

# **Rhode Island School of Design**

**Consolidated Financial Statements**

**June 30, 2021 and 2020**

**Rhode Island School of Design**  
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**June 30, 2021 and 2020**

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## Independent Auditors' Report

To the Board of Trustees of  
Rhode Island School of Design

We have audited the accompanying consolidated financial statements of Rhode Island School of Design and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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 Consolidated 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 auditor's 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 financial position of Rhode Island School of Design and its subsidiaries as of June 30, 2021 and 2020, 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.

*Baker Tilly US, LLP*

New York, NY  
October 6, 2021

**Rhode Island School of Design**  
**Consolidated Statements of Financial Position**  
**June 30, 2021 and 2020**  
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 34,648	\$ 35,500
Accounts receivable, net (Note 6)	2,436	3,464
Student loans receivable, net (Note 7)	227	1,785
Pledges receivable, net (Note 8)	6,749	4,746
Funds held in trust by others (Note 2)	4,262	20,779
Inventories	1,374	1,676
Prepaid expenses	1,219	2,333
Other investments (Note 2)	660	723
Long-term investments (Note 2)	435,498	342,499
Right of use assets - operating (Note 13)	3,606	-
Property, plant and equipment, net (Note 9)	278,421	272,784
Total assets	<u>\$ 769,100</u>	<u>\$ 686,289</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 12,588	\$ 14,516
Deferred income (Note 11)	4,349	5,523
Obligations under long-term agreements (Note 12)	9,854	10,182
Lease liability (Note 13)	3,756	-
U.S. Government loan funds (Note 7)	243	1,226
Liability for interest rate swaps (Notes 2, 14)	4,656	6,771
Bonds payable, net (Note 14)	195,425	199,377
Total liabilities	<u>230,871</u>	<u>237,595</u>
<b>Net Assets</b>		
Net assets without donor restrictions (Notes 15, 16)	354,631	307,516
Net assets with donor restrictions (Notes 15, 16)	183,598	141,178
Total net assets	<u>538,229</u>	<u>448,694</u>
Total liabilities and net assets	<u>\$ 769,100</u>	<u>\$ 686,289</u>

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

**Rhode Island School of Design**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2021**  
**(With Summarized Financial Information for the Year Ended June 30, 2020)**  
(Dollars in thousands)

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2021 Total</b>	<b>2020 Total</b>
<b>Operating revenues</b>				
Net tuition and fees	\$ 93,954	\$ -	\$ 93,954	\$ 107,741
Gifts and pledges	2,920	12,199	15,119	6,460
Grants	294	5,817	6,111	3,887
Auxiliary enterprises	15,647	-	15,647	21,263
Museum services	558	-	558	817
Investment income	12,509	4,650	17,159	17,781
Other income	3,585	-	3,585	4,913
Net assets released from restrictions	11,685	(11,685)	-	-
Total revenues	<u>141,152</u>	<u>10,981</u>	<u>152,133</u>	<u>162,862</u>
<b>Operating expenses</b>				
Salaries and wages	73,037	-	73,037	81,041
Benefits	15,028	-	15,028	21,344
Contracted services	20,311	-	20,311	13,788
Depreciation, amortization and interest	19,614	-	19,614	18,846
Utilities, plant and equipment	17,494	-	17,494	14,301
Supplies and general	5,027	-	5,027	7,550
Other operating expenses	2,876	-	2,876	2,942
Total expenses	<u>153,387</u>	<u>-</u>	<u>153,387</u>	<u>159,812</u>
Change in net assets from operating activities	(12,235)	10,981	(1,254)	3,050
<b>Nonoperating</b>				
Realized and unrealized gains (losses) on interest rate swaps, net	782	-	782	(3,522)
Realized and unrealized gains (losses) on investments, net	58,568	23,675	82,243	(8,871)
Gifts and pledges	-	7,764	7,764	4,980
Change in net assets from nonoperating activities	<u>59,350</u>	<u>31,439</u>	<u>90,789</u>	<u>(7,413)</u>
Change in net assets	47,115	42,420	89,535	(4,363)
<b>Total net assets</b>				
Beginning of year	307,516	141,178	448,694	453,057
End of year	<u>\$ 354,631</u>	<u>\$ 183,598</u>	<u>\$ 538,229</u>	<u>\$ 448,694</u>

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

**Rhode Island School of Design**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2020**  
(Dollars in thousands)

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>
<b>Operating revenues</b>			
Net tuition and fees	\$ 107,741	\$ -	\$ 107,741
Gifts and pledges	3,182	3,278	6,460
Grants	280	3,607	3,887
Auxiliary enterprises	21,263	-	21,263
Museum services	817	-	817
Investment income	13,442	4,339	17,781
Other income	4,913	-	4,913
Net assets released from restrictions	16,576	(16,576)	-
Total revenues	<u>168,214</u>	<u>(5,352)</u>	<u>162,862</u>
<b>Operating expenses</b>			
Salaries and wages	81,041	-	81,041
Benefits	21,344	-	21,344
Contracted services	13,788	-	13,788
Depreciation, amortization and interest	18,846	-	18,846
Utilities, plant and equipment	14,301	-	14,301
Supplies and general	7,550	-	7,550
Other operating expenses	2,942	-	2,942
Total expenses	<u>159,812</u>	<u>-</u>	<u>159,812</u>
Change in net assets from operating activities	8,402	(5,352)	3,050
<b>Nonoperating</b>			
Realized and unrealized loss on interest rate swaps, net	(3,522)	-	(3,522)
Realized and unrealized loss on investments, net	(7,084)	(1,787)	(8,871)
Gifts and pledges	-	4,980	4,980
Change in net assets from nonoperating activities	<u>(10,606)</u>	<u>3,193</u>	<u>(7,413)</u>
Change in net assets	(2,204)	(2,159)	(4,363)
<b>Total net assets</b>			
Beginning of year	309,720	143,337	453,057
End of year	<u>\$ 307,516</u>	<u>\$ 141,178</u>	<u>\$ 448,694</u>

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

**Rhode Island School of Design**  
**Consolidated Statements of Cash Flows**  
**Year Ended June 30, 2021 and 2020**  
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 89,535	\$ (4,363)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(99,253)	(5,368)
Net realized and unrealized (gains) losses on interest rate swaps	(2,115)	2,589
Change in perpetual trust	(210)	140
Depreciation and amortization	14,718	12,578
Contributions restricted for long-term purposes	(11,830)	(4,980)
Change in obligations under long-term agreements	231	74
Non-cash change in right of use assets and lease liability - operating	2,379	-
Student loans assigned, net	645	-
Net loss on bond refunding	493	-
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	1,028	(730)
Pledges receivable	(2,455)	(55)
Other current assets	1,416	(1,068)
Accounts payable and accrued liabilities	(123)	3,617
Deferred income	(1,174)	(1,578)
Lease liability payments	(2,229)	-
Net cash (used in) provided by operating activities	<u>(8,944)</u>	<u>856</u>
<b>Cash flows from investing activities</b>		
Purchases of buildings and equipment	(21,900)	(41,399)
Bond project fund held in trust	17,524	10,977
Student loans repaid	125	411
Purchases of investments	(28,124)	(51,859)
Sales of investments	34,507	59,191
Net cash provided by (used in) investing activities	<u>2,132</u>	<u>(22,679)</u>
<b>Cash flows from financing activities</b>		
Payments on long-term debt	(4,705)	(4,505)
Deposit with bond escrow agent	(52,365)	-
Cost of issuance	(540)	-
Payments on obligations under long-term agreements	(559)	(499)
Proceeds from note	-	600
Proceeds from issuance of long-term debt	52,905	-
Change in U.S. Government loan funds	(195)	(762)
Contributions restricted for long-term purposes	12,216	5,251
Net cash provided by financing activities	<u>6,757</u>	<u>85</u>
Net decrease in cash and cash equivalents and restricted cash	(55)	(21,738)
<b>Cash and cash equivalents and restricted cash</b>		
Beginning of year	37,954	59,692
End of year	<u>\$ 37,899</u>	<u>\$ 37,954</u>
<b>Reconciliation of cash and cash equivalents and restricted cash</b>		
Cash and cash equivalents	\$ 34,648	\$ 35,500
Restricted cash within funds held in trust by others	3,251	2,454
Total end of year	<u>\$ 37,899</u>	<u>\$ 37,954</u>
<b>Supplemental cash flow disclosures</b>		
Costs accrued for capital expenditures	\$ 901	\$ 2,707
Cash paid for interest	5,578	6,212
Right of use assets obtained in exchange for operating lease obligations	596	-
Right of use assets and lease liability upon ASC 842 implementation (Note 1):	5,303	-

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

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### Year Ended June 30, 2021 and 2020

(Dollars in thousands)

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#### 1. Nature of Operations and Significant Accounting Policies

##### Nature of Operations

The Rhode Island School of Design (the School) is a private, not-for-profit art and design college founded in 1877 and located in Providence, Rhode Island. The mission of the School, through its college and museum, is to educate its students and the public in the creation and appreciation of works of art and design, to discover and transmit knowledge and to make lasting contributions to a global society through critical thinking, scholarship and innovation.

The consolidated financial statements of the School have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP) and with the reporting principles of not-for-profit accounting. The School includes RISD Holdings, Inc. (RH) and Washington Place Holdings, LP (Washington Place), wholly owned subsidiaries. RH was founded in 1999, and was organized for the exclusive purposes of acquiring, holding title to, and collecting income from, real property. Washington Place was formed in 2017, for the purpose of endowment investment management.

##### Basis of Presentation

The accompanying consolidated financial statements include the accounts of the School and its wholly owned subsidiaries, RH and Washington Place. All significant inter-entity balances and transactions have been eliminated.

Financial statements of private, not-for-profit organizations measure aggregate net assets and net asset activity based on the absence or existence of donor-imposed restrictions. Net assets are reported as without donor restrictions and with donor restrictions and serve as the foundation of the accompanying consolidated financial statements. Brief definitions of the two net asset classes are presented below:

*Net Assets Without Donor Restrictions* – Net assets derived from tuition and other institutional resources that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions also include board designated funds functioning as endowment for scholarships, academic and institutional purposes, and museum support.

*Net Assets with Donor Restrictions* – Net assets that are subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets and net assets from endowments not yet appropriated for spending by the School. In addition, net assets with donor restrictions include restricted contributions from donors classified as funds functioning as endowment. The School records as net assets with donor restrictions the original amount of gifts which donors have given to be maintained in perpetuity. Restrictions and corresponding releases include support of specific departments of the School, professorships, research, faculty support, scholarships and fellowships, library and museum, building construction and other purposes. When time and purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions. Releases from restrictions for the years ended June 30, 2021 and 2020 also include grant amounts awarded from the Higher Education Emergency Relief Fund (Note 20).

##### Measure of Operations

Revenues earned and expenses incurred in conducting the programs and services of the School, including gifts and investment income, are presented in the consolidated financial statements as



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operating activities. Net revenues and other resources from operating activities are not restricted by donors or other external sources and are, therefore, classified as net assets without donor restrictions. At the discretion of the School, all or a portion of the net assets resulting from any operating income may be designated for budgetary purposes, for capital acquisitions, for student loan funds, for principal payments on debt, or for future use by the Board of Trustees.

Nonoperating revenue and expenses include net realized and unrealized gains and losses on the interest rate swaps, contributions to be invested by the School to generate a return that will support future operations, and investment return or loss beyond what the School has appropriated for current operational support in accordance with the School's investment return spending guidelines.

**Revenue Recognition**

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered. Such revenue is presented at transaction prices, which are determined based on standard published rates for the services provided, less any financial aid awarded by the School to qualifying students. The amount of revenue per student may vary based on the specific programs or classes in which the student is enrolled. Sales and services of auxiliary enterprises revenue, which consists of room and board related services, is recognized when the related service is provided or performed. Generally, the School's performance obligations are satisfied equally over the academic term. The School applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Amounts are due for tuition, fees, room, and board at the beginning of each semester. In accordance with the School's refund policies, students may receive a full or partial refund up to five weeks after the start of the semester. Student accounts receivable includes amounts to which the School is unconditionally entitled. The School considers such amounts as unconditional based on the payment due date.

Gifts and pledges are recognized as revenue when received. Gifts specified for the acquisition or construction of long-lived assets are released to net assets without donor restrictions from net assets with donor restrictions when the assets are placed in service.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded as receivables at the present value of their expected cash flows, less an allowance for uncollectibles. The related revenue is assigned to net assets with donor restrictions until collected and any other restrictions are met, if so restricted by the donor.

Private grants are generally deemed to be exchange (reciprocal) transactions. The performance obligation for each grant or contract is deemed to be the research itself and revenue is recognized as the eligible grant activities are conducted. Transaction prices are based on budgets in the award agreement. Private grants are generally one year or less in duration.

Government grants and contracts are deemed to be non-exchange (nonreciprocal) transactions. Revenue related to conditional grants and contracts is recorded when the conditions are met. Most grants and contracts are on a cost reimbursement basis and require the School to incur eligible expenses prior to the release of funds.

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**Investments**

The fair values of publicly traded investments are determined based upon quoted market prices. The School's alternative investment funds are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2021 and 2020. Alternative investments include limited partnerships, limited liability corporations, real estate, and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material. U.S. government and agency obligations are valued by quoted market prices. Corporate bonds are valued using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads.

The School is transitioning from multiple fund managers to a single multi-strategy limited partnership fund (the Fund). The Fund's investment strategy focuses on varied traditional and nontraditional investment opportunities to provide a diversified single portfolio for investors. The Fund invests in the following asset classes: Equity (public and private), Hedge Funds, Real Assets (public and private), Fixed Income and Cash.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with maturities of three-months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash and cash equivalents on deposit with any one financial institution are insured up to \$250. The School maintains its cash and cash equivalents with several financial institutions and exceeds the insured limits.

Cash and cash equivalents includes cash restricted for the Perkins loans, which totaled \$505 and \$1,072 at June 30, 2021 and 2020, respectively.

**Inventories**

Inventories consist primarily of items held for resale at the School's store and are stated at the lower of cost or net realizable value. The School uses the first-in, first-out method of accounting for inventory.

**Split-Interest Agreements**

The School is party to various split-interest agreements with regards to irrevocable trusts and other agreements. These agreements include: perpetual trusts, charitable remainder trusts, charitable gift annuities, and pooled life income funds. The assets of gift annuities and pooled income funds are included at fair value in other investments on the consolidated statements of financial position. The obligations associated with these arrangements are recorded at present value of the aggregate liability to beneficiaries based upon life expectancy. Assets held by an outside trustee are classified as funds held in trust by others or as pledges receivable. These assets represent the School's share of the fair value of the trust assets as of the date of the consolidated statements of financial position net of a liability for the present value of estimated future payments to the donors or other beneficiaries, where applicable. Distributions of income from the trusts to the School are recorded as released from restriction when donor stipulations are met. Split-interest agreements and annuity obligations are based on certain assumptions regarding life expectancy, discount rate and rate of

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return. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods.

**Property, Plant and Equipment**

Property, plant and equipment is stated at acquisition cost or the fair value as of the date of the gift, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and major improvements	15–45 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Expenditures for maintenance, repairs, interest and depreciation are expensed as incurred. Upon sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts, and any resulting gains or losses are reflected in the consolidated statements of activities.

Capitalized interest costs are included within construction in process until the related asset is placed in service, at which point the capitalized interest costs are amortized over the respective asset's estimated useful life.

**Leases**

The School has entered into a variety of operating leases for student housing facilities, office/classroom space, museum storage, copiers and computer equipment. Lease liabilities and their corresponding right of use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable, and as such, the School uses its incremental borrowing rate based on the information available at the lease commencement date, a rate which represents one that would be incurred to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in a similar economic environment.

Lease terms may include options to renew and/or terminate the lease, which can impact the lease term. The exercise of these options is at the School's discretion and the School does not include any of these options within the expected lease term where it is not reasonably certain that these options will be exercised.

The School has elected the short-term lease exemption and, therefore, does not recognize a right of use asset or corresponding liability for lease arrangements with an original lease term of 12 months or less. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

The School leases to others portions of certain buildings for cellular, retail, restaurant and office space. RH leases buildings which generally have a lease term of five years or less, and the School leases property for cellular use with a term of ten years, terminating in 2028. These leases are classified as operating leases and are included in other income on the consolidated statements of activities. Income from operating leases is not material to the consolidated financial statements.

**Collections**

The School does not capitalize or assign a value to the museum collections. Collections that are acquired through purchases and contributions are not recognized as assets on the consolidated

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statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or in net assets with donor restrictions if the assets used to purchase items is restricted by donors.

Contributed collection items are not reflected in the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Auxiliary Services**

Auxiliary services include the RISD Store, dining halls, residence halls, and other on-campus undertakings that provide services to students, faculty, and staff for fees directly related, but not necessarily equivalent, to the costs of the services.

**Deferred Income**

Deferred income represents tuition and fees received for programs and services to be conducted predominantly in the next fiscal year.

**Reclassification**

Certain amounts related to 2020 have been reclassified to conform to the 2021 reporting format.

**Tax Status**

The School is qualified for exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. RH is qualified for exemption from Federal income tax under Section 501(c)(25) of the Internal Revenue Code.

**Use of Estimates**

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

**Fair Value Measurements**

The School complies with accounting guidance for *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Such guidance applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

The *Fair Value Measurements* standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace, as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities

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in markets that are not active; or inputs other than quoted prices that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs for an asset or liability that are supported by little or no market activity.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The School is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported net asset value (NAV) without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The School's investments in private equity, mutual funds, hedge funds, and other securities are fair valued based on the most current NAV.

The School, through its outsourced primary investment firm, performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The School has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurements* standard, price transparency, valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the consolidated financial statements to understand the nature and risk of the School's investments. Furthermore, investments which can be redeemed at NAV by the School on the measurement date or in the near term (defined as 90 days or less) are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. However, as required by US GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

**Department of Education Financial Responsibility**

The School participates in student financial assistance programs (Title IV) administered by the United States Department of Education (DOE) for the payment of student tuition. Substantial portions of the School's revenue relating to student tuition are dependent upon the continued participation in the Title IV programs.

Institutions participating in Title IV programs are required to demonstrate financial responsibility. Financial responsibility is determined through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation. The School's composite score exceeded 1.5 in 2021 and 2020.

The DOE revised the regulations for financial responsibility effective July 1, 2019. The regulations required the School to provide additional disclosures to assist the DOE in measuring financial responsibility through the composite score of financial ratios. Pre-implementation property, plant and equipment totaled \$182,466 at June 30, 2021. Post-implementation property, plant and equipment with outstanding debt for original purchase totaled \$46,879 at June 30, 2021. Post-

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implementation property, plant and equipment without outstanding debt for original purchase totaled \$33,757 at June 30, 2021. Construction in progress totaled \$15,319 at June 30, 2021.

**Recently Adopted Accounting Pronouncements**

Effective July 1, 2020, the School adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), as amended. This guidance was issued to increase transparency and comparability among entities by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months.

The School elected the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

The School elected the effective date transition method and therefore, has recognized the effects of this standard as of July 1, 2020. The prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

As of July 1, 2020, the School recognized (a) an operating lease liability of \$5,303 which represents the present value of the remaining lease payments and (b) a corresponding right of use asset of \$5,303. An approximate \$370 discount on the remaining lease payments was calculated using the School's incremental borrowing rates, as the School's existing leases did not contain readily determinable implicit discount rates on the effective date of adoption. As a result of adopting ASU 2016-02, there were no changes to the net assets of the School.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements. The School adopted ASU 2018-13 effective July 1, 2020. The adoption of ASU 2018-13 resulted in additional disclosure of the unobservable inputs of the School's level three investments (Note 2).

**New Accounting Pronouncement**

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. Early adoption is permitted. The School is currently assessing the effect that ASU No. 2020-07 will have on its consolidated financial statements.

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**2. Fair Value of Financial Instruments**

In accordance with accounting guidance for Fair Value Measurements, the tables below summarize the financial instruments carried at fair value on a recurring basis as of June 30, 2021 and 2020, aggregated by the level in the fair value hierarchy within which those measurements fall. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy and instead are included in the following tables as “investments valued using the NAV practical expedient”. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	Total Fair Value 2021
<b>Assets</b>					
Investments					
Cash and cash equivalents	\$ 4,703	\$ -	\$ -	\$ -	\$ 4,703
Multi-strategy limited partnership investment fund	8,671	-	-	395,793	404,464
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	645	645
Fixed income	-	-	-	2,168	2,168
Private equity	-	-	-	23,518	23,518
Total investments	13,374	-	-	422,124	435,498
Bond project fund held in trust					
Cash and cash equivalents	3,251	-	-	-	3,251
Total bond project fund held in trust	3,251	-	-	-	3,251
Beneficial interests held by third parties and other investments					
	-	-	1,671	-	1,671
Total assets at fair value	\$ 16,625	\$ -	\$ 1,671	\$ 422,124	\$ 440,420
<b>Liabilities</b>					
Interest rate swap					
	\$ -	\$ (4,656)	\$ -	\$ -	\$ (4,656)
Total liabilities at fair value	\$ -	\$ (4,656)	\$ -	\$ -	\$ (4,656)

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	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	Total Fair Value 2020
<b>Assets</b>					
Investments					
Cash and cash equivalents	\$ 3,111	\$ -	\$ -	\$ -	\$ 3,111
Multi-strategy limited partnership investment fund	8,500	-	-	302,201	310,701
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	5,091	5,091
Equity long hedge fund of funds	-	-	-	454	454
Fixed income	-	-	-	3,602	3,602
Private equity	-	-	-	19,540	19,540
Total investments	<u>11,611</u>	<u>-</u>	<u>-</u>	<u>330,888</u>	<u>342,499</u>
Bond project fund held in trust					
Cash and cash equivalents	2,454	-	-	-	2,454
Fixed income	-	17,524	-	-	17,524
Total bond project fund held in trust	<u>2,454</u>	<u>17,524</u>	<u>-</u>	<u>-</u>	<u>19,978</u>
Beneficial interests held by third parties and other investments					
	-	-	1,524	-	1,524
Total assets at fair value	<u>\$ 14,065</u>	<u>\$ 17,524</u>	<u>\$ 1,524</u>	<u>\$ 330,888</u>	<u>\$ 364,001</u>
<b>Liabilities</b>					
Interest rate swap					
	\$ -	\$ (6,771)	\$ -	\$ -	\$ (6,771)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ (6,771)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,771)</u>

The School's policy for allocation to Levels 1, 2, 3, and Investments Valued Using the Practical Expedient in the tables above are described in Note 1.

The value of alternative investments (principally limited partnership interests in hedge, private equity, and other similar funds) represents the ownership interest in the NAV of the respective partnership as reported by the general partner. The School has performed due diligence around its alternative investments to ensure that they are recorded at fair value, which is based on the NAV. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable.

Beneficial interest held by third parties are measured at fair value using the School's percentage of the earnings of the underlying trust assets applied to the fair value of the underlying assets. This is considered a Level 3 measurement because even though the measurement is based on the underlying fair value of the trust assets as reported by the third parties, the School will never receive those assets to have the ability to direct the third parties to redeem them.

All net realized and unrealized gains in the tables above are reflected in the accompanying consolidated statements of activities and relate to those financial instruments held by the School at June 30, 2021 and 2020.

There were no transfers between levels for the years ended June 30, 2021 and 2020.



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The following tables present liquidity information for the investments carried at fair value at June 30, 2021 and 2020, respectively.

	<b>Investments Asset Value as of June 30, 2021</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>
<b>Investment type</b>				
Cash and cash equivalents	\$ 4,703	\$ -	Liquid	N/A
Multi-strategy limited partnership investment fund	404,464	633	Semiannually	120 Days
Hedge funds				
Multi-strategy hedge fund of funds	645	-	Quarterly	7 Days
Fixed income	2,168	-	Quarterly	7 Days
Private equity	23,518	1,047	At Manager's Discretion	
<b>Total</b>	<b>\$ 435,498</b>	<b>\$ 1,680</b>		

	<b>Investments Asset Value as of June 30, 2020</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>
<b>Investment type</b>				
Cash and cash equivalents	\$ 3,111	\$ -	Liquid	N/A
Multi-strategy limited partnership investment fund	310,701	634	Semiannually	120 Days
Hedge funds				
Multi-strategy hedge fund of funds	5,091	-	Quarterly	7 Days
Equity long hedge fund of funds	454	-	Quarterly	7 Days
Fixed income	3,602	-	Quarterly	7 Days
Private equity	19,540	2,980	At Manager's Discretion	
<b>Total</b>	<b>\$ 342,499</b>	<b>\$ 3,614</b>		

**3. Liquidity and Availability of Resources**

The School's financial assets available, reduced by amounts not available for general use due to contractual or donor-imposed restrictions, within one year of the consolidated statement of financial position date for general expenditure as of June 30, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 1,234	\$ 6,515
Accounts receivable, net	2,436	3,464
Appropriations from quasi-endowment	12,373	12,360
	<b>\$ 16,043</b>	<b>\$ 22,339</b>

Appropriations from the quasi-endowment, shown above, represent a portion of the approved fiscal year 2022 spending policy allocation available within the next 12 months. The School's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general

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expenditure. The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. For fiscal year 2022, the spending policy is to spend 5.00% of a rolling twelve-quarter average, of which \$12,373 of appropriations from the quasi-endowment will be available for general use.

Cash and cash equivalents, shown above, includes the cash balance of the Bond Project Fund, which is included in funds held in trust by others on the consolidated statements of financial position. As per the project timeline, all reimbursable expenditures have been incurred and will be fully drawn during the first half of fiscal year 2022. As such, the cash balance in the Bond Project Fund is deemed to be assets available for general use.

In addition to the noted available financial assets, a significant portion of the School's annual expenditures will be funded by current year operating revenues. The School's cash flows have seasonal variations during the year, attributable to tuition billing and concentration of contributions received at calendar and fiscal year end. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, the School has a committed line of credit in the amount of \$20,000 (Note 21), which it could draw upon. In addition, the School has a board-designated endowment of \$300,826 (Notes 15, 16). Although the School does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the board-designated endowment could be made available if necessary. However, both the board-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available.

**4. Tuition and Fees**

For the years ended June 30, 2021 and 2020, revenue from tuition and fees recognized by the School reflects aggregate reductions as follows:

	<u>2021</u>	<u>2020</u>
Tuition and fees	\$ 123,639	\$ 135,060
Less:		
School sponsored financial aid	(26,586)	(24,265)
Donor sponsored financial aid	(3,099)	(3,054)
Net tuition and fees	<u>\$ 93,954</u>	<u>\$ 107,741</u>

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**5. Investment Return**

Investment return for the years ended June 30, 2021 and 2020, was as follows:

	2021			2020
	Without Donor Restriction	With Donor Restriction	Total	Total
Interest and dividend income	\$ 149	\$ -	\$ 149	\$ 3,542
Net realized gains	19,766	8,111	27,877	35,874
Net unrealized gains (losses)	51,162	20,214	71,376	(30,506)
Total investment return	\$ 71,077	\$ 28,325	\$ 99,402	\$ 8,910

**Reconciliation from Consolidated Statement of Activities**

Investment income	\$ 17,159	\$ 17,781
Realized and unrealized gains (losses) on investments, net	82,243	(8,871)
Total investment return	\$ 99,402	\$ 8,910

Investment management fees and other expenses (netted from realized gains and losses) totaled \$2,004 and \$1,687 for the years ended June 30, 2021 and 2020, respectively.

Certain net assets are pooled for investment income purposes. Units in the pool are assigned on the basis of fair value at the time net assets to be invested are received, and income is distributed monthly thereafter on a per-unit basis. The market value of long-term investments, as stated in the consolidated statements of financial position, represents the value of pooled endowment plus other nonpooled investments at June 30, 2021 and 2020.

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**6. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Student tuition and fees	\$ 918	\$ 858
Grants and contracts	1,937	2,394
Computer loan programs	85	87
Other	92	685
	<u>3,032</u>	<u>4,024</u>
Less: Allowance for uncollectible accounts	(596)	(560)
Accounts receivable, net	<u>\$ 2,436</u>	<u>\$ 3,464</u>

Included in the grants and contracts receivable balance as of June 30, 2021 and 2020 is \$0 and \$1,942, respectively, related to the Coronavirus Aid, Relief, and Economics Security (CARES) Act (Note 20).

**7. Student Loans Receivable**

Student Loans are made with funds advanced to the School by the Federal government under the Federal Perkins Loan Program.

The Federal Perkins loan program expired on September 30, 2017; after June 30, 2018, no new loans are permitted. Institutions are permitted to liquidate all Perkins loans or continue to service all or some of their outstanding Perkins loans. During the fiscal year ended June 30, 2021, the School assigned \$1,433 of outstanding Perkins loans to the Department of Education. As of June 30, 2021, the School is continuing to service a small balance of the outstanding loans and is planning to liquidate the remaining Perkins loans during fiscal 2022.

Student loans receivable consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Student loan funds	\$ 246	\$ 2,169
Less: Allowance for uncollectible accounts	(19)	(384)
Student loans receivable, net	<u>\$ 227</u>	<u>\$ 1,785</u>

**U.S. Government Loan Funds**

Under existing laws, Perkins loan funds of the United States Government are ultimately refundable to the extent funds are available from the program and are, therefore, shown as a liability on the consolidated statements of financial position, in the event that the Perkins Loan program ceases.

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This number represents the federal capital contribution and federal percentage of revenues and expenses for the current year's Perkins Loan program. At June 30, 2021 and 2020, the liability was \$243 and \$1,226, respectively.

Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain non-repayment situations. Management believes that this allowance at June 30, 2021 is adequate to absorb credit losses inherent in the portfolio as of that date.

**8. Pledges Receivable**

Pledges receivable at June 30, 2021 and 2020, are expected to be realized in the following periods:

	<u>2021</u>	<u>2020</u>
In one year or less	\$ 2,730	\$ 2,010
Between one year and five years, net of discount	4,052	2,520
Five years and over, net of discount	753	669
	<u>7,535</u>	<u>5,199</u>
Less: Allowance for uncollectible pledges	(786)	(453)
Pledges receivable, net	<u>\$ 6,749</u>	<u>\$ 4,746</u>

Pledges receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the pledge using rates indicative of the market and credit risk associated with the pledge. Discount rates used to calculate the present value of pledges receivable ranged from 0.18% to 2.35%, resulting in discounts of \$36 and \$51 for the years ended June 30, 2021 and 2020, respectively.

The School has pledges outstanding from Trustees of approximately \$1,014 and \$2,034 at June 30, 2021 and 2020, respectively.

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**9. Property, Plant and Equipment**

	<u>2021</u>	<u>2020</u>
Land and buildings		
Educational plant	\$ 216,982	\$ 211,807
Dormitories and refectory	148,800	122,267
Administrative and other	52,393	52,258
Construction in progress	15,319	28,956
Land	11,715	11,699
	<u>445,209</u>	<u>426,987</u>
Furniture, fixtures and equipment	70,855	68,928
	<u>516,064</u>	<u>495,915</u>
Less: Accumulated depreciation	(237,643)	(223,131)
Property, plant and equipment, net	<u>\$ 278,421</u>	<u>\$ 272,784</u>

Construction in progress as of June 30, 2021 is primarily comprised of residence hall renovations and expansions in conjunction with the School's multiyear Quad block enhancement project.

Depreciation expense for the years ended June 30, 2021 and 2020 was \$14,536 and \$12,725, respectively.

Outstanding commitments on uncompleted construction contracts totaled \$28 and \$28 at June 30, 2021 and 2020, respectively.

During the years ended June 30, 2021 and 2020, the School capitalized interest costs of \$820 and \$985, respectively.

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**10. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Trade accounts payable	\$ 2,200	\$ 3,187
Accrued interest	1,605	1,692
Accrued personnel liabilities	5,028	4,993
Healthcare self insurance reserve	750	1,000
Annuities payable	291	285
Other	2,714	3,359
Accounts payable and accrued liabilities	<u>\$ 12,588</u>	<u>\$ 14,516</u>

Included in trade accounts payable and other are construction related payables totaling \$901 and \$2,707 at June 30, 2021 and 2020, respectively.

Included in accrued personnel liabilities is a deferral of the School's portion of Social Security taxes, as provided under Section 2302 of the CARES Act totaling \$3,068 and \$1,037 at June 30, 2021 and 2020, respectively, of which half will be due on December 31, 2021 and the remaining balance will be due on December 31, 2022. Also included in accrued personnel liabilities at June 30, 2020 were \$1,839 related to voluntary early retirement payouts.

**11. Deferred Income**

Deferred income primarily represents payments received for tuition, room and board prior to the start of the fall academic term, as well as unearned revenue for the summer term. The following tables present a rollforward of the activities within deferred income for the years ended June 30, 2021 and 2020, respectively:

	<u>Balance at 6/30/20</u>	<u>Revenue recognized included in 6/30/20 Balance</u>	<u>Payments received in advance of performance</u>	<u>Balance at 6/30/21</u>
Degree programs	\$ 3,232	\$ (3,232)	\$ 2,084	\$ 2,084
Continuing education programs	2,211	(2,211)	2,181	2,181
Other	80	(80)	84	84
Total Deferred Income	<u>\$ 5,523</u>	<u>\$ (5,523)</u>	<u>\$ 4,349</u>	<u>\$ 4,349</u>

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	<u>Balance at 6/30/19</u>	<u>Revenue recognized included in 6/30/19 Balance</u>	<u>Payments received in advance of performance</u>	<u>Balance at 6/30/20</u>
Degree programs	\$ 2,241	\$ (2,241)	\$ 3,232	\$ 3,232
Continuing education programs	4,670	(4,670)	2,211	2,211
Other	190	(190)	80	80
Total Deferred Income	<u>\$ 7,101</u>	<u>\$ (7,101)</u>	<u>\$ 5,523</u>	<u>\$ 5,523</u>

**12. Obligations Under Long-Term Agreements**

During fiscal year 2004, the School purchased the Center for Integrative Technology building and a long-term payment obligation to a third party was recognized. Based on a variety of assumptions, the current estimation is that the obligation will end on or about 2031. The principal obligation outstanding was \$4,140 and \$4,428 at June 30, 2021 and 2020, respectively.

Minimum annual obligation over the next five years and thereafter are as follows:

2022	\$ 439
2023	439
2024	483
2025	483
2026	483
Thereafter	<u>2,562</u>
Total minimum payments	4,889
Interest expense	<u>(749)</u>
Total obligation	<u>\$ 4,140</u>

The School presents an asset retirement obligation on its consolidated statements of financial position that represents the probability and projected cost to remedy certain environmental hazards in relation to its buildings and boiler systems. The asset retirement obligation was \$5,294 and \$5,214 at June 30, 2021 and 2020, respectively, and are included within obligations under long-term agreements on the consolidated statements of financial position.

In December 2020, the School received a \$600 non-interest-bearing note from National Grid, in participation with their Energy Initiative program. Payments are due in monthly installments of \$10 through December 2024. The outstanding principal balance was \$420 and \$540 as of June 30, 2021 and 2020, respectively, and is included within obligations under long-term agreements on the consolidated statements of financial position.



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**13. Leases**

The School has operating right of use assets and lease liabilities of \$3,606 and \$3,756, respectively, for the year ended June 30, 2021. The discount rates used range from 0.82% and 2.79%, for a weighted average discount rate of 2.20% and are based on the School's incremental borrowing rates over a comparable period to the respective lease. The remaining lease terms range from less than 1 year to 10 years, for a weighted average remaining lease term of 6.9 years.

The lease expense is reported in utilities, plant and equipment on the consolidated statements of activities and amounted to \$2,292 for the year ended June 30, 2021.

The following operating lease payments are expected to be paid for each of the following fiscal years ending June 30:

2022	\$	856
2023		652
2024		480
2025		381
2026		381
Thereafter		1,376
Total minimum payments		<u>4,126</u>
Present value discount		<u>(370)</u>
Lease liability	\$	<u>3,756</u>

**14. Bonds Payable and Other Debt**

<u>Name</u>	<u>Original Issue</u>	<u>Rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Rhode Island Health and Education Building Corporation					
Series 2008A	\$61,930	1.25% - 2.60%	2035	\$ 39,820	\$ 41,760
Series 2008B	\$31,850	1.25% - 2.60%	2037	31,850	31,850
Series 2012	\$28,340	2.50% - 4.00%	2024	2,410	22,760
Series 2012B	\$51,815	2.50% - 5.00%	2025	9,005	40,255
Series 2018	\$54,950	4.00% - 5.25%	2049	54,950	54,950
Series 2020	\$52,905	0.82% - 3.09%	2036	52,905	-
Bonds payable, net				<u>190,940</u>	<u>191,575</u>
Add: Unamortized premium on bonds				5,783	9,021
Less: Bond issuance costs				<u>(1,298)</u>	<u>(1,219)</u>
Bonds payable, net				<u>\$ 195,425</u>	<u>\$ 199,377</u>

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All bond premiums and issuance costs are being accreted straight line over the lives of the bonds which approximates the effective interest basis. Net amortization expense of bond premiums and issuance costs for the years ended June 30, 2021 and 2020, was \$336 and \$360, respectively.

**Rhode Island Health and Education Building Corporation (RIHEBC)**

On December 16, 2020, the School issued \$52,905 par value federally taxable bonds, resulting in \$52,365 proceeds, net of issuance costs. The proceeds from this issuance were used to partially repay principal balances of \$19,585 and \$29,250 of the Series 2012 and 2012B Bonds, respectively. These repayments resulted in a net realized loss of \$493, which is included in other operating expenses on the consolidated statements of activities.

On September 13, 2018, the School sold \$54,950 par value, 30 year, 5% coupon tax exempt bonds, resulting in \$60,095 proceeds for use by the School, net of issuance costs. The School is utilizing the bond proceeds to construct a new residential facility and address deferred maintenance in several buildings. The proceeds from the bonds were deposited into a Project Fund, which is held by the Bond Trustee. The Project Fund investments are classified as funds held in trust by others on the consolidated statements of financial position. Any unused funds at the earlier of the completion of the defined projects, or the third anniversary of the bond issuance date will be transferred into a Bond Fund, which must be used to repay bond redemptions or bond principal and interest payments as defined. As of the date the consolidated financial statements were issued, the defined projects have been completed and there are no remaining unused funds. The bonds maturing before August 15, 2029 are not subject to redemption prior to maturity (unless redeemed pursuant to the extraordinary redemption provisions). The bonds maturing on or after August 15, 2029 may be redeemed prior to maturity, at the option of the School beginning on or after August 15, 2028, in whole or in part at any time at their principal amounts, without premium, plus accrued interest to the redemption date.

Series 2008A and Series 2008B Bonds can be optionally redeemed on any interest payment date (the first business day of each month) at par plus accrued interest. RIHEBC Bonds (Series 2008A and Series 2008B) are due in principal amounts and mandatory redemption requirements ranging from \$1,800 in 2008 to \$13,945 in 2036. In the event that the School receives notice of any optional redemption on its Series 2008A and 2008B variable-rate bonds, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the School will be obligated to purchase the bonds redeemed.

Series 2012, 2012B and 2018 Bonds are subject to optional, extraordinary optional, and mandatory redemption.

On June 28, 2018, the School secured a \$31,850 letter of credit to cover an amount up to the outstanding balance of the 2008B Bonds at the time of redemption. Any payout was to be repaid immediately or accrue interest. If payout was not made in 90 days, the payout would convert to a term loan, due in five semi-annual installments beginning six months after the conversion date. The expiration date of this letter of credit is November 2, 2021. As a result of the subsequent refinancing of the School's variable rate debt, the letter of credit has been terminated as of October 1, 2021.

On June 28, 2018, the School secured a new \$48,740 letter of credit to cover an amount up to the outstanding balance of the 2008A Bonds at the time of redemption plus 45 days' interest at the maximum rate of 12%. The expiration date of this letter of credit is November 2, 2021. As a result of

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the subsequent refinancing of the School's variable rate debt, the letter of credit has been terminated as of October 1, 2021.

The School is required to comply with debt covenants to support its letters of credit. The debt service ratio minimum requirement is 1.15 to 1 and the liquidity ratio minimum requirement is 0.50 to 1. The School was in compliance with its debt covenant requirements as of June 30, 2021.

The School has pledged as collateral all revenue received in each fiscal year up to an amount equal to the debt service on the bonds due during the fiscal year.

Mandatory annual principal payments due for the next five years and thereafter are as follows:

2022	\$	5,430
2023		6,630
2024		6,905
2025		7,185
2026		7,415
2027–2049		<u>157,375</u>
Annual principal payments	\$	<u>190,940</u>

Cash paid for interest on long-term debt for the years ended June 30, 2021 and 2020, was \$4,912 and \$6,101, respectively. Interest expense, net of capitalized interest, was \$4,419 and \$5,478 for the years ended June 30, 2021 and 2020, respectively.

The School has entered into various interest rate swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. The risks associated with interest rate swaps are primarily market risk. Under the terms of these agreements, the School pays a fixed rate, determined at inception, to a third party who in turn pays the School a variable rate on these respective notional principal amounts. During the years ended June 30, 2021 and 2020, the School incurred net realized and unrealized gains of \$782 and losses of \$3,522, respectively.

The interest rate swap balances are classified as liabilities on the consolidated statements of financial position. Net payments or receipts under the swap agreements, along with the change in fair value of the swaps, are included in nonoperating revenues on the consolidated statements of activities.

In June 2017, the School restructured its \$28,500 callable swap by extending the call date from August 2019 to August 2024. As a result, the interest rate the School pays on this swap was reduced from 3.94% to 2.68%. In addition, the School entered into a \$17,995 at-market future swap which commenced on February 1, 2020 to hedge a portion of its outstanding variable rate debt. The School owns an option to cancel the swap beginning August 15, 2027 and semi-annual thereafter.

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The following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2021 and 2020.

<b>Maturity</b>	<b>Original Notional</b>	<b>Fair Value 2021</b>	<b>Fair Value 2020</b>
August 15, 2025	24,300	(807)	(1,228)
August 15, 2034	28,500	(2,577)	(3,663)
August 15, 2036	17,995	(1,272)	(1,880)
Liability for interest rate swap		<u>\$ (4,656)</u>	<u>\$ (6,771)</u>

On September 1, 2021, the School refinanced its variable rate debt by redeeming the Series 2008A and 2008B bonds and issuing \$70,041 in Series 2021A bonds and \$4,989 in Series 2021B (Federally Taxable) bonds. The proceeds from this issuance were used to repay principal balances of the Series 2008A and 2008B bond issuance, as well as terminate the School's swap obligations. The School has also terminated its letters of credit effective October 1, 2021.

**15. Net Assets**

Details of the School's Net Assets are provided below:

	<b>2021</b>	<b>2020</b>
<b>Without donor restrictions</b>		
Designated funds	\$ 10,788	\$ 8,437
Designated for endowment	300,826	243,747
Capital and other undesignated funds	43,017	55,332
Total net assets without donor restrictions	<u>354,631</u>	<u>307,516</u>
<b>With donor restrictions</b>		
Restricted by time or purpose	41,517	35,913
Restricted by time or purpose within endowment	69,368	40,790
Restricted in perpetuity	72,713	64,475
Total net assets with donor restrictions	<u>183,598</u>	<u>141,178</u>
Total net assets	<u>\$ 538,229</u>	<u>\$ 448,694</u>

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**16. Endowment Funds**

The School's endowment consists of approximately 293 individual donor-restricted endowment funds and 36 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The 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.

The School's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date(s) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as net assets with donor restrictions, (a) the original value of gifts donated to the permanent endowment, (b) the original 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. The remaining portion of the donor-restricted endowment fund is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the School 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 appreciation of investments
- (6) Other resources of the School
- (7) The investment policies of the School

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Endowment net asset composition by type of fund as of June 30, 2021 and 2020, were as follows:

	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Board-designated for</b>			
Scholarships	\$ 14,817	\$ -	\$ 14,817
Academic and institutional purposes	283,048	-	283,048
Museum support	2,961	-	2,961
Total board designated	<u>300,826</u>	<u>-</u>	<u>300,826</u>
<b>Donor-restricted for</b>			
Scholarships	-	61,579	61,579
Academic and institutional purposes	-	37,173	37,173
Museum support	-	43,329	43,329
Total donor restricted	<u>-</u>	<u>142,081</u>	<u>142,081</u>
Total endowment funds	<u>\$ 300,826</u>	<u>\$ 142,081</u>	<u>\$ 442,907</u>
	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Board-designated for</b>			
Scholarships	\$ 14,049	\$ -	\$ 14,049
Academic and institutional purposes	227,288	-	227,288
Museum support	2,410	-	2,410
Total board designated	<u>243,747</u>	<u>-</u>	<u>243,747</u>
<b>Donor-restricted for</b>			
Scholarships	-	42,455	42,455
Academic and institutional purposes	-	27,773	27,773
Museum support	-	35,037	35,037
Total donor restricted	<u>-</u>	<u>105,265</u>	<u>105,265</u>
Total endowment funds	<u>\$ 243,747</u>	<u>\$ 105,265</u>	<u>\$ 349,012</u>

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Changes in endowment net assets for the years ended June 30, 2021 and 2020, were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment net assets at June 30, 2020</b>	\$ 243,747	\$ 105,265	\$ 349,012
Investment return, net of fees	69,359	31,211	100,570
Gifts	80	9,781	9,861
Endowment return allocated for spending	(12,360)	(4,650)	(17,010)
Other increases	-	474	474
<b>Endowment net assets at June 30, 2021</b>	<u>\$ 300,826</u>	<u>\$ 142,081</u>	<u>\$ 442,907</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment net assets at June 30, 2019</b>	\$ 250,926	\$ 100,205	\$ 351,131
Investment return, net of fees	4,896	2,332	7,228
Gifts	12	6,980	6,992
Endowment return allocated for spending	(12,087)	(4,252)	(16,339)
<b>Endowment net assets at June 30, 2020</b>	<u>\$ 243,747</u>	<u>\$ 105,265</u>	<u>\$ 349,012</u>

The following provides additional information about the School's policies regarding the management of its endowment assets.

**Endowment Funds with Deficits**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When donor endowment deficits exist, they are classified as a reduction of donor-restricted net assets. There were no endowment funds underwater as of June 30, 2021 and 2020, respectively.

**Return Objectives and Risk Parameters**

The School has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle of approximately five years, is to maximize the return against various market indexes across the investment portfolio as determined by the Investment Committee while minimizing risk. The goal of each investment manager over the investment horizon is to exceed the appropriate market index. The overall portfolio is intended to embody no greater risk than the risk of a blend of the indexes assigned to the managers.

**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends).

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**Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**

The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. In 2021 and 2020, the spending policy was to spend 5.00% of a rolling twelve-quarter average.

**17. Museum**

Museum revenues for the years ended June 30, 2021 and 2020, are described below:

	<u>2021</u>	<u>2020</u>
Service revenue	\$ 558	\$ 817
Investment income	1,653	1,709
Gifts and grants	1,000	906
Total museum revenues	<u>\$ 3,211</u>	<u>\$ 3,432</u>

**Collections**

The majority of the School's collections resides in the Museum and consists of artifacts of historical significance, art objects and books that are held for educational, research, and curatorial purposes. Each of the items are cataloged, preserved, and cared for and activities verifying their existence and assessing their condition are performed periodically. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections or to support the direct care of existing collections. The School expended \$447 and \$606 for acquisitions during the years ended June 30, 2021 and 2020, respectively. The School sold collections in the amount of \$13 and \$16 during the years ended June 30, 2021 and 2020, respectively. The School did not use any proceeds from the sale of its collections to support the direct care of existing collections for the years ended June 30, 2021 and 2020.



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**18. Functional Expenses**

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the School. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, interest on indebtedness and depreciation and amortization expense. The School applies various methods to allocate costs among the program and support functions, the most significant of which is by the amount of building space utilized.

Operating expenses by functional and natural classification for the years ended June 30, 2021 and 2020, were as follows:

	<b>Instruction and Academic Support</b>	<b>Administrative and Institutional Support</b>	<b>Auxiliary Services</b>	<b>Museum</b>	<b>2021 Total</b>
Salaries and wages	\$ 38,267	\$ 26,188	\$ 3,943	\$ 4,639	\$ 73,037
Benefits	8,325	4,706	906	1,091	15,028
Contracted services	3,039	15,479	839	954	20,311
Depreciation, amortization and interest	4,960	2,607	9,103	2,944	19,614
Utilities, plant and equipment	4,517	4,400	7,589	988	17,494
Supplies and general	1,736	737	2,416	138	5,027
Other operating expenses	1,193	1,215	370	98	2,876
Total operating expenses	<u>\$ 62,037</u>	<u>\$ 55,332</u>	<u>\$ 25,166</u>	<u>\$ 10,852</u>	<u>\$ 153,387</u>

	<b>Instruction and Academic Support</b>	<b>Administrative and Institutional Support</b>	<b>Auxiliary Services</b>	<b>Museum</b>	<b>2020 Total</b>
Salaries and wages	\$ 44,376	\$ 26,268	\$ 4,960	\$ 5,437	\$ 81,041
Benefits	11,090	7,560	1,189	1,505	21,344
Contracted services	2,021	10,128	557	1,082	13,788
Depreciation, amortization and interest	5,194	2,224	8,281	3,147	18,846
Utilities, plant and equipment	4,249	4,603	4,022	1,427	14,301
Supplies and general	1,990	1,003	4,296	261	7,550
Other operating expenses	1,668	935	167	172	2,942
Total operating expenses	<u>\$ 70,588</u>	<u>\$ 52,721</u>	<u>\$ 23,472</u>	<u>\$ 13,031</u>	<u>\$ 159,812</u>

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**19. Retirement and Pension Plans**

The School participates in the Teachers Insurance and Annuity Association (TIAA) for eligible faculty, administrative and staff employees. The School made contributions to the TIAA retirement plan which totaled approximately \$1,094 and \$4,956 for the years ended June 30, 2021 and 2020, respectively.

**20. Pandemic Relief**

The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant.

The School was awarded \$1,465 of HEERF funding in May 2020. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief as of June 30, 2020. As of June 30, 2020, \$458 of the student relief portion of the grant was expended and recognized as grants revenue and student aid expense and \$458 of the institutional portion of the grant was expended and recognized as grant revenue and auxiliary enterprises. As of June 30, 2021, \$275 of the student relief portion of the grant was expended and recognized as grants revenue and student aid expense and \$275 of the institutional portion of the grant was expended and recognized as grant revenue and auxiliary enterprises.

The CARES Act also created a new employee retention credit (Retention Credit) for wages paid from March 13, 2020 to December 31, 2020, by employers that are subject to closure (fully or partially suspended on orders from a governmental authority) or significant economic downturn due to COVID-19, during the quarters in which the employer is affected. The credit amount takes into account up to 50% of qualified wages, which are capped at \$10 with the maximum credit of \$5 per employee and applies to the employer's share of the 6.2% Social Security tax. The School's retention credit totaled \$1,026 through June 30, 2020 and is recognized as grants revenue on the consolidated statement of activities. The credit was applied in the second quarter calendar year 2021 payroll tax form 941.

The Coronavirus Response and Relief Supplemental Appropriations (CRRSSA) Act provided approximately \$22.7 billion to institutions of higher education in order to prevent, prepare for, and respond to coronavirus through the Higher Education Emergency Relief Fund II (HEERF II). The CRRSSA Act is similar to the CARES Act, however the CRRSSA Act modified the share of funds that must be used for financial aid grants to students. Under the CRRSSA, institutions of higher education must provide at least the same amount of funding in financial aid grants to students that was required under the CARES Act. These financial aid grants include students exclusively enrolled in distance learning and can be used for any components of the student's cost of attendance or for emergency costs that arose due to coronavirus. The institutional portion of the funding has

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expanded flexibility of allowable uses compared to the CARES Act. The funding may be used on institutional costs including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings and payroll.

The School was awarded a total of \$2,090 in HEERF II funding in December 2020. As of June 30, 2021, \$732 of the student relief portion of the grant was expended and recognized as grants revenue and student aid expense and \$1,358 of the institutional portion of the grant was expended and recognized as grant revenue and other operating expenses.

The American Rescue Plan (ARP) appropriated approximately \$39.6 billion to institutions of higher education in order to prevent, prepare for, and respond to coronavirus through the Higher Education Emergency Relief Fund III (HEERF III). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant is to be used for direct emergency aid to students. The remaining portion of the full grant is to be used by institutions to defray expenses associated with coronavirus, implement evidence-based practices to monitor and suppress coronavirus, and conduct direct outreach to financial aid applications about the opportunity to receive a financial aid adjustment due to a change in circumstance. The School was awarded a total of \$3,732 in HEERF III funding in March 2021. As of June 30, 2021, the School has not spent any ARP funding, therefore no revenue was recorded.

**21. Commitments and Contingencies**

On November 2, 2015, the School secured a line of credit with TD Bank, N.A of \$10,000. On May 14, 2021, the line of credit was amended to extend the maturity date to June 15, 2022 and increase the limit to \$20,000. The School had no outstanding borrowings against the line of credit as of June 30, 2021 and 2020.

In conducting its activities from time to time the School is the subject of various claims and also has claims against others from time to time. In management's opinion, the ultimate resolution of such claims would not have a material adverse or favorable effect on the financial position of the School.

**22. Subsequent Events**

Management has evaluated the subsequent events for the period after June 30, 2021 through October 6, 2021, the date the consolidated financial statements were issued.