

Consolidated Financial Statements

Salve Regina University

June 30, 2022 and 2021



SALVE REGINA UNIVERSITY
Consolidated Financial Statements

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Independent Auditors' Report

The Board of Trustees
Salve Regina University
Newport, Rhode Island

Opinion

We have audited the consolidated financial statements of Salve Regina University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management 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 and for 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.

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



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Mayer Hoffman McCann P.C.

Providence, Rhode Island
October 20, 2022

SALVE REGINA UNIVERSITY

Consolidated Statements of Financial Position

June 30,
2022 2021
(in thousands)

Assets

Cash	\$	3,778	\$	2,017
Short-term investments		19,864		17,810
Student and other accounts receivable - less allowance for doubtful student accounts of \$2,575 and \$2,530 in 2022 and 2021, respectively		1,462		1,108
Loans and notes receivable - less allowance for doubtful accounts of \$555 and \$564 in 2022 and 2021, respectively		1,452		1,561
Pledges receivable - less allowance for doubtful accounts of \$1,581 and \$1,069 in 2022 and 2021, respectively		10,862		1,519
Investments		87,406		91,283
Other assets		2,471		7,584
Land, buildings and equipment, net		90,100		93,135
Total assets	\$	217,395	\$	216,017

Liabilities and Net Assets

Liabilities:

Accounts payable	\$	2,281	\$	2,293
Accrued liabilities		7,137		6,571
Deposits and deferred revenue		6,213		6,622
Obligations under capital lease		310		621
Long-term debt, net		33,815		35,881
Refundable advances from government for student loans		940		1,130
Total liabilities		50,696		53,118

Net assets:

Without donor restrictions		127,165		131,500
With donor restrictions		39,534		31,399
Total net assets		166,699		162,899

Total liabilities and net assets	\$	217,395	\$	216,017
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SALVE REGINA UNIVERSITY

Consolidated Statement of Activities

Year Ended June 30, 2022
(with comparative totals for 2021)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total 2022</i>	<i>Total 2021</i>
	<i>(in thousands)</i>			
Operating revenues and other support:				
Tuition and fees (net of discount of \$46,599 and \$44,576 in 2022 and 2021, respectively)	\$ 50,608	\$ -	\$ 50,608	\$ 51,137
Room and board	18,458	-	18,458	16,276
Net tuition, fees, room and board	69,066	-	69,066	67,413
Gifts, grants and contracts	920	564	1,484	1,729
Federal and state government grants	4,444	-	4,444	3,341
Investment income appropriated	2,900	133	3,033	2,795
Unrestricted investment income	136	-	136	152
Other support	338	-	338	357
Auxiliary enterprises	1,217	-	1,217	889
Net assets released from restrictions	1,236	(1,236)	-	-
Total operating revenues and other support	80,257	(539)	79,718	76,676
Operating expenses:				
Program:				
Instruction	24,218	-	24,218	23,385
Research	805	-	805	643
Academic support	6,359	-	6,359	6,396
Student services	14,253	-	14,253	12,299
Auxiliary enterprises	15,605	-	15,605	15,814
Total program expenses	61,240	-	61,240	58,537
Management, general, and fundraising	18,047	-	18,047	15,592
Total operating expenses	79,287	-	79,287	74,129
Change in net assets from operations	970	(539)	431	2,547
Non-operating income (expense):				
Gifts and grants	470	12,238	12,708	1,327
Federal government grants	1,862	-	1,862	1,550
Return (loss) on investments	(4,363)	(2,633)	(6,996)	23,272
Investment return appropriated to operations	(2,900)	(133)	(3,033)	(2,795)
Effect of voluntary retirement	(1,102)	-	(1,102)	-
Other income	385	-	385	146
Change in value of split interest and other agreements	437	(54)	383	(334)
Other net assets released from restrictions	235	(235)	-	-
Expenses	(329)	(509)	(838)	(334)
Non-operating income (expense), net	(5,305)	8,674	3,369	22,832
Change in net assets	(4,335)	8,135	3,800	25,379
Net assets at beginning of year	131,500	31,399	162,899	137,520
Net assets at end of year	\$ 127,165	\$ 39,534	\$ 166,699	\$ 162,899

See accompanying notes to the consolidated financial statements.

SALVE REGINA UNIVERSITY
Consolidated Statement of Activities

Year Ended June 30, 2021

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions (in thousands)</i>	<i>Total 2021</i>
Operating revenues and other support:			
Tuition and fees (less discount of \$44,576)	\$ 51,137	\$ -	\$ 51,137
Room and board	<u>16,276</u>	<u>-</u>	<u>16,276</u>
Net tuition, fees, room and board	67,413	-	67,413
Gifts, grants and contracts	1,186	543	1,729
Federal and state government grants	3,341	-	3,341
Investment income appropriated	2,709	86	2,795
Unrestricted investment income	152	-	152
Other support	357	-	357
Auxiliary enterprises	889	-	889
Net assets released from restrictions	<u>877</u>	<u>(877)</u>	<u>-</u>
Total operating revenues and other support	<u>76,924</u>	<u>(248)</u>	<u>76,676</u>
Operating expenses:			
Program:			
Instruction	23,385	-	23,385
Research	643	-	643
Academic support	6,396	-	6,396
Student services	12,299	-	12,299
Auxiliary enterprises	<u>15,814</u>	<u>-</u>	<u>15,814</u>
Total program expenses	58,537	-	58,537
Management, general, and fundraising	<u>15,592</u>	<u>-</u>	<u>15,592</u>
Total operating expenses	<u>74,129</u>	<u>-</u>	<u>74,129</u>
Change in net assets from operations	<u>2,795</u>	<u>(248)</u>	<u>2,547</u>
Non-operating income (expense):			
Gifts and grants	82	1,245	1,327
Federal government grants	1,550	-	1,550
Return on investments	18,910	4,362	23,272
Investment return appropriated to operations	(2,709)	(86)	(2,795)
Other income	146	-	146
Change in value of split interest and other agreements	151	(485)	(334)
Other net assets released from restrictions	189	(189)	-
Expenses	<u>(146)</u>	<u>(188)</u>	<u>(334)</u>
Non-operating income, net	<u>18,173</u>	<u>4,659</u>	<u>22,832</u>
Change in net assets	20,968	4,411	25,379
Net assets at beginning of year	<u>110,532</u>	<u>26,988</u>	<u>137,520</u>
Net assets at end of year	<u>\$ 131,500</u>	<u>\$ 31,399</u>	<u>\$ 162,899</u>

See accompanying notes to the consolidated financial statements.

SALVE REGINA UNIVERSITY

Consolidated Statements of Cash Flows

Years Ended June 30,
2022 2021
(in thousands)

Cash flows from operating activities:

Change in net assets	\$ 3,800	\$ 25,379
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,386	7,492
Change in reserve on receivables	548	(14)
Change in pledge discounts	1,372	(85)
Net realized and unrealized investment (gains) losses	7,246	(23,260)
(Gain) loss on sale of equipment	(7)	10
Contributions restricted for long-term investments	(596)	(711)
Changes in operating assets and liabilities:		
Pledges receivable	(11,227)	1,203
Accounts receivable	(399)	104
Other assets	5,113	(238)
Accounts payable, accrued liabilities, deposits and deferred revenue	476	(844)
	<u>13,712</u>	<u>9,036</u>

Net cash provided by operating activities

Cash flows from investing activities:

Purchase and construction of land, buildings and equipment	(4,638)	(3,326)
Purchases of investments	(45,783)	(49,397)
Proceeds from sales of investments	40,360	45,584
Proceeds from sale of equipment	14	159
Student loans issued	(220)	(302)
Proceeds from student loans	338	447
	<u>(9,929)</u>	<u>(6,835)</u>

Net cash used in investing activities

Cash flows from financing activities:

Proceeds from contributions restricted for long-term investments	596	711
Repayment of long-term debt and capital leases	(2,428)	(2,341)
Change in government advances for student loans	(190)	(582)
	<u>(2,022)</u>	<u>(2,212)</u>

Net cash used in financing activities

Increase (decrease) in cash

Cash, beginning	2,017	2,028
Cash, ending	<u><u>\$ 3,778</u></u>	<u><u>\$ 2,017</u></u>

Supplemental disclosures:

Cash paid during the year for interest	\$ 1,002	\$ 1,059
Land, buildings and equipment purchases included in accounts payable	\$ 297	\$ 628
Deferred rental revenue	\$ -	\$ 1,500

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. The University was founded by and continues to be sponsored by the Sisters of Mercy. The University enrolls approximately 2,700 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 consolidated financial statements follows:

Financial Statement Presentation

The accompanying consolidated 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 \$2,032,000 and \$1,791,000 at June 30, 2022 and 2021, 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 on dates outlined in the academic catalog as agreed to in advance of the delivery of 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 at 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. Gross student accounts receivable were \$3,316 and \$3,149 at June 30, 2022 and 2021, respectively.

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 Loan Program ("Perkins") and the Nursing Student Loans Program ("Nursing"). When loans are collected they are held in a fund to be loaned to future students or returned to the DOE when otherwise required. Funds advanced by the DOE are reflected as a liability as they are subject to return. Reserves are provided based on management's assessment of credit risk and payment status of the loans, but reserve requirements are mitigated by the ability to assign defaulted loans back to the DOE. Management has omitted detailed disclosures given the limited amounts involved.

Pledges Receivable

Unconditional promises to give are recorded at fair value when initially pledged based on expected cash flows using level 2 fair value methods. For pledges expected to be collected in one year or more a risk adjusted present value factor is applied to the inherent risk associated with the expected future cash flows. Amortization of the discount is included in gift and grant revenue. Management periodically 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

Investments (Continued)

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.

Investments also include non-operating investments in real estate.

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 an LLC.

Beneficial Interest in Remainder Trust

The University records its beneficial interest in remainder trusts at fair value. These instruments include the periodic evaluation of fair value which includes consideration of the present value of the aggregate liability to the beneficiaries based upon their life expectancy which is periodically updated as well as the use of a discount rate over the life of the trust.

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 \$510,000 and \$491,000 and accrued liabilities of \$287,000 and \$264,000 related to beneficial interests in remainder trusts at June 30, 2022 and 2021, respectively.

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. During 2022, the interest in real estate was sold and proceeds of \$1,460,000 were received. As a result of the sale, the proceeds will be used for strategic initiatives. The University has recorded other assets of \$0 and \$1,650,000 and accrued liabilities of \$0 and \$737,000 related to life interests in real estate at June 30, 2022 and 2021, respectively.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

Other Assets (Continued)

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 asset was sold and the proceeds were received by the University in July 2021 totaling \$3,700,000. The proceeds reimbursed \$770,000 in past property maintenance expenses incurred and the balance of \$2,930,000 was added to the endowment in accordance with the initial gift. The fair value of this asset was \$3,700,000 at June 30, 2021.

Land, Buildings and Equipment

Land, buildings and equipment with a useful life greater than one year that exceed a management established capitalization threshold are recorded at cost or fair value at date of donation in the case of gift assets. donated fixed assets are recorded using Level 2 or Level 3 fair value approaches. 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 incurred claims associated with the University's self-insured benefits for its employees. In connection with the program, management utilizes a has a stop loss insurance policy to manage its risk and exposure to larger and catastrophic claims. Also included in accrued liabilities are accrued payroll, vacation, and sick pay.

During 2022, the University offered certain employees a voluntary early retirement program, whereby they will be paid their salary based on a years of service formula, paid over the nine month period following their enrollment in the program. The University recorded a non-operating expense and accrued expense of \$1,100,000 related to this program as of and for the year ended June 30, 2022.

Deposits and Deferred Revenue

Deposits and deferred revenue relate to reservation deposits for future enrollment, unearned revenue associated with in process programs and upcoming events at year end, a vendor advance and the amount of unearned revenue under a rental agreement associated with certain property rented to a third party. Approximately \$4,000,000 of these amounts were recognized as revenues during the following fiscal period. The remaining performance obligation is time driven given the academic calendar that underlies the earnings process for tuition, fees and auxiliary revenue or date driven in the event of events. There were no significant changes deferred revenue amounts on a quantitative or qualitative basis.

See Note 8 for amounts associated with a lease agreement.

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 adjustments 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 provisions 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 and its determinations as to income being related or unrelated as its only significant tax positions; however, the University has determined that such tax positions do 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 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 University'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 consolidated 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.

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. The University also considers gains and losses on disposal of equipment, change in split interest agreements, and other income earned as non-operating. Non-operating expenses includes bad debt expense and expenditures related to non-operating grant activities and the one time early retirement program.

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 of its 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.

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)

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.

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

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.

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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

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.

Advertising

Advertising and marketing costs are expensed as incurred and amounted to approximately \$845,000 and \$857,000 for the years ended June 30, 2022 and 2021, 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

Fair Value Measurements (Continued)

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.

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.

Subsequent Events

The University has evaluated subsequent events through October 20, 2022, the date the consolidated financial statements were issued.

Pending Accounting Standards

Certain accounting standards are pending adoption including standards for lease accounting among others. The University is evaluating the effect this update will have on its future financial statements and related disclosures.

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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 2 - Liquidity and Availability (Continued)

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 consolidated 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, 2022 and 2021.

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.

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:

	2022	2021
	<i>(in thousands)</i>	
Financial assets at year end:		
Cash	\$ 3,778	\$ 2,017
Short-term investments	19,864	17,810
Accounts receivable, students, net	741	619
Accounts receivable, other	721	489
Loans and notes receivable, net	1,452	1,561
Pledges receivable, net	10,862	1,519
Investments	87,406	91,283
Other assets	<u>1,448</u>	<u>1,272</u>
Total financial assets at year end	\$ <u>126,272</u>	\$ <u>116,570</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 2 - Liquidity and Availability (Continued)

	2022	2021
	<i>(in thousands)</i>	
Financial assets available to meet general expenditures over the next 12 months:		
Cash	\$ 3,778	\$ 2,017
Short-term investments	19,717	17,597
Student and other accounts receivable, net	1,462	1,108
Other assets	-	7
Pledges receivable for general expenditure due in one year or less, net (Note 3)	2,493	907
Endowment spending rate distribution and appropriations	3,307	3,011
Total financial assets available to meet general expenditures over the next 12 months	\$ 30,757	\$ 24,647

In addition, the University has available approximately \$54,569,000 of board designated funds which are eligible to be spent on operations, if needed, upon approval by the Board of Trustees of the University.

Note 3 - Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2022	2021
	<i>(in thousands)</i>	
Amounts due in:		
Less than one year	\$ 2,686	\$ 958
One to five years	9,117	718
Greater than 5 years	2,077	977
Total due	13,880	2,653
Less:		
Unamortized discount	(1,437)	(65)
Allowance for doubtful accounts	(1,581)	(1,069)
Pledges receivable, net	\$ 10,862	\$ 1,519

Discount rates used to present value the estimated cash flows from pledges ranged from 4.60% to 6.03% for the year ended June 30, 2022 and 3.16% to 5.75% for the year ended June 30, 2021

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements

The following tables summarize the University's recurring fair value measurements at June 30, 2022 and 2021:

2022	<i>Total</i>	<i>Investments Measured at NAV (in thousands)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Short-term investments:					
Money market funds	\$ 14,605	\$ -	\$ 14,605	\$ -	\$ -
Fixed income	5,198	-	5,198	-	-
Certificates of deposits	61	-	-	61	-
Total short-term investments	<u>19,864</u>	<u>-</u>	<u>19,803</u>	<u>61</u>	<u>-</u>
Long-term investments:					
Equity funds:					
Domestic	23,781	4,937	18,844	-	-
Developed	9,174	4,936	4,238	-	-
Emerging	3,247	-	3,247	-	-
Fixed income	9,428	-	9,428	-	-
Multi strategy hedge	15,275	15,275	-	-	-
Other:					
REIT	3,258	3,258	-	-	-
Real estate	9,650	-	-	-	9,650
Private equity	13,593	13,593	-	-	-
Total long-term investments	<u>87,406</u>	<u>41,999</u>	<u>35,757</u>	<u>-</u>	<u>9,650</u>
Total investments	<u>107,270</u>	<u>41,999</u>	<u>55,560</u>	<u>61</u>	<u>9,650</u>
Other assets:					
Assets held under split-interest agreements	510	-	510	-	-
Total	<u>\$ 107,780</u>	<u>\$ 41,999</u>	<u>\$ 56,070</u>	<u>\$ 61</u>	<u>\$ 9,650</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

	<i>Total</i>	<i>Investments Measured at NAV (in thousands)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
2021					
Short-term investments:					
Money market funds	\$ 6,836	\$ -	\$ 6,836	\$ -	\$ -
Fixed income	10,898	-	10,898	-	-
Certificates of deposits	76	-	-	76	-
Total short-term investments	<u>17,810</u>	<u>-</u>	<u>17,734</u>	<u>76</u>	<u>-</u>
Long-term investments:					
Equity funds:					
Domestic	26,495	5,828	20,667	-	-
Developed	13,673	11,412	2,261	-	-
Emerging	3,592	-	3,592	-	-
Fixed income	10,647	-	10,647	-	-
Multi strategy hedge	15,712	15,712	-	-	-
Other:					
REIT	3,835	3,835	-	-	-
Real estate	9,650	-	-	-	9,650
Private equity	7,679	7,679	-	-	-
Total long-term investments	<u>91,283</u>	<u>44,466</u>	<u>37,167</u>	<u>-</u>	<u>9,650</u>
Total investments	<u>109,093</u>	<u>44,466</u>	<u>54,901</u>	<u>76</u>	<u>9,650</u>
Other assets:					
Assets held under split-interest agreements	2,141	-	491	1,650	-
Interest in real estate LLC	3,700	-	-	3,700	-
Total	<u>\$ 114,934</u>	<u>\$ 44,466</u>	<u>\$ 55,392</u>	<u>\$ 5,426</u>	<u>\$ 9,650</u>

Redemption/liquidity of investments are as follows at June 30, 2022:

	<i>(in thousands)</i>
Daily	\$ 61,546
Monthly	7,655
Quarterly to annually	14,826
Illiquid	<u>23,243</u>
Total long-term and short-term investments	<u>\$ 107,270</u>

Management has no intention or plans to liquidate any NAV practical expedient investment at other than NAV per share. At June 30, 2022, the University had unfunded commitments of \$10,747,000.

During 2021, the University acquired non-operating real estate that is being measured on a recurring basis using Level 3 inputs with the change in value being reported as a component of unrealized gains. The significant Level 3 inputs were: a sales comparison approach that considered active markets for

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

similar properties, prices of alternative properties having similar utility and the contributory value of residential dwellings; and a cost approach using estimates of land value and replacement cost of the improvements and accrued depreciation. An income valuation approach was not utilized because there is not an active rental market for similar properties that would result in a reliable estimate of the property's income generating potential, this approach does not reflect the primary analysis undertaken by a typical purchaser, and similar properties are typically owner-occupied. There were no purchase, sales, or transfers of Level 3 assets during the year ended June 30, 2022.

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

	2022	2021
	<i>(in thousands)</i>	
Investments and short-term investments, beginning of year	\$ <u>109,093</u>	\$ <u>80,521</u>
Gifts and additions:		
Endowment gifts	3,642	621
Endowment additions from operations	2,000	2,001
Operational additions	3,740	2,296
Non-operational additions	-	4,971
Total gifts and additions	<u>9,382</u>	<u>9,889</u>
Investment returns:		
Interest and dividends	1,049	765
Net realized and unrealized gains (losses)	<u>(7,910)</u>	<u>22,656</u>
Total investment returns (losses)	<u>(6,861)</u>	<u>23,421</u>
Expenditures:		
Amounts appropriated under endowment spending policy:		
Scholarships	(603)	(521)
Operations	<u>(2,430)</u>	<u>(2,274)</u>
Total amounts appropriated under endowment spending policy	<u>(3,033)</u>	<u>(2,795)</u>
Other expenditures:		
Capital projects	-	(804)
Scholarships	(15)	-
Operations	<u>(1,296)</u>	<u>(1,139)</u>
Total other expenditures	<u>(1,311)</u>	<u>(1,943)</u>
Net investment (loss) returns and expenditures	<u>(11,205)</u>	<u>18,683</u>
Investments and short-term investments, end of year	\$ <u>107,270</u>	\$ <u>109,093</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

Investment management fees were \$664,000 and \$604,000 for the years ended June 30, 2022 and 2021, 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.

Note 5 - Other Assets

Other assets consisted of the following at June 30:

	2022	2021
	<i>(in thousands)</i>	
Interest in real estate LLC	\$ -	\$ 3,700
Life interest in real estate	-	1,650
Beneficial interest in remainder trust	510	491
Prepaid expenses	431	407
Other	1,530	1,336
Other assets	\$ 2,471	\$ 7,584

Note 6 - Land, Buildings and Equipment

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

	2022	2021
	<i>(in thousands)</i>	
Land and improvements	\$ 7,977	\$ 7,921
Buildings and improvements	170,252	167,813
Equipment and computer software	42,185	40,958
Equipment under capital lease	932	932
Construction in progress	1,777	1,720
	223,123	219,344
Less: accumulated depreciation	(133,023)	(126,209)
Land, buildings and equipment, net	\$ 90,100	\$ 93,135

Depreciation and amortization expense was \$7,335,000 and \$7,441,000 for the years ended June 30, 2022 and 2021, respectively. Construction in progress relates 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 6 - Land, Buildings and Equipment (Continued)

The University disposed of \$528,000 of equipment at a gain of \$7,000 for the year ended June 30, 2022 and \$1,119,000 of equipment at a loss of \$10,000 for the year ended June 30, 2021.

Note 7 - Debt

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

	2022	2021
	<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.	\$ 12,245	\$ 13,555
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2015, comprised of three bonds with one amortizing over 30 years (\$16,863 at June 30, 2022) 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 (\$2,298 at June 30, 2022) with variable interest rate of an adjusted 30-day LIBOR rate (2.07% at June 30, 2022) and one over 30 years (\$3,103 at June 30, 2022) with variable interest rate of an adjusted 30-day LIBOR rate (2.07% at June 30, 2022); 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>22,264</u>	<u>23,071</u>
Long-term debt	34,509	36,626
Less unamortized bond issuance costs	<u>694</u>	<u>745</u>
Long-term debt, net	\$ <u><u>33,815</u></u>	\$ <u><u>35,881</u></u>

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, 2022 are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2023	\$ 2,183
2024	2,259
2025	2,359
2026	2,422
2027	2,516
Thereafter	<u>22,770</u>
	<u><u>\$ 34,509</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 \$694,000 and \$745,000 are net of accumulated amortization of \$471,000 and \$420,000 at June 30, 2022 and 2021, respectively. Amortization expense amounted to \$51,000 and \$52,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, there were no amounts outstanding under this agreement.

Note 8 - Commitments

Operating Leases

The University leases dormitory, athletic facilities, and administrative space under operating leases expiring at various dates through 2032. 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>
2023	\$ 480
2024	456
2025	428
2026	429
2027	429
Thereafter	<u>1,590</u>
Total lease payments	<u><u>\$ 3,812</u></u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 8 - Commitments (Continued)

Operating Leases (Continued)

Rental expense was approximately \$447,000 and \$615,000 for the years ended June 30, 2022 and 2021, 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 \$311,000 per year through fiscal 2023. Assets under capital lease are \$932,000 with a net book value of \$466,000 at June 30, 2022.

Lessor Agreement

The University leases its non-operating real estate investment to a private independent non-higher educational institution. The lease calls for annual payments of \$50,000 per year for a total of \$500,000 over the initial term which expires in June 2031. There is one five year renewal option with fair market rent, not to exceed \$130,000 per year. The University has recorded deferred rental revenue of \$1,350,000 and \$1,500,000 as of June 30, 2022 and 2021, respectively, that represents the estimate of below market rental income. The deferred rental revenue was determined by applying the University's historical endowment return to the cost of the real estate over a ten year period and comparing that to the rental revenue over a ten year period. The resulting difference is management's estimate of the below market rent over that period. The University opted for an opportunity cost of investment method due to the lack of realistic market comparisons due to the unique nature of the property and its present use. This liability is included in deposits and deferred revenue on the consolidated statement of financial position and is amortized to other income on a straight-line basis over a period of ten years.

Long-Term Contracts

The University has long-term contracts with outside service vendors for their food and custodial services through August 31, 2028 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 2022, total expenses for food services and custodial services amounted to approximately \$3,776,000 and \$1,231,000, respectively. During 2021, total expenses for food services and custodial services amounted to approximately \$3,143,000 and \$1,117,000, respectively.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 8 - Commitments (Continued)

Long-Term Contracts (Continued)

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 commence.

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.

Self Insurance Program

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 over twenty other educational institutions. 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 \$170,000 per participant in a calendar year. In addition, there is a general aggregate stop loss of \$125,000. An accrual of \$324,000 and \$351,000 was recorded for benefit claims incurred but not reported at June 30, 2022 and 2021, respectively.

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:

	2022		2021
	(in thousands)		
Operating	\$ 16,935	\$	15,961
Net investment in plant	55,661		55,985
Board-designated funds operating as endowment	<u>54,569</u>		<u>59,554</u>
Net assets without donor restrictions	\$ <u>127,165</u>	\$	<u>131,500</u>

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:

	2022	2021
	<i>(in thousands)</i>	
Purpose restricted gifts:		
Capital improvements	\$ 3,215	\$ 1,453
Instructional, including pledges receivable	5,091	1,164
Financial aid, including pledges receivable	1,267	1,126
Other	6,918	2,412
	<u>16,491</u>	<u>6,155</u>
Accumulated unspent gains:		
Financial aid	3,437	5,262
Instructional	658	1,502
Other	134	208
	<u>4,229</u>	<u>6,972</u>
Endowment corpus:		
Financial aid	11,168	10,580
Instructional	7,011	4,076
Other	453	453
	<u>18,632</u>	<u>15,109</u>
Total endowment	<u>22,861</u>	<u>22,081</u>
Interest in real estate LLC restricted for perpetual endowment	-	2,936
Interest in remainder trust restricted for perpetual endowment	182	227
	<u>182</u>	<u>3,163</u>
Net assets with donor restrictions	<u>\$ 39,534</u>	<u>\$ 31,399</u>

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:

	2022	2021
	<i>(in thousands)</i>	
Capital improvements	\$ 44	\$ -
Instructional	396	261
Financial aid	470	421
Other	561	384
	<u>1,471</u>	<u>1,066</u>
Net assets released from restrictions	<u>\$ 1,471</u>	<u>\$ 1,066</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

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

	2022		Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	
Endowment assets and those functioning as endowment assets, beginning of year	\$ 59,554	\$ 22,079	\$ 81,633
Gifts	82	3,528	3,610
Additions from operations	2,000	-	2,000
Total gifts and additions	2,082	3,528	5,610
Investment return			
Interest and dividends	641	266	907
Net realized and unrealized losses	(5,454)	(2,233)	(7,687)
Total investment losses	(4,813)	(1,967)	(6,780)
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(31)	(572)	(603)
Operations	(2,223)	(207)	(2,430)
Total amounts appropriated under endowment spending policy	(2,254)	(779)	(3,033)
Net investment losses and expenditures	(7,067)	(2,746)	(9,813)
Endowment assets and those functioning as endowment assets, end of year	\$ 54,569	\$ 22,861	\$ 77,430

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

	2021		
	<i>(in thousands)</i>		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets and those functioning as endowment assets, beginning of year	\$ 46,035	\$ 17,178	\$ 63,213
Gifts	-	631	631
Additions from operations	2,001	-	2,001
Total gifts and additions	2,001	631	2,632
Investment return			
Interest and dividends	443	163	606
Net realized and unrealized gains	13,180	4,797	17,977
Total investment gains	13,623	4,960	18,583
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(30)	(490)	(520)
Operations	(2,075)	(200)	(2,275)
Total amounts appropriated under endowment spending policy	(2,105)	(690)	(2,795)
Net investment losses and expenditures	11,518	4,270	15,788
Endowment assets and those functioning as endowment assets, end of year	\$ 59,554	\$ 22,079	\$ 81,633

Endowment

The University's endowment consists of 106 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 tracking of value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As such the University track 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. Endowment accounts 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

Based on the above 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 for both 2022 and 2021. The University has adopted this spending policy in an effort to balance current needs along with preserving 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, 2022 and 2021:

	2022	2021
	<i>(in thousands)</i>	
Fair value of underwater endowment funds	\$ 4,392	\$ 101
Original endowment gift amount	<u>4,637</u>	<u>108</u>
Deficiencies of underwater endowment funds	<u><u>\$ (245)</u></u>	<u><u>\$ (7)</u></u>

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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, provide for inflation, and fees. The expected spending draw for the year ending June 30, 2023 is approximately \$3,307,000.

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 has a qualified defined contribution plan for eligible employees. Under the plan the University makes discretionary contributions as a percentage of the salaries of all eligible participating employees with that percentage having been 8% in 2022 and 2021. Expenses under this plan was approximately \$2,144,000 and \$2,042,000 for the years ended June 30, 2022 and 2021, respectively.

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Notes to Consolidated Financial Statements

Note 11 - Natural Classification of Expenses

Expenses presented by natural classification and function are as follows for the years ended June 30, 2022 and 2021:

	2022							
	(in thousands)							
	Instruction	Research	Academic Support	Student Services	Auxiliary Enterprises	Management and General	Fundraising	Total
Salaries and benefits	\$ 19,458	\$ 559	\$ 3,865	\$ 8,275	\$ 2,815	\$ 10,048	\$ 1,490	\$ 46,510
Contract services	428	3	6	199	4,322	2,735	64	7,757
Occupancy and related expenses	906	26	363	480	4,426	400	40	6,641
Depreciation and amortization	1,813	34	732	1,391	2,774	599	43	7,386
Interest	505	10	92	166	175	52	-	1,000
Other operating expenses	1,108	173	1,301	3,742	1,093	2,306	270	9,993
Other non-operating expenses	-	-	-	-	-	1,940	-	1,940
Total expenses	\$ 24,218	\$ 805	\$ 6,359	\$ 14,253	\$ 15,605	\$ 18,080	\$ 1,907	\$ 81,227

	2021							
	(in thousands)							
	Instruction	Research	Academic Support	Student Services	Auxiliary Enterprises	Management and General	Fundraising	Total
Salaries and benefits	\$ 18,559	\$ 368	\$ 3,633	\$ 7,367	\$ 2,592	\$ 8,668	\$ 929	\$ 42,116
Contract services	372	-	58	139	3,484	2,179	174	6,406
Occupancy and related expenses	1,249	11	660	895	5,501	606	36	8,958
Depreciation and amortization	1,786	18	703	1,278	2,775	890	42	7,492
Interest	519	6	101	183	193	56	-	1,058
Other operating expenses	900	240	1,241	2,437	1,269	1,920	92	8,099
Other non-operating expenses	-	-	-	-	-	334	-	334
Total expenses	\$ 23,385	\$ 643	\$ 6,396	\$ 12,299	\$ 15,814	\$ 14,653	\$ 1,273	\$ 74,463

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 12 - COVID-19

Given the impact of COVID-19, the University was eligible for certain funding in 2022 and 2021. These programs provided substantial support as follows:

Higher Education Emergency Relief Funds

The University was granted three awards to assist students and the institution with the impact of COVID-19 which totaled \$8,333,000. The University recorded grant revenue of \$4,210,000 and \$3,291,000 for the years ended June 30, 2022 and 2021, respectively with the difference having been earned prior to 2021. Of this grant revenue, amounts provided directly to students was \$2,111,000 and \$884,000 for the years ended June 30, 2022 and 2021, respectively. Management recorded \$1,244,000 and \$1,550,000 of this revenue in 2022 and 2021, respectively as non-operating revenue because the funds were used to offset room and board credits that had been recorded in 2020 as permitted under this program. Awarded funds were completely expended at June 30, 2022.

Employee Retention Tax Credits and Deferral of Employer Tax Payments

The University determined is was eligible for the so called employee retention tax credit program. The University recorded grant revenue associated with this program in the amount of \$488,000 for the year ended June 30, 2021. No grant revenue was earned during 2022 under this program.

As permitted by the CARES Act, the University has also elected to defer payment of the employer share of social security taxes due between March 27, 2020 and June 30, 2021 by paying half only by December 31, 2021 and the other half by December 31, 2022. The University has deferred payment of \$503,000 and \$922,000 of such taxes at June 30, 2022 and 2021, respectively.

Federal Emergency Management Agency Grant

The University recorded grant revenue of approximately \$752,000 for the year ended June 30, 2022. The University applied for a grant in 2022 in the amount of approximately \$752,000 for various COVID related costs for 2021 and 2022, including testing, cleaning, and other allowable costs which was approved in fiscal year 2022.