs related to the demolition and offload of Cushing Hall, Central Heating Plant upgrades, and the demolition and reclamation of the Flynn Recreation Complex. The proceeds from Series 2021 are expected to be used to finance certain capital needs, including the construction, renovation, and improvement of University facilities. The University incurred costs of $1,821,000 associated with the issuance of Series V and Series 2021, which will be capitalized and amortized over the life of the bonds. Series V was issued with an original issue premium of $63,044,000, which will be amortized over the life of the bonds. The University will record this transaction as part of the Fiscal 2022 consolidated financial statements.

I. Net Assets

Net assets consist of the following as of May 31:

	Without Donor Restrictions		With Donor Restrictions	
(in thousands)	**2021**	**2020**	**2021**	**2020**
Endowment net assets, beginning of year				
Board designated	$ 918,371	$ 912,464	$ -	$ -
Donor restricted	-	-	1,661,091	1,561,669
Contributions	-	-	93,734	91,815
Investment return, net	412,964	45,629	715,798	75,855
Appropriation of endowed assets for expenditure	(46,314)	(43,345)	(78,715)	(71,088)
Net assets reclassified or released from restrictions	103,871	3,775	(1,823)	3,761
Other losses	(1,321)	(152)	(2,090)	(921)
Endowment net assets, end of year				
Board designated	1,387,571	918,371	-	-
Donor restricted	-	-	2,387,995	1,661,091
Designated for specific purposes	174,911	233,490	-	-
Net investment in plant	600,628	585,027	-	-
Program support	-	-	97,720	80,996
Contributions for plant assets	-	-	88,090	95,018
Inherent contribution from acquisition	-	-	111,529	-
Student loans	-	-	789	807
Total net assets	$ 2,163,110	$ 1,736,888	$ 2,686,123	$ 1,837,912

Included in net assets with donor restrictions on the consolidated statements of financial position as of May 31, 2021 and 2020 are $1,216,068,000 and $1,139,915,000 of perpetually restricted funds and $1,470,055,000 and $697,997,000 of funds restricted for time or purpose, respectively.

Net assets with donor restrictions consist of the following as of May 31:

(in thousands)	2021	2020
Scholarships and fellowships	$ 939,274	$ 763,586
Educational purposes	1,166,959	639,830
Professorships	400,331	274,550
Contributions receivable, net	179,559	159,946
Total	$ 2,686,123	$ 1,837,912

J. Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Expenses associated with the operations and maintenance of facilities are allocated to the appropriate functional classifications based on square footage calculations and each functional area's corresponding use of those services.

Expenses by functional classification for the year ended May 31 consist of the following:

	2021					
(in thousands)	Salaries and Benefits	Operating Expenses	Depreciation/ Amortization	Interest	Operations and Maintenance of Facilities	Total
Educational activities	$ 297,278	$ 40,014	$ 36,369	$ 14,576	$ 32,016	$ 420,253
Research	30,665	16,540	1,442	-	-	48,647
Student services	37,419	9,874	12,096	7,676	6,812	73,877
General administration	94,938	27,837	7,736	3,915	5,554	139,980
Auxiliary enterprises	62,222	60,005	36,697	17,787	30,216	206,927
Operations and maintenance of facilities	46,947	23,092	2,682	1,877	(74,598)	-
Total	$ 569,469	$ 177,362	$ 97,022	$ 45,831	$ -	$ 889,684

	2020					
(in thousands)	Salaries and Benefits	Operating Expenses	Depreciation/ Amortization	Interest	Operations and Maintenance of Facilities	Total
Educational activities	$ 291,269	$ 49,394	$ 34,419	$ 13,591	$ 30,187	$ 418,860
Research	28,863	17,562	1,333	-	-	47,758
Student services	36,639	12,497	9,535	7,410	6,441	72,522
General administration	93,244	24,852	7,181	3,768	5,114	134,159
Auxiliary enterprises	60,780	54,703	35,485	17,440	28,032	196,440
Operations and maintenance of facilities	45,518	20,293	2,528	1,435	(69,774)	-
Total	$ 556,313	$ 179,301	$ 90,481	$ 43,644	$ -	$ 869,739

Included in the general administration expense category on the consolidated statement of activities are expenses incurred in carrying out the fundraising activities of the University, which amounted to $23,391,000 and $26,869,000 for the years ended May 31, 2021 and 2020, respectively.

K. Retirement Programs

All eligible full-time personnel may elect to participate in a defined contribution retirement program. Under the program, the University makes contributions, currently limited to 8-10% of the annual wages of participants, up to defined limits. Voluntary contributions by participants are made subject to IRS limitations. The limitation applicable to University contributions is on a combined plan basis. For the years ended May 31, 2021 and 2020, the University's contributions to the retirement program are $28,569,000 and $28,170,000, respectively.

The University provides certain health care benefits for retired employees through either a defined benefit retirement medical program or a Retirement Medical Savings Account depending upon certain age and service requirements. Employees will become eligible for this benefit if they reach retirement while employed by the University. The plan does not hold assets and is funded as benefits are paid. The estimated future cost of providing postretirement health care benefits is recognized on an accrual basis over the period of service during which benefits are earned.

The net periodic postretirement health care benefit cost and other changes in plan assets and benefit obligation recognized in net assets without donor restrictions are determined as follows for the years ended May 31:

(in thousands)	**2021**	**2020**
Service cost	$ 3,846	$ 3,258
Net periodic postretirement benefit cost	3,846	3,258
Net (gain) loss	(9,943)	11,802
Interest cost	3,184	3,962
Other changes in plan assets and benefit obligation	(6,759)	15,764
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (2,913)	$ 19,022

In Fiscal 2022, an unrecognized net loss of $180,000 is expected to be amortized as a component of net periodic postretirement benefit cost.

For measurement purposes, the assumed annual rates of increase for measuring the obligation at May 31, 2020 and the cost for the year ending May 31, 2021 were 5.50% in the per capita cost of covered health care benefits for post-65 benefits and 6.5% in the per capita cost of covered health care benefits for pre-65 benefits. Rates were assumed to decrease gradually to 5.00% in 2027 for pre-65 benefits and to 5.00% in 2023 for post-65 benefits and to remain at those levels thereafter. The assumed annual rates of increase for measuring the obligation at May 31, 2021 and the cost for the year ending May 31, 2022 were 5.25% in the per capita cost of covered health care benefits for post-65 benefits and 6.00% in the per capita cost of covered health care benefits for pre-65 benefits. Rates were assumed to decrease gradually to 5.00% in 2027 for pre-65 benefits and to 5.00% in 2023 for post-65 benefits and to remain at those levels thereafter.

A one percentage point change in the assumed health care cost trend rates would have the following effect:

(in thousands)	Increase	Decrease
Effect on total of service and interest cost components	$ 600	$ (487)
Effect on postretirement benefit obligation	12,600	(10,466)

The discount rate used to determine the accumulated benefit obligation is 3.00% as of May 31, 2021 and May 31, 2020. The discount rate used to determine the net periodic postretirement benefit cost is 3.00% as of May 31, 2021 and 4.00% as of May 31, 2020.

A reconciliation of the accumulated postretirement benefit obligation and plan assets are as follows as of May 31:

(in thousands)	2021	2020
Reconciliation of accumulated postretirement benefit obligation		
Benefit obligation, beginning of year	$ 115,524	$ 99,340
Service cost	3,846	3,258
Interest cost	3,184	3,962
Plan participant contributions	1,384	1,193
Benefits paid	(4,334)	(4,031)
Actuarial (gain) loss	(9,943)	11,802
Benefit obligation, end of year	$ 109,661	$ 115,524
Amounts not yet recognized as a component of net periodic benefit cost		
Net actuarial loss	$ 12,757	$ 23,140
	$ 12,757	$ 23,140

As of May 31, 2021 and 2020, the benefit obligation is reflected in accrued liabilities on the consolidated statements of financial position.

Expected benefit payments, net of participant contributions, are as follows: $3,480,000 in 2022, $3,740,000 in 2023, $4,040,000 in 2024, $4,400,000 in 2025, $4,730,000 in 2026, and $29,600,000 in the five fiscal years thereafter.

L. Related Party

The University has mortgages, loans, and notes due from various related parties of $22,884,000 and $23,906,000 as of May 31, 2021 and 2020, respectively.

M. Commitments and Contingencies

The University has several legal cases pending that have arisen in the normal course of its operations. The University believes that the outcome of these cases will have no material adverse effect on the financial position of the University.

N. Pine Manor College Integration

In June 2020, the University entered into an Integration Agreement with Pine Manor College. Effective June 30, 2020, the University became the sole member of a reorganized and reconstituted PMC (the “New PMC”). As the sole corporate member, the University assumed responsibility for the management of New PMC and its assets and liabilities.

The integration with Pine Manor College has been accounted for under *ASC 958-805, Not-for-Profit Entities: Mergers and Acquisitions*, which defines a combination of one or more not-for-profit activities as either a merger or an acquisition. The transaction has been treated as an acquisition for accounting purposes.

Assets received in the transaction totaled $134,316,000, primarily consisting of endowment investments, land, and buildings. Liabilities assumed totaled $12,114,000, including bonds and notes payable of $8,010,000 which were retired by the University subsequent to the integration. An inherent contribution was recognized by the University in the consolidated statement of activities for $122,202,000 to represent the excess of the fair value of assets over liabilities assumed. The University is required to complete a teach out period and operate and oversee the PMC campus until the second anniversary of the integration on June 30, 2022. Accordingly, the inherent contribution has been classified as net assets with donor restrictions.