

# **Consolidated Financial Statements**

## **Salve Regina University**

**June 30, 2020 and 2019**



# SALVE REGINA UNIVERSITY

## *Consolidated Financial Statements*

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## *Independent Auditors' Report*

The Board of Trustees  
Salve Regina University  
Newport, Rhode Island

We have audited the accompanying consolidated financial statements of Salve Regina University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of Salve Regina University as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 2 to the financial statements, in 2020, Salve Regina University adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* and No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

*Maye Hoffman McCann P.C.*

September 24, 2020  
Providence, Rhode Island

# SALVE REGINA UNIVERSITY

## *Consolidated Statements of Financial Position*

	<i>June 30,</i>	
	<b>2020</b>	<b>2019</b>
	<i>(in thousands)</i>	
<b>Assets</b>		
Cash	\$ 2,028	\$ 1,689
Short-term investments	18,494	10,253
Accounts receivable, students - less allowance for doubtful accounts of \$2,560 and \$2,345 in 2020 and 2019, respectively	843	832
Accounts receivable, other	339	548
Loans and notes receivable - less allowance for doubtful accounts of \$552 and \$537 in 2020 and 2019, respectively	1,718	2,138
Pledges receivable - less allowance for doubtful accounts of \$1,065 and \$973 in 2020 and 2019, respectively	2,641	1,599
Investments	62,027	64,249
Other assets	7,346	7,756
Land, buildings and equipment, net	<u>96,980</u>	<u>100,314</u>
<b>Total assets</b>	<b><u>\$ 192,416</u></b>	<b><u>\$ 189,378</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 1,224	\$ 1,707
Accrued liabilities	5,870	5,794
Deposits and deferred revenue	7,299	4,621
Obligations under capital lease	932	-
Long-term debt, net	37,859	39,796
Refundable advances from government for student loans	<u>1,712</u>	<u>1,913</u>
<b>Total liabilities</b>	<b><u>54,896</u></b>	<b><u>53,831</u></b>
Net assets:		
Without donor restrictions	110,532	111,670
With donor restrictions	<u>26,988</u>	<u>23,877</u>
<b>Total net assets</b>	<b><u>137,520</u></b>	<b><u>135,547</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 192,416</u></b>	<b><u>\$ 189,378</u></b>

**SALVE REGINA UNIVERSITY**

*Consolidated Statement of Activities*

Year Ended June 30, 2020

(with comparative totals for 2019)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions (in thousands)</i>	<i>Total 2020</i>	<i>Total 2019</i>
Operating revenues and other support:				
Tuition and fees (net of discount of \$42,868 and \$38,265 in 2020 and 2019, respectively)	\$ 49,170	\$ -	\$ 49,170	\$ 45,839
Room and board	15,996	-	15,996	17,253
<b>Net tuition, fees, room and board</b>	<b>65,166</b>	<b>-</b>	<b>65,166</b>	<b>63,092</b>
Gifts, grants and contracts	956	523	1,479	1,569
Federal and state government grants	1,987	-	1,987	1,027
Investment income appropriated	2,613	137	2,750	2,839
Unrestricted investment income	264	-	264	270
Other support	364	-	364	372
Auxiliary enterprises	1,273	-	1,273	1,917
Net assets released from restrictions	357	(357)	-	-
<b>Total operating revenues and other support</b>	<b>72,980</b>	<b>303</b>	<b>73,283</b>	<b>71,086</b>
Operating expenses:				
Program:				
Instruction	23,059	-	23,059	22,666
Research	544	-	544	477
Academic support	6,284	-	6,284	5,961
Student services	12,555	-	12,555	12,342
Auxiliary enterprises	14,577	-	14,577	15,447
<b>Total program expenses</b>	<b>57,019</b>	<b>-</b>	<b>57,019</b>	<b>56,893</b>
Management and general	14,473	-	14,473	13,026
<b>Total operating expenses</b>	<b>71,492</b>	<b>-</b>	<b>71,492</b>	<b>69,919</b>
<b>Change in net assets from operations</b>	<b>1,488</b>	<b>303</b>	<b>1,791</b>	<b>1,167</b>
Non-operating income (expense):				
Gifts and grants	178	4,276	4,454	1,665
Return (loss) on investments	(143)	(735)	(878)	2,027
Investment return appropriated to operations	(2,613)	(137)	(2,750)	(2,839)
Gain (loss) on sale of equipment	(33)	-	(33)	52
Other income	151	-	151	266
Change in value of split interest and other agreements	(8)	(156)	(164)	250
Other net assets released from restrictions	264	(264)	-	-
Expenses	(422)	(176)	(598)	(533)
<b>Non-operating income (expense), net</b>	<b>(2,626)</b>	<b>2,808</b>	<b>182</b>	<b>888</b>
<b>Change in net assets</b>	<b>(1,138)</b>	<b>3,111</b>	<b>1,973</b>	<b>2,055</b>
Net assets at beginning of year	111,670	23,877	135,547	133,492
<b>Net assets at end of year</b>	<b>\$ 110,532</b>	<b>\$ 26,988</b>	<b>\$ 137,520</b>	<b>\$ 135,547</b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

*Consolidated Statement of Activities*

*Year Ended June 30, 2019*

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions (in thousands)</i>	<i>Total 2019</i>
Operating revenues and other support:			
Tuition and fees (less discount of \$38,265)	\$ 45,839	\$ -	\$ 45,839
Room and board	17,253	-	17,253
	<hr/>	<hr/>	<hr/>
<b>Net tuition, fees, room and board</b>	<b>63,092</b>	<b>-</b>	<b>63,092</b>
Gifts, grants and contracts	1,505	64	1,569
Federal and state government grants	1,027	-	1,027
Investment income appropriated	2,696	143	2,839
Unrestricted investment income	270	-	270
Other support	372	-	372
Auxiliary enterprises	1,917	-	1,917
Net assets released from restrictions	294	(294)	-
	<hr/>	<hr/>	<hr/>
<b>Total operating revenues and other support</b>	<b>71,173</b>	<b>(87)</b>	<b>71,086</b>
Operating expenses:			
Program:			
Instruction	22,666	-	22,666
Research	477	-	477
Academic support	5,961	-	5,961
Student services	12,342	-	12,342
Auxiliary enterprises	15,447	-	15,447
	<hr/>	<hr/>	<hr/>
<b>Total program expenses</b>	<b>56,893</b>	<b>-</b>	<b>56,893</b>
Management and general	13,026	-	13,026
	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>69,919</b>	<b>-</b>	<b>69,919</b>
<b>Change in net assets from operations</b>	<hr/> <b>1,254</b>	<hr/> <b>(87)</b>	<hr/> <b>1,167</b>
Non-operating income (expense):			
Gifts and grants	264	1,401	1,665
Return on investments	1,952	75	2,027
Investment return appropriated to operations	(2,696)	(143)	(2,839)
Gain on sale of equipment	52	-	52
Other income	266	-	266
Change in value of split interest and other agreements	(1)	251	250
Other net assets released from restrictions	230	(230)	-
Expenses	(336)	(197)	(533)
	<hr/>	<hr/>	<hr/>
<b>Non-operating income (expense), net</b>	<b>(269)</b>	<b>1,157</b>	<b>888</b>
<b>Change in net assets</b>	<hr/> <b>985</b>	<hr/> <b>1,070</b>	<hr/> <b>2,055</b>
Net assets at beginning of year	110,685	22,807	133,492
	<hr/>	<hr/>	<hr/>
<b>Net assets at end of year</b>	<b>\$ 111,670</b>	<b>\$ 23,877</b>	<b>\$ 135,547</b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**  
**Consolidated Statements of Cash Flows**

*Years Ended June 30,*  
**2020**                      **2019**  
*(in thousands)*

<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,973	\$ 2,055
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,580	7,618
Change in reserve on receivables	322	344
Change in pledge discounts	(39)	(106)
Net realized and unrealized investment (gains) losses	1,038	(1,942)
Loss (gain) on sale of equipment	33	(52)
Contributions restricted for long-term investments	(1,578)	(912)
Changes in operating assets and liabilities:		
Pledges receivable	(1,095)	537
Accounts receivable	(17)	(326)
Other assets	410	(1,239)
Accounts payable, accrued liabilities, deposits and deferred revenue	2,273	896
	<u>10,900</u>	<u>6,873</u>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchase and construction of land, buildings and equipment	(3,310)	(3,387)
Purchases of investments	(57,057)	(49,182)
Proceeds from sales of investments	50,000	48,196
Proceeds from sale of assets	-	52
Student loans issued	(188)	(198)
Proceeds from student loans	593	414
	<u>(9,962)</u>	<u>(4,105)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investments	1,578	912
Repayment of long-term debt	(1,976)	(3,293)
Change in government advances for student loans	(201)	-
	<u>(599)</u>	<u>(2,381)</u>
<b>Net cash used in financing activities</b>		
<b>Increase in cash</b>	<b>339</b>	<b>387</b>
Cash, beginning	<u>1,689</u>	<u>1,302</u>
<b>Cash, ending</b>	<b>\$ <u>2,028</u></b>	<b>\$ <u>1,689</u></b>
<b>Supplemental disclosures:</b>		
Cash paid during the year for interest	\$ <u>1,218</u>	\$ <u>1,436</u>
Land, buildings and equipment purchases included in accounts payable	\$ <u>190</u>	\$ <u>186</u>
Equipment purchased with lease financing	\$ <u>932</u>	\$ <u>-</u>

See accompanying notes to the consolidated financial statements.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies*

Salve Regina University (the “University”), located in Newport, Rhode Island, is a small comprehensive Catholic university which opened in 1947 and is accredited by the New England Commission of Higher Education, Inc., formerly known as the New England Association of Schools and Colleges. The University was founded by and continues to be sponsored by the Sisters of Mercy. The University enrolls approximately 2,500 men and women in a variety of academic programs. The University’s student population is predominately from the Northeast region of the United States. The undergraduate programs are based on the liberal arts. The University offers Baccalaureate and Master degrees, a Certificate of Advanced Graduate Study and a Ph.D. in Humanities and International Relations.

The University participates in student financial aid programs sponsored by the United States Department of Education and, to a lesser extent, the United States Department of Health and Human Services, which facilitate the payment of tuition and other expenses for students.

A summary of the accounting policies consistently applied in the financial statements follows:

#### ***Financial Statement Presentation***

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of Salve Regina University and its subsidiary, SRU Holdings, LLC (“Holdings”). The University is the sole and controlling member of Holdings. All intercompany accounts and transactions have been eliminated in consolidation. Holdings was organized as a Rhode Island Limited Liability Company on July 28, 1998. The purpose of Holdings is to acquire and hold real estate for the benefit and use of the University while keeping the acquired real estate on local tax rolls.

#### ***Cash***

The University maintains cash balances at financial institutions which, at times, may exceed federally insured limits. The University monitors its exposure associated with cash and has not experienced any losses in such accounts. Cash held by investment managers are considered part of investments.

Included in cash is a restricted account of \$1,589,000 and \$1,400,000 at June 30, 2020 and 2019, respectively, related to the University’s self-insured benefit plan.

#### ***Short-Term Investments***

Short-term investments include certificates of deposits and money market funds. Management reports short-term investments at fair value as determined per the fair value policies later in this section. These investments are not part of the long-term investment portfolio. Certain of these amounts are subject to the same Federal insurance limits as described in the cash policy above.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Accounts Receivable*

Students are billed based dates outlined in the academic catalog as agreed in advance of the delivery the related academic or auxiliary activity. Payments for tuition, fees and auxiliary enterprises charges are generally due by the start of the academic period with the recognition that on behalf payments being made by the DOE or others are subject to specific requirements within those programs as to when those funds can be availed. Certain DOE funding can be availed prior to the commencement of the academic period, while other amounts are paid are specified intervals based on the rules as promulgated by the DOE. Thus cash flows on accounts receivable balances and the measurement of deferred revenues do not directly depend on meeting specified performance obligations of the University. Student accounts are not collateralized.

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received. Accounts receivable are considered past due if any portion of the receivable balance is outstanding for more than 90 days or the student no longer attends the institution. Interest is not charged on receivables.

#### *Loans and Notes Receivables*

Loans and notes receivable are funds loaned to students by the University and funds advanced by the University via the Federal Perkins Loans Program (“Perkins”) and the Nursing Student Loans Program (“Nursing”).

Nursing funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Nursing program, the amounts are generally refundable to the Federal government. Following expiration of the Perkins program, the University continued with disbursements to eligible borrowers through the disbursement deadline and will continue to administer the Program through final liquidation. Funds advanced by the Federal government of \$1,712,000 and \$1,913,000, at June 30, 2020 and 2019, respectively, and are classified as liabilities in the consolidated statements of financial position. Loans receivable are carried at their net realizable value. Interest income is recorded when received.

Loans receivable are considered past due if any portion of the balance due is outstanding for more than 120 days for Nursing loans and for more than 240 days for Perkins Loans. Loans past due or in default totaled \$636,000 and \$605,000 for the years ended June 30, 2020 and 2019, respectively. Interest and late fees on past due accounts are recorded when received. Perkins and Nursing loans that are in default and meet certain requirements are assigned to the Department of Education, which reduces the Perkins and Nursing loans refundable advances.

For all loans, management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans.

For all loans, management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### ***Pledges Receivable***

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in private gift and grant revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from the plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

#### ***Investments***

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

Net investments return (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund its board approved spending policy and to increase investment values after inflation. Major investment decisions are authorized by the Investment Subcommittee of the Board of Trustees that oversees the University's investments mindful of diversification among asset classes.

#### ***Other Assets***

Other assets consist of prepaid expenses, deposits with trustees, and the University's beneficial interest in remainder trusts, life interest in real estate and interest held in a LLC.

#### ***Beneficial Interest in Remainder Trust***

The University records its beneficial interest in remainder trusts at fair value when the University is notified of the existence of the instrument. On an ongoing basis, the University reports its interest at fair value based on its underlying share of assets and estimates the fair value of the remainder at the present value of the aggregate liability to the beneficiaries based upon their life expectancy, utilizing a discount rate at the original date of the instrument. Life expectancies are periodically updated to reflect current expectations.

The initially recorded fair values of the donated investments are determined based on the underlying nature of the investments received, which have generally represented Level 1 measurements. The University has recorded other assets of \$179,000 and \$221,000 and accrued liabilities of \$125,000 and \$109,000 related to beneficial interests in remainder trusts at June 30, 2020 and 2019, respectively.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Other Assets (Continued)*

##### *Life Interest in Real Estate*

The University records its life interest in real estate at fair value when the University is notified of the existence of the instrument. On an ongoing basis, the University reports its interest at fair value based on the underlying real estate and estimates the fair value of the use obligation at the present value of the aggregate liability to the beneficiaries based upon their life expectancy, market rents and a discount rate at the original date of the instrument. Life expectancies and market rents are periodically updated to reflect current expectations.

The initially recorded fair value of the real estate is based on appraisals, which generally represent Level 2 measurements. The University has recorded other assets of \$1,200,000 and accrued liabilities of \$437,000 and \$430,000 related to life interests in real estate at June 30, 2020 and 2019, respectively.

##### *Interest Held in an LLC*

The University was gifted an interest in a limited liability company that holds residential real estate. The fair value of this gift was determined using Level 2 inputs upon the receipt of the gift and fair value is remeasured on a recurring basis using Level 2 inputs. The fair value of this asset was \$4,275,000 and \$4,375,000 at June 30, 2020 and 2019, respectively.

#### *Land, Buildings and Equipment*

Land, constructed and purchased property, and equipment with a useful life greater than one year are carried at historical cost or fair value at date of donation in the case of gift assets. Fair value of donated fixed assets is effectively recorded using Level 2 or Level 3 market approach. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives, which range from three to sixty years.

#### *Accrued Liabilities*

Included in accrued liabilities is a reserve for health care costs associated with the University's self-insured benefits for its employees. The University has a stop loss insurance policy to manage its risk and exposure to larger and catastrophic claims associated with these benefits. Also included in accrued liabilities are accrued payroll, vacation, and sick pay.

#### *Deposits and Deferred Revenue*

Substantially all amounts included in deferred revenue at the opening of each period were recognized as revenues during the following fiscal period which very limited amounts not being earned associated with student withdrawal rights that management did not consider material. The remaining performance obligation is time driven given the academic calendar that underlies the earnings process for tuition, fees and auxiliary revenue. There were no significant changes deferred revenue amounts on a quantitative or qualitative basis.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Refundable advances from government for student loans*

Refundable advances represent amounts advanced from the DOE subject to certain adjustment associated with the Perkins program as discussed in the student accounts and notes section of these policies. Given the termination of this program, it is expected that such obligations will begin to be repaid as funds become available on collection of prior loans from students.

#### *Income Tax Status*

The University is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is generally exempt from Federal and state income taxes on related income. Given the limited taxable activities of the University, management has concluded that disclosures relative to tax provision are not necessary.

#### *Uncertain Tax Positions*

The University accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The University has identified its tax status as a tax-exempt entity as its only significant tax position; however, the University has determined that such tax position does not result in an uncertainty requiring recognition. The University is not currently under examination by any taxing jurisdiction. The University’s Federal and state tax returns are generally open for examination for three years following the date filed.

#### *Net Assets*

The accompanying financial statements present information regarding the University’s financial position and activities according based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Net Assets Without Donor Restrictions* - Net assets available for general use and not subject to donor restrictions. The Board of Trustees has designated from net assets without donor restrictions, net assets for endowment. The College’s policy is to designate unrestricted donor gifts at the discretion of the Board of Trustees. Net assets without donor restriction also include the investment in plant, net of accumulated depreciation, funds for facilities and student loans and undesignated funds.

*Net Assets With Donor Restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as revenue without donor restrictions. Contributions of cash and other assets to be used to acquire land, buildings and equipment are accounted for as with donor restrictions until such resources are used for the related purpose.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Revenue Recognition and Operations*

The statements of activities report the changes in net assets from operating and non-operating activities. Operating expenses consist of those items attributable to the University's primary mission of providing education. The primary operating revenues are derived from tuition, room and board, grants and contracts, gifts with and without donor restrictions for current operations (and related earnings), income and gains appropriated from the earnings of the endowment consistent with the University's spending policy plus earnings from general investments without donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions as follows:

The University derives revenues primarily through tuition and fees, room and board, and auxiliary services all of which are under arrangements that are aligned to an academic semester which is less than one year in length.

Under accounting standards revenue measurement is driven via principles based process that requires the entities 1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations; and 5) Recognize revenue when (or as) performance obligations are satisfied.

Tuition and fees and auxiliary enterprises revenue are recorded at established rates, net of institutional financial aid and scholarships provided directly to students. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered whether relating to educational services or auxiliary services such as room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing it is satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the University's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund before the start of classes declining to no refund shortly after the start of classes. Given the normal timing of the University's programs the exposure to withdrawal rights is limited at year end.

Payments made by third parties such as the Department of Education ("DOE") relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the University. Cash flows are also impacted by DOE rules which differ for newly enrolled versus continuing students with respect to financial aid. Generally, funds made available by the DOE for new students are available later than for continuing students. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Revenue Recognition and Operations (Continued)*

Contributions, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied.

The University reports gifts of land, buildings and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions and released from restrictions when such resources are used for the related purpose.

Contribution revenue earned on grants for research is recognized as related costs are incurred as revenue without donor restrictions. Revenue on contracts is recognized as value is transferred to customers which generally is indicated via the incurring of allowable costs under the contract.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. Contributions received pending designation by the donor are considered with donor restrictions until known at which time such are reclassified if required.

Building rental income and grant and contract income is recorded as revenue over time as earned.

Investment income and gains/losses on endowment, donor restricted and Board-designated funds, other than the amount appropriated for operations, are classified as non-operating activities. Gifts to the endowment and other gifts and grants not directed to current operations as well as capital improvements and facilities are also classified as non-operating activities. Non-operating expenses includes bad debt expense and expenditures related to non-operating grant activities.

#### *Functional Allocation of Expenses*

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in Note 11 and this footnote presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on such criteria as building usage. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Advertising*

Advertising and marketing costs are expensed as incurred and amounted to approximately \$561,000 and \$614,000 for the years ended June 30, 2020 and 2019, respectively.

#### *Fair Value Measurements*

The University reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy for the particular item in accordance with fair value standards. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Recurring fair value measures include the University's investment accounts and deposits with trustees. Non-recurring measures include pledges. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the University reports certain investments using the Net Asset Value ("NAV") per share as determined by investment managers under the so called "practical expedient." The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the University to classify financial instruments (but for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1* – inputs are quoted prices in active markets for identical assets or liabilities that the University has the ability to access at measurement date.
- Level 2* – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable.
- Level 3* – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the University's financial instruments, see Note 4 – Investments and Fair Value Measurements.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Use of Estimates*

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

#### *New Accounting Pronouncements*

In 2019, the University early adopted ASU No. 2014-09, *Revenue from Contracts with Customers*, associated with revenue recognition. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistency in revenue recognition by outlining a principle based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The University adopted this standard using the modified retrospective approach on July 1, 2019.

The adoption of this standard did not materially impact reported revenue in any period because: (1) performance obligations were determined to be similar as compared with deliverables previously identified; (2) the transaction price is consistent; and (3) revenue was recorded in the same manner as under prior standards. In evaluating the effects of the change, contracts in process as of the date of adoption were considered under the practical expedient allowed under the standard.

Associated with the adoption of this standard, consideration was given the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts and accordingly, no change was made to this accounting.

The University also adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The contribution standard addresses inconsistency in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standards above. It also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *New Accounting Pronouncements (Continued)*

The contribution standard was applied using the modified retrospective method. This method was applied to transactions that were not complete or had otherwise already been recognized as of July 1, 2019. The impact related to the adopting of the new standard did not have material impact on 2020 results. In evaluating the effects of the change, contributions in process as of the date of adoption were considered. As such no disclosures have been provided on the effect on the June 30, 2020 financial statements.

In addition, certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

#### *Subsequent Events*

The University has evaluated subsequent events through September 24, 2020, the date the consolidated financial statements were issued.

### *Note 2 - Liquidity and Availability*

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

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of education, research and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the University's cash and shows positive cash generated by operations for the years ended June 30, 2020 and 2019.

Although not expected to be needed, the spendable yet restricted portion of the University's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. See Notes 4 and 9 for further information about the University's investment portfolio and net assets.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 2 - Liquidity and Availability (Continued)*

The following tables show the total financial assets held by the University and the amounts of those financial assets available within one year of the balance sheet date to meet general expenditures at June 30, 2020:

	<i>(in thousands)</i>
Financial assets at year end:	
Cash	\$ 2,028
Short-term investments	18,494
Accounts receivable, students, net	843
Accounts receivable, other	339
Loans and notes receivable, net	1,718
Pledges receivable, net	2,641
Investments	62,031
Other assets	1,114
	<hr/>
<b>Total financial assets at year end</b>	<b>\$ <u><u>89,208</u></u></b>
Financial assets available to meet general expenditures over the next 12 months:	
Cash	\$ 2,028
Short-term investments	17,889
Accounts receivable, net	843
Accounts receivable, other	339
Other assets	9
Pledges receivable for general expenditure due in one year or less, net (Note 3)	1,062
Endowment spending rate distribution and appropriations	3,662
	<hr/>
<b>Total financial assets available to meet general expenditures over the next 12 months</b>	<b>\$ <u><u>25,832</u></u></b>

In addition, the University has available approximately \$46,035,000 of board designated funds which are eligible to be spent on operations, if needed, upon approval by the Board of Trustees of the University.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Pledges Receivable*

Pledges receivable consisted of the following at June 30:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Amounts due in:		
Less than one year	\$ 1,132	\$ 508
One to five years	1,667	1,283
Greater than 5 years	<u>1,057</u>	<u>970</u>
<b>Total due</b>	<b>3,856</b>	<b>2,761</b>
Less:		
Unamortized discount	(150)	(189)
Allowance for doubtful accounts	<u>(1,065)</u>	<u>(973)</u>
<b>Pledges receivable, net</b>	<b>\$ <u>2,641</u></b>	<b>\$ <u>1,599</u></b>

Discount rates used to present value the estimated cash flows from pledges ranged from 3.16% to 5.75% for the year ended June 30, 2020.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 4 - Investments and Fair Value Measurements*

The following table summarizes the University's recurring fair value measurements at June 30, 2020 and 2019:

<b>2020</b>	<b>Total</b>	<b>Investments Measured at NAV (in thousands)</b>	<b>Level 1</b>	<b>Level 2</b>
Short-term investments:				
Money market funds	\$ 18,419	\$ -	\$ 18,419	\$ -
Certificates of deposits	75	-	-	75
<b>Total short-term investments</b>	<b>18,494</b>	<b>-</b>	<b>18,419</b>	<b>75</b>
Long-term investments:				
Equity funds:				
Domestic	20,318	1,791	18,527	-
Developed	10,557	7,419	3,138	-
Emerging	2,589	-	2,589	-
Fixed income	9,423	-	9,423	-
Multi strategy hedge	12,242	12,242	-	-
Other:				
REIT	2,878	2,878	-	-
Private Equity	4,020	4,020	-	-
<b>Total long-term investments</b>	<b>62,027</b>	<b>28,350</b>	<b>33,677</b>	<b>-</b>
<b>Total investments</b>	<b>80,521</b>	<b>28,350</b>	<b>52,096</b>	<b>75</b>
Other assets:				
Assets held under split-interest agreements	1,379	-	179	1,200
Interest in real estate LLC	4,275	-	-	4,275
<b>Total</b>	<b>\$ 86,175</b>	<b>\$ 28,350</b>	<b>\$ 52,275</b>	<b>\$ 5,550</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 4 - Investments and Fair Value Measurements (Continued)*

2019	<i>Total</i>	<i>Investments Measured at NAV (in thousands)</i>	<i>Level 1</i>	<i>Level 2</i>
Short-term investments:				
Money market funds	\$ 10,173	\$ -	\$ 10,173	\$ -
Certificates of deposits	80	-	-	80
<b>Total short-term investments</b>	<b>10,253</b>	<b>-</b>	<b>10,173</b>	<b>80</b>
Long-term investments:				
Equity funds:				
Domestic	20,446	3,457	16,989	-
Developed	12,453	9,675	2,778	-
Emerging	2,667	-	2,667	-
Fixed income	8,044	-	8,044	-
Multi strategy hedge	14,581	14,581	-	-
Other:				
REIT	3,359	3,359	-	-
Private Equity	2,699	2,699	-	-
<b>Total long-term investments</b>	<b>64,249</b>	<b>33,771</b>	<b>30,478</b>	<b>-</b>
<b>Total investments</b>	<b>74,502</b>	<b>33,771</b>	<b>40,651</b>	<b>80</b>
Other assets:				
Assets held under split-interest agreements	1,421	-	221	1,200
Interest in real estate LLC	4,375	-	-	4,375
<b>Total</b>	<b>\$ 80,298</b>	<b>\$ 33,771</b>	<b>\$ 40,872</b>	<b>\$ 5,655</b>

Redemption/liquidity of investments are as follows at June 30, 2020:

	<i>(in thousands)</i>
Daily	\$ 52,091
Monthly	12,088
Quarterly to annually	12,322
Illiquid	4,020
<b>Total long-term and short-term investments</b>	<b>\$ 80,521</b>

Management has no intention or plans to liquidate any NAV practical expedient investment at other than NAV per share. At June 30, 2020, the University had unfunded commitments of \$7,069,000.

The University had no recurring Level 3 fair value measurements at June 30, 2020 and 2019.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 4 - Investments and Fair Value Measurements (Continued)*

Investment activities consisted of the following for the years ended June 30:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Investments and short-term investments, beginning of year	\$ <u>74,502</u>	\$ <u>71,574</u>
Gifts and additions:		
Endowment gifts	1,647	887
Endowment additions from operations	1,500	1,000
Operational additions	<u>7,266</u>	<u>2,379</u>
Total gifts and additions	<u>10,413</u>	<u>4,266</u>
Investment returns:		
Interest and dividends	951	927
Net realized and unrealized gains (losses)	<u>(1,565)</u>	<u>1,370</u>
Total investment returns (losses)	<u>(614)</u>	<u>2,297</u>
Expenditures:		
Amounts appropriated under endowment spending policy:		
Scholarships	(504)	(450)
Operations	<u>(2,246)</u>	<u>(2,389)</u>
Total amounts appropriated under endowment spending policy	<u>(2,750)</u>	<u>(2,839)</u>
Other expenditures:		
Capital projects	(125)	(365)
Scholarships	(5)	(5)
Operations	<u>(900)</u>	<u>(426)</u>
Total other expenditures	<u>(1,030)</u>	<u>(796)</u>
Net investment returns and expenditures	<u>(4,394)</u>	<u>(1,338)</u>
<b>Investments and short-term investments, end of year</b>	<b>\$ <u>80,521</u></b>	<b>\$ <u>74,502</u></b>

Investment management fees were \$527,000 and \$572,000 for the years ended June 30, 2020 and 2019, respectively, and are netted against realized and unrealized gains (losses). Additionally, certain investment managers net their investment manager fees against returns, and accordingly, such amounts are not included in the aforementioned fees.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 5 - Other Assets*

Other assets consisted of the following at June 30:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Interest in real estate LLC	\$ 4,275	\$ 4,375
Life interest in real estate	1,200	1,200
Beneficial interest in remainder trust	179	221
Prepaid expenses	500	907
Other	<u>1,192</u>	<u>1,053</u>
<b>Other assets</b>	<b><u>\$ 7,346</u></b>	<b><u>\$ 7,756</u></b>

### *Note 6 - Land, Buildings and Equipment*

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

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Land and improvements	\$ 7,916	\$ 7,843
Buildings and improvements	167,791	166,464
Equipment and computer software	38,482	37,367
Equipment under capital lease	932	-
Construction in progress	<u>1,576</u>	<u>1,467</u>
	216,697	213,141
Less: accumulated depreciation	<u>(119,717)</u>	<u>(112,827)</u>
<b>Land, buildings and equipment, net</b>	<b><u>\$ 96,980</u></b>	<b><u>\$ 100,314</u></b>

Depreciation and amortization expense was \$7,529,000 and \$7,568,000 for the years ended June 30, 2020 and 2019, respectively. Construction in progress in 2019 and 2020 related to the planned expansion of junior class housing. In order to accommodate the housing policy change, the University is planning construction of two new dormitories that are subject to city regulatory approval at this time.

The University disposed of \$679,000 at a loss of \$33,000 for the year ended June 30, 2020 and \$211,000 of fully depreciated equipment for the year ended June 30, 2019.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Debt*

Long-term debt, net consisted of the following at June 30:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2011 amortizes over 20 years with fixed interest of 3.65%; principal and interest paid monthly, secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. The bonds are privately placed with a bank.	\$ 14,795	\$ 16,000
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2015, comprised of three bonds with one amortizing over 30 years (\$17,920 at June 30, 2020) with a fixed rate of 2.55% for 15 years (rate to be reset in year 16 for the following 15 year term), one over 21 years (\$2,602 at June 30, 2020) with variable interest rate of an adjusted 30-day LIBOR rate (1.32% at June 30, 2020) and one over 30 years (\$3,339 at June 30, 2020) with variable interest rate of an adjusted 30-day LIBOR rate (1.32% at June 30, 2020); principal and interest paid monthly, secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. The bonds are privately placed with a bank.	<u>23,861</u>	<u>24,632</u>
Long-term debt	38,656	40,632
Less unamortized bond issuance costs	<u>797</u>	<u>836</u>
<b>Long-term debt, net</b>	<b><u><u>\$ 37,859</u></u></b>	<b><u><u>\$ 39,796</u></u></b>

During 2020, the University amended the Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2011 bond interest rate, which decreased the fixed rate from 4.35% to 3.65%. In conjunction with the amendment, the University capitalized \$12,000 of bond issuance costs to be amortized over the remaining life of the bond.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Debt (Continued)*

The obligations under the Rhode Island Higher Education Facility Revenue Bonds include financial and non-financial covenants.

Annual principal payments for the next five years and thereafter as of June 30, 2020 are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2021	\$ 2,030
2022	2,116
2023	2,183
2024	2,259
2025	2,359
Thereafter	<u>27,709</u>
	<u><u>\$ 38,656</u></u>

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the related bonds. Bond issuance costs of \$797,000 and \$836,000 are net of accumulated amortization of \$368,000 and \$317,000 at June 30, 2020 and 2019, respectively. Amortization expense amounted to \$51,000 and \$50,000 for each of the years ended June 30, 2020 and 2019, respectively.

The University maintains an unsecured revolving credit agreement with a bank that provides for maximum borrowings of \$4,000,000 with a term ending in December 2024. Any amounts outstanding bear interest at the bank's prime rate. At June 30, 2020 and 2019, there were no amounts outstanding under this agreement. The University expects to renew the credit agreement prior to its expiration on similar terms.

### *Note 8 - Commitments*

#### *Operating Leases*

The University leases dormitory and administrative space under operating leases expiring at various dates through 2029. The minimum rental obligations due under operating leases excluding any renewal options leases are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2021	\$ 615
2022	598
2023	240
2024	216
2025	222
Thereafter	<u>788</u>
<b>Total lease payments</b>	<u><u>\$ 2,679</u></u>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Commitments and Contingencies*

#### *Operating Leases (Continued)*

Rental expense was approximately \$610,000 and \$598,000 for the years ended June 30, 2020 and 2019, respectively.

#### *Capital Lease*

The University leases residential networking equipment under a zero interest capital lease under a three year term. The minimum payments due under the capital lease are approximately \$310,000 per year through fiscal 2023. Assets under capital lease are \$932,000 with a net book value of \$838,000 at June 30, 2020.

#### *Long-Term Contracts*

The University has long-term contracts with outside service vendors for their food and custodial services through August 31, 2023 and June 30, 2021, respectively. Expenses incurred under these contracts are variable each year based on the number of students served and actual expenses incurred. During 2020, total expenses for food services and custodial services amounted to approximately \$3,241,000 and \$1,015,000, respectively. During 2019, total expenses for food services and custodial services amounted to approximately \$3,476,000 and \$1,229,000, respectively.

The University participates in a self-insured health insurance captive (the "Captive") in order to manage its health insurance costs. The University is an equity participant in the Captive that currently includes fifteen other educational institutions, with four more joining July 1, 2020. As a participant, the University is liable for its pro-rata share of any Captive losses. Any Captive gains or losses will be allocated to the members at the end of the year. The Captive has purchase reinsurance for itself to limit claims to the capital provided by the members. The University cannot be allocated any more in claims than this initial capital contribution. Specific to the University's plan a stop-loss insurance policy is in force providing coverage for claims in excess of \$160,000 per participant in a calendar year. In addition, there is a general aggregate stop loss of \$125,000. An accrual of \$380,000 and \$390,000 was recorded for benefit claims incurred but not reported at June 30, 2020 and 2019, respectively.

The University has in place a fixed rate contract to purchase and receive credits associated with energy generated by solar power electrical facilities. The contract terminates twenty-five years after commercial operations commences.

The University has in place a contract with a service provider to assist and facilitate marketing efforts surrounding its online educational courses. The contract spans seven and a half years after operations commence.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Commitments and Contingencies (Continued)*

#### *Contingencies*

Management is currently unable to accurately forecast the future impact on attendance patterns resulting from the Coronavirus (COVID-19) pandemic which could impact the quantity of students, the course loads taken by students, the mode of delivery, price levels trends and the utilization of residence halls and other facilities of the University on a forward basis. In March of 2020 the University transitioned to remote learning and most students left campus. In connection with this transition, the University issued room and board credits of approximately \$3,000,000. The Federal Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) has provisions that benefit the University. One such provision is the Higher Education Emergency Relief Fund under which the University is eligible to draw up to \$1,715,409, half of which must be used for direct grants to students and the other half of which can be used by the University for certain COVID-19 related costs. As of June 30, 2020, the University has drawn and spent \$831,000, all of which was direct grants to students. The CARES Act also permits entities that were disrupted by COVID-19 to defer payment of the employer share of social security taxes due between March 27, 2020 and December 31, 2020 to paying half only December 31, 2021 and the other half by December 31, 2022. The University has deferred payment of \$425,000 of such taxes at June 30, 2020. The CARES Act also has an employer tax credit provision that provides for a credit of 50% of the employer portion of social security taxes on wages paid to employees for time that they were not rendering service to the University. The University paid many of its employees when they were unable to render services and management is evaluating its eligibility for a tax credit, which would be taken in fiscal 2021.

### *Note 9 - Net Assets and Endowment Matters*

#### *Net Assets Without Donor Restrictions*

Net assets without donor restrictions are comprised of the following at June 30:

	<b>2020</b>	<b>2019</b>
	<i>(in thousands)</i>	
Operating and net investment in plant	\$ 64,497	\$ 64,383
Board-designated funds operating as endowment	<u>46,035</u>	<u>47,287</u>
<b>Net assets without donor restrictions</b>	<b><u>\$ 110,532</u></b>	<b><u>\$ 111,670</u></b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

#### *Net Assets With Donor Restrictions*

Net assets with donor restrictions are comprised of the following at June 30:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Purpose restricted gifts:		
Capital improvements	\$ 2,107	\$ 829
Instructional	1,293	1,523
Financial aid	994	662
Other	1,707	498
	6,101	3,512
Accumulated unspent gains:		
Financial aid	2,169	2,778
Instructional	450	714
Other	82	114
	2,701	3,606
Endowment corpus:		
Financial aid	9,980	8,413
Instructional	4,076	4,066
Other	421	418
	14,477	12,897
Interest in real estate LLC restricted for perpetual endowment	3,655	3,750
Interest in remainder trust restricted for perpetual endowment	54	112
	3,709	3,862
 <b>Net assets with donor restrictions</b>	 <b>\$ 26,988</b>	 <b>\$ 23,877</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

#### *Net Assets With Donor Restrictions (Continued)*

Net assets were released from donor restrictions as a result of the incurrence of expenses satisfying the restricted purposes, the occurrence of events specified by donors or by the change of restrictions specified by the donors. Net assets released from restriction were for the following purposes for the years ended June 30:

	<b>2020</b>	<b>209</b>
	<i>(in thousands)</i>	
Capital improvements	\$ 62	\$ 19
Instructional	385	393
Financial aid	86	23
Other	88	89
<b>Net assets released from restrictions</b>	<b>\$ 621</b>	<b>\$ 524</b>

The following represents required disclosures relative to the composition of endowment assets and those functioning as endowment assets at June 30:

	<b>2020</b>		
	<i>(in thousands)</i>		
	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 47,287	\$ 16,503	\$ 63,790
Gifts	5	1,579	1,584
Additions from operations	1,500	-	1,500
Total gifts and additions	1,505	1,579	3,084
Investment losses			
Interest and dividends	481	173	654
Net realized and unrealized losses	(1,161)	(404)	(1,565)
Total investment losses	(680)	(231)	(911)
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(30)	(443)	(473)
Operations	(2,047)	(230)	(2,277)
Total amounts appropriated under endowment spending policy	(2,077)	(673)	(2,750)
Net investment losses and expenditures	(2,757)	(904)	(3,661)
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 46,035</b>	<b>\$ 17,178</b>	<b>\$ 63,213</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

	<b>2019</b>		
	<i>(in thousands)</i>		
	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 47,045	\$ 15,666	\$ 62,711
Gifts	10	918	928
Additions from operations	1,000	-	1,000
Total gifts and additions	1,010	918	1,928
Investment returns:			
Interest and dividends	460	159	619
Net realized and unrealized gains	999	372	1,371
Total investment returns	1,459	531	1,990
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(31)	(419)	(450)
Operations	(2,196)	(193)	(2,389)
Total amounts appropriated under endowment spending policy	(2,227)	(612)	(2,839)
Net investment returns and expenditures	(768)	(81)	(849)
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 47,287</b>	<b>\$ 16,503</b>	<b>\$ 63,790</b>

The investment return on net assets with donor restrictions that was appropriated from net assets with donor restrictions to net assets without donor restrictions for operations was \$673,000 and \$612,000 for the years ended June 30, 2020 and 2019, respectively.

### ***Endowment***

The University's endowment consists of 99 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

#### *Interpretation of Relevant Law and Spending Policy*

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) signed into law in the State of Rhode Island requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University retains in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original gift value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

Distributions from long-term investments are made using the total return method. Under the total return method, distributions consist of interest, dividends, realized and unrealized gains. The Board of Trustees had established a spending rate of four and a half percent of a rolling three-year average fair value of the long-term investments. Investment income is appropriated up to this spending rate approved by the Board of Trustees. The University has adopted this spending policy in order to protect the inviolate nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future.

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Funds with deficiencies were reported in net assets with donor restrictions as follows at June 30, 2020 and 2019:

	<i>2020</i>	<i>2019</i>
	<i>(in thousands)</i>	
Fair value of underwater endowment funds	\$ 3,570	\$ 1,473
Original endowment gift amount	<u>3,730</u>	<u>1,525</u>
<b>Deficiencies of underwater endowment funds</b>	<b>\$ <u>(160)</u></b>	<b>\$ <u>(52)</u></b>



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

#### *Return Objectives and Risk Parameters*

The University's investment portfolio is managed to provide for the long-term support of the University. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed-upon levels of risk. It is the goal of the aggregate endowment fund assets to generate a long-term rate of return which would meet the annual spending rate, (between 4% and 4.5% of a rolling three-year average of the fair value of the endowment to be set annually by the investment committee) provide for inflation, and fees. The University's Investment Committee has voted to increase the draw on the unrestricted portion of the endowment to 6.5% for the upcoming fiscal year only. The purpose of this increase is to help offset additional costs relating to the COVID-19 pandemic. The expected spending draw for the year ended June 30, 2021 is approximately \$3,662,000.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the University seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

### *Note 10 - Defined Contribution Plans*

The University makes discretionary employer contributions as a percentage of the salaries of all eligible participating employees to defined contribution plans administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund and Variable Annuity Life Insurance Company. Contributions to these plans were approximately \$2,014,000 and \$1,931,000 for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the University contributed 8% of eligible salaries. Effective for the upcoming fiscal year, the University will contribute 7% of eligible salaries in an effort to offset additional costs relating to the COVID-19 pandemic

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 11 - Natural Classification of Expenses*

Expenses presented by natural classification and function are as follows for the year ended June 30, 2020 and 2019:

	2020							
	<i>Instruction</i>	<i>Research</i>	<i>Academic Support</i>	<i>Student Services</i>	<i>Auxiliary Enterprises</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Salaries and benefits	\$ 18,057	\$ 402	\$ 3,595	\$ 7,397	\$ 2,972	\$ 8,375	\$ 790	\$ 41,588
Contract services	452	-	-	137	3,455	1,724	2	5,770
Occupancy and related expenses	1,191	12	634	848	3,316	547	34	6,582
Depreciation and amortization	1,867	18	741	1,307	2,925	678	44	7,580
Interest	605	6	117	210	222	65	-	1,225
Other operating expenses	887	106	1,197	2,656	1,687	1,961	253	8,747
Other non-operating expenses	-	-	-	-	-	598	-	598
<b>Total expenses</b>	<b>\$ <u>23,059</u></b>	<b>\$ <u>544</u></b>	<b>\$ <u>6,284</u></b>	<b>\$ <u>12,555</u></b>	<b>\$ <u>14,577</u></b>	<b>\$ <u>13,948</u></b>	<b>\$ <u>1,123</u></b>	<b>\$ <u>72,090</u></b>
	2019							
	<i>Instruction</i>	<i>Research</i>	<i>Academic Support</i>	<i>Student Services</i>	<i>Auxiliary Enterprises</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Salaries and benefits	\$ 17,461	\$ 358	\$ 3,409	\$ 6,934	\$ 2,865	\$ 8,043	\$ 721	\$ 39,791
Contract services	305	-	5	534	3,832	1,508	1	6,185
Occupancy and related expenses	1,066	12	560	801	4,217	559	34	7,249
Depreciation and amortization	1,872	19	744	1,181	2,941	817	44	7,618
Interest	662	7	144	262	277	81	-	1,433
Other operating expenses	1,300	81	1,099	2,630	1,315	943	275	7,643
Other non-operating expenses	-	-	-	-	-	533	-	533
<b>Total expenses</b>	<b>\$ <u>22,666</u></b>	<b>\$ <u>477</u></b>	<b>\$ <u>5,961</u></b>	<b>\$ <u>12,342</u></b>	<b>\$ <u>15,447</u></b>	<b>\$ <u>12,484</u></b>	<b>\$ <u>1,075</u></b>	<b>\$ <u>70,452</u></b>