

Rhode Island School of Design

Consolidated Financial Statements

June 30, 2020 and 2019

Rhode Island School of Design
Table of Contents
June 30, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6

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, 2020 and 2019, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2020 and 2019, 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 1, 2020**

Rhode Island School of Design
Consolidated Statements of Financial Position
June 30, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 35,500	\$ 42,878
Accounts receivable, net (Note 6)	3,464	2,734
Student loans receivable, net (Note 7)	1,785	2,196
Pledges receivable, net (Note 8)	4,746	4,961
Funds held in trust by others (Note 2)	20,779	46,256
Inventories	1,676	1,637
Prepaid expenses	2,333	1,304
Other investments (Note 2)	723	725
Long-term investments (Note 2)	342,499	344,460
Property, plant and equipment, net (Note 9)	<u>272,784</u>	<u>250,191</u>
Total assets	<u>\$ 686,289</u>	<u>\$ 697,342</u>
Liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 14,516	\$ 16,764
Deferred income (Note 11)	5,523	7,101
Obligations under long-term agreements (Note 12)	10,182	10,008
U.S. Government loan funds (Note 7)	1,226	1,988
Liability for interest rate swaps (Notes 2, 13)	6,771	4,182
Bonds payable, net (Note 13)	<u>199,377</u>	<u>204,242</u>
Total liabilities	<u>237,595</u>	<u>244,285</u>
Net Assets		
Net assets without donor restrictions (Notes 14, 15)	307,516	309,720
Net assets with donor restrictions (Notes 14, 15)	<u>141,178</u>	<u>143,337</u>
Total net assets	<u>448,694</u>	<u>453,057</u>
Total liabilities and net assets	<u>\$ 686,289</u>	<u>\$ 697,342</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
(With Summarized Financial Information for the Year Ended June 30, 2019)
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating revenues				
Net tuition and fees	\$ 107,741	\$ -	\$ 107,741	\$ 104,546
Gifts and pledges	3,182	3,278	6,460	6,052
Grants	280	3,607	3,887	3,870
Auxiliary enterprises	21,263	-	21,263	27,092
Museum services	817	-	817	962
Investment income	12,275	3,819	16,094	17,738
Other income	4,913	-	4,913	5,356
Net assets released from restrictions	16,576	(16,576)	-	-
Total revenues	<u>167,047</u>	<u>(5,872)</u>	<u>161,175</u>	<u>165,616</u>
Operating expenses				
Salaries and wages	81,041	-	81,041	75,193
Benefits	21,344	-	21,344	21,500
Contracted services	13,788	-	13,788	16,759
Depreciation, amortization and interest	18,846	-	18,846	17,913
Utilities, plant and equipment	14,301	-	14,301	14,220
Supplies and general	7,550	-	7,550	8,588
Other operating expenses	2,942	-	2,942	3,108
Total expenses	<u>159,812</u>	<u>-</u>	<u>159,812</u>	<u>157,281</u>
Change in net assets from operating activities	7,235	(5,872)	1,363	8,335
Nonoperating				
Realized and unrealized loss on interest rate swaps, net	(3,522)	-	(3,522)	(2,935)
Realized and unrealized loss on investments, net	(5,917)	(1,267)	(7,184)	(1,613)
Gifts and pledges	-	4,980	4,980	953
Change in net assets from nonoperating activities	<u>(9,439)</u>	<u>3,713</u>	<u>(5,726)</u>	<u>(3,595)</u>
Change in net assets	(2,204)	(2,159)	(4,363)	4,740
Total net assets				
Beginning of year	309,720	143,337	453,057	448,317
End of year	<u>\$ 307,516</u>	<u>\$ 141,178</u>	<u>\$ 448,694</u>	<u>\$ 453,057</u>

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

Rhode Island School of Design
Consolidated Statement of Activities
Year Ended June 30, 2019
(Dollars in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
Operating revenues			
Net tuition and fees	\$ 104,546	\$ -	\$ 104,546
Gifts and pledges	2,672	3,380	6,052
Grants	475	3,395	3,870
Auxiliary enterprises	27,092	-	27,092
Museum services	962	-	962
Investment income	13,741	3,997	17,738
Other income	5,356	-	5,356
Net assets released from restrictions	5,885	(5,885)	-
Total revenues	<u>160,729</u>	<u>4,887</u>	<u>165,616</u>
Operating expenses			
Salaries and wages	75,193	-	75,193
Benefits	21,500	-	21,500
Contracted services	16,759	-	16,759
Depreciation, amortization and interest	17,913	-	17,913
Utilities, plant and equipment	14,220	-	14,220
Supplies and general	8,588	-	8,588
Other operating expenses	3,108	-	3,108
Total expenses	<u>157,281</u>	<u>-</u>	<u>157,281</u>
Change in net assets from operating activities	3,448	4,887	8,335
Nonoperating			
Realized and unrealized loss on interest rate swaps, net	(2,935)	-	(2,935)
Realized and unrealized gain (loss) on investments, net	(1,623)	10	(1,613)
Gifts and pledges	-	953	953
Change in net assets from nonoperating activities	<u>(4,558)</u>	<u>963</u>	<u>(3,595)</u>
Change in net assets	(1,110)	5,850	4,740
Total net assets			
Beginning of year	310,830	137,487	448,317
End of year	<u>\$ 309,720</u>	<u>\$ 143,337</u>	<u>\$ 453,057</u>

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

Rhode Island School of Design
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (4,363)	\$ 4,740
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(5,368)	(11,922)
Net realized and unrealized losses on interest rate swaps	2,589	2,123
Change in perpetual trust	140	884
Depreciation and amortization	12,578	10,644
Contributions restricted for long-term purposes	(4,980)	(2,874)
Change in asset retirement obligation	(89)	266
Amortization of long-term agreements	163	159
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	(730)	(347)
Pledges receivable	(55)	617
Inventories	(39)	(79)
Prepaid expenses	(1,029)	(294)
Accounts payable and accrued liabilities	3,617	(922)
Deferred income	(1,578)	(185)
Net cash provided by operating activities	<u>856</u>	<u>2,810</u>
Cash flows from investing activities		
Purchases of buildings and equipment	(41,399)	(35,458)
Bond project fund held in trust	10,977	(28,501)
Student loans repaid	411	529
Purchases of investments	(51,859)	(60,417)
Sales of investments	59,191	72,503
Net cash used in investing activities	<u>(22,679)</u>	<u>(51,344)</u>
Cash flows from financing activities		
Payments on long-term debt	(4,505)	(4,305)
Payments on obligations under long-term agreements	(499)	(425)
Proceeds from note	600	-
Proceeds from issuance of long-term debt	-	60,095
Change in U.S. Government loan funds	(762)	71
Contributions restricted for long-term purposes	5,251	3,312
Net cash provided by financing activities	<u>85</u>	<u>58,748</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(21,738)	10,214
Cash and cash equivalents and restricted cash		
Beginning of year	59,692	49,478
End of year	<u>\$ 37,954</u>	<u>\$ 59,692</u>
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents	\$ 35,500	\$ 42,878
Restricted cash within funds held in trust by others	2,454	16,814
Total end of year	<u>\$ 37,954</u>	<u>\$ 59,692</u>
Supplemental cash flow disclosures		
Costs accrued for capital expenditures	\$ 2,707	\$ 8,576
Cash paid for interest	6,212	6,905

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

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2020 and 2019

(Dollars in thousands)

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.

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, 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 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.

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 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

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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, 2020 and 2019. 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 includes cash restricted for the Perkins loans, which totaled \$1,072 and \$1,324 at June 30, 2020 and 2019, 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 return. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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.

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 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 2019 have been reclassified to conform to the 2020 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2020 and 2019

(Dollars in thousands)

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 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.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-15, Classification of Certain Cash Receipts and Cash Payments. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investments. The School retrospectively adopted ASU 2016-15 effective July 1, 2019 and determined there were no significant changes to its consolidated financial statements from applying the new guidance as compared to prior guidance.

In November 2016, FASB issued ASU 2016-18, Restricted Cash. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance in ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The School retrospectively adopted ASU 2016-18 effective July 1, 2019. Upon the adoption of ASU 2016-18, the 2019 consolidated statement of cash flows was updated to include \$16,814 of additional restricted cash for the year ended Jun 30, 2019.

The following line items on the statement of cash flows for the year ended June 30, 2019 were affected by this change in accounting principal:

	<u>As Previously Reported</u>	<u>As Reported under ASU 2016-18</u>	<u>Effect of Change</u>
Cash flows from investing activities			
Bond project fund held in trust	\$ (45,315)	\$ (28,501)	\$ 16,814
Net cash used in investing activities	<u>(45,315)</u>	<u>(28,501)</u>	<u>16,814</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(6,600)	10,214	16,814
Cash and cash equivalents and restricted cash			
Beginning of year	49,478	49,478	-
End of year	<u>\$ 42,878</u>	<u>\$ 59,692</u>	<u>\$ 16,814</u>

In March 2019, FASB issued ASU 2019-03, Not-for-Profit-Entities (Topic 958) - Updating the Definition of Collections. ASU 2019-03 modifies the definition of the term 'collections' and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. ASU 2019-03, expands the definition of 'collections' and now allows Not-for-Profit Entities that have collections to use funds from deaccessioned collection pieces to support

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collection. The School early adopted ASU 2019-03 effective July 1, 2019, and prospectively updated its policy for collections (Note 16) accordingly. The adoption of ASU 2019-03 did not have a significant impact of the School's consolidated financial statements.

New Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, Leases. ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the consolidated statements of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. In June 2020, FASB issued ASU 2020-05, which amends the effective dates of certain new accounting standards, including leasing (ASC 842), to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus pandemic. As amended by ASU 2020-05, the leasing standard is now effective for the School in fiscal 2021. The School expects to use the optional transition method and recognize and measure leases at the beginning of the year of adoption and recognize a cumulative-effect adjustment to opening net assets in the year of adoption. The School is assessing the impact this standard will have on its consolidated financial statements.

In August 2018, 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 and is effective for the School in fiscal 2021. The School is assessing the impact this standard will have on its consolidated financial statements.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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, 2020 and 2019, 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 2020
Assets					
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	11,611	-	-	330,888	342,499
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	2,454	17,524	-	-	19,978
Beneficial interests held by third parties and other investments					
	-	-	1,524	-	1,524
Total assets at fair value	\$ 14,065	\$ 17,524	\$ 1,524	\$ 330,888	\$ 364,001
Liabilities					
Interest rate swap					
	\$ -	\$ (6,771)	\$ -	\$ -	\$ (6,771)
Total liabilities at fair value	\$ -	\$ (6,771)	\$ -	\$ -	\$ (6,771)

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

	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 2019
Assets					
Investments					
Cash and cash equivalents	\$ 978	\$ -	\$ -	\$ -	\$ 978
Multi-strategy limited partnership investment fund	-	-	-	275,225	275,225
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	21,453	21,453
Equity long hedge fund of funds	-	-	-	19,584	19,584
Fixed income	-	-	-	8,103	8,103
Private equity	-	-	-	19,117	19,117
Total investments	<u>978</u>	<u>-</u>	<u>-</u>	<u>343,482</u>	<u>344,460</u>
Bond project fund held in trust					
Cash and cash equivalents	16,814	-	-	-	16,814
Fixed income	-	28,501	-	-	28,501
Total bond project fund held in trust	<u>16,814</u>	<u>28,501</u>	<u>-</u>	<u>-</u>	<u>45,315</u>
Beneficial interests held by third parties and other investments					
	-	-	1,666	-	1,666
Total assets at fair value	<u>\$ 17,792</u>	<u>\$ 28,501</u>	<u>\$ 1,666</u>	<u>\$ 343,482</u>	<u>\$ 391,441</u>
Liabilities					
Interest rate swap					
	\$ -	\$ (4,182)	\$ -	\$ -	\$ (4,182)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ (4,182)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,182)</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.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

The following table is a rollforward of the Consolidated Statements of Financial Position amounts for financial instruments classified by the School within Level 3 of the fair value hierarchy defined above.

	<u>Fair Value</u> <u>6/30/19</u>	<u>Realized</u> <u>Gains</u> <u>(Losses)</u>	<u>Unrealized</u> <u>Gains</u> <u>(Losses)</u>	<u>Tranfers</u> <u>In (Out)</u>	<u>Fair Value</u> <u>6/30/20</u>
Beneficial interests held by third parties	\$ 1,666	\$ -	\$ (18)	\$ (124)	\$ 1,524

	<u>Fair Value</u> <u>6/30/18</u>	<u>Realized</u> <u>Gains</u> <u>(Losses)</u>	<u>Unrealized</u> <u>Gains</u> <u>(Losses)</u>	<u>Tranfers</u> <u>In (Out)</u>	<u>Fair Value</u> <u>6/30/19</u>
Beneficial interests held by third parties	\$ 1,535	\$ -	\$ 131	\$ -	\$ 1,666

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, 2020 and 2019.

There were no transfers between levels for the years ended June 30, 2020 and 2019.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

The following tables present liquidity information for the investments carried at fair value at June 30, 2020 and 2019, respectively.

	Investments Asset Value as of June 30, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
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	
Total	\$ 342,499	\$ 3,614		

	Investments Asset Value as of June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Cash and cash equivalents	\$ 978	\$ -	Liquid	N/A
Multi-strategy limited partnership investment fund	275,225	649	Semiannually	120 Days
Hedge funds				
Multi-strategy hedge fund of funds	21,453	-	Quarterly	7 Days
Equity long hedge fund of funds	19,584	-	Quarterly	7 Days
Fixed income	8,103	-	Quarterly	7 Days
Private equity	19,117	4,835	At Manager's Discretion	
Total	\$ 344,460	\$ 5,484		

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, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents	\$ 6,515	\$ 12,399
Accounts receivable, net	3,377	2,618
	\$ 9,892	\$ 15,017

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 expenditure. The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. For 2021, the spending policy is to spend

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

5.00% of a rolling twelve-quarter average, of which \$12,362 of appropriations from the quasi-endowment will be available within the next 12 months.

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 20), which it could draw upon. In addition, the School has a board-designated endowment of \$243,747 (Notes 14, 15). 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, 2020 and 2019, revenue from tuition and fees recognized by the School reflects aggregate reductions as follows:

	<u>2020</u>	<u>2019</u>
Tuition and fees	\$ 135,060	\$ 129,600
Less:		
School sponsored financial aid	(24,265)	(22,326)
Donor sponsored financial aid	(3,054)	(2,728)
Net tuition and fees	<u>\$ 107,741</u>	<u>\$ 104,546</u>

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

5. Investment Income

Investment income for the years ended June 30, 2020 and 2019, was as follows:

	2020			2019
	Without Donor Restriction	With Donor Restriction	Total	Total
Interest and dividend income, net	\$ (277)	\$ 3,819	\$ 3,542	\$ 4,203
Net realized gains	27,907	7,967	35,874	43,742
Net unrealized losses	(21,272)	(9,234)	(30,506)	(31,820)
Total investment return	\$ 6,358	\$ 2,552	\$ 8,910	\$ 16,125

Reconciliation from Consolidated Statement of Activities

Investment income	\$ 16,094	\$ 17,738
Realized and unrealized losses on investments, net	(7,184)	(1,613)
Total investment return	\$ 8,910	\$ 16,125

Investment management fees and other expenses (netted from interest and dividend income) totaled \$1,687 and \$1,398 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

6. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Student tuition and fees	\$ 858	\$ 1,730
Government grants	2,394	883
Computer loan programs	87	116
Other	685	470
	<u>4,024</u>	<u>3,199</u>
Less: Allowance for uncollectible accounts	(560)	(465)
Accounts receivable, net	<u>\$ 3,464</u>	<u>\$ 2,734</u>

Included in the government grants receivable balance as of June 30, 2020 is \$1,942 related to the Coronavirus Aid, Relief, and Economics Security ("CARES") Act. (Note 19).

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. The School is continuing to service its Perkins loans while performing an ongoing assessment of the loan portfolio.

Student loans receivable consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Student loan funds	\$ 2,169	\$ 2,603
Less: Allowance for uncollectible accounts	(384)	(407)
Student loans receivable, net	<u>\$ 1,785</u>	<u>\$ 2,196</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. 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, 2020 and 2019, the liability was \$1,226 and \$1,988, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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, 2020 is adequate to absorb credit losses inherent in the portfolio as of that date.

8. Pledges Receivable

Pledges receivable at June 30, 2020 and 2019, are expected to be realized in the following periods:

	<u>2020</u>	<u>2019</u>
In one year or less	\$ 2,010	\$ 1,814
Between one year and five years, net of discount	2,520	2,926
Five years and over, net of discount	<u>669</u>	<u>696</u>
	5,199	5,436
Less: Allowance for uncollectible pledges	<u>(453)</u>	<u>(475)</u>
Pledges receivable, net	<u>\$ 4,746</u>	<u>\$ 4,961</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 0.16% to 2.85%, resulting in discounts of \$51 and \$112 for the years ended June 30, 2020 and 2019, respectively.

The School has pledges outstanding from Trustees of approximately \$2,034 and \$3,044 at June 30, 2020 and 2019, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

9. Property, Plant and Equipment

	<u>2020</u>	<u>2019</u>
Land and buildings		
Educational plant	\$ 204,532	\$ 191,393
Dormitories and refectory	120,420	96,771
Administrative and other	52,258	39,028
Residences	1,847	1,723
Building under capital lease	7,275	7,275
Construction in progress	28,956	47,030
Land	9,162	9,017
Land under capital lease	2,537	2,537
	<u>426,987</u>	<u>394,774</u>
Furniture, fixtures and equipment	68,928	66,145
	<u>495,915</u>	<u>460,919</u>
Less: Accumulated depreciation	(223,131)	(210,728)
Property, plant and equipment, net	<u>\$ 272,784</u>	<u>\$ 250,191</u>

Construction in progress as of June 30, 2020 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, 2020 and 2019 was \$12,725 and \$11,089, respectively.

Outstanding commitments on uncompleted construction contracts totaled \$28 and \$221 at June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, the School capitalized interest costs of \$985 and \$0, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Trade accounts payable	\$ 3,187	\$ 7,790
Accrued interest	1,692	1,690
Accrued personnel liabilities	4,993	1,634
Healthcare self insurance reserve	1,000	-
Annuities payable	285	297
Other	3,359	5,353
Accounts payable and accrued liabilities	<u>\$ 14,516</u>	<u>\$ 16,764</u>

Included in trade accounts payable and other are construction related payables totaling \$2,707 and \$8,576 at June 30, 2020 and 2019, respectively.

Accrued personnel liabilities at June 30, 2020 includes \$1,839 related to voluntary early retirement payouts as well as a \$1,037 deferral of the School's portion of Social Security taxes, as provided under Section 2302 of the CARES Act.

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, 2020 and 2019, respectively:

	<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>

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

	<u>Balance at 6/30/18</u>	<u>Revenue recognized included in 6/30/18 Balance</u>	<u>Payments received in advance of performance</u>	<u>Balance at 6/30/19</u>
Degree programs	\$ 2,613	\$ (2,613)	\$ 2,241	\$ 2,241
Continuing education programs	5,161	(5,161)	4,670	4,670
Other	322	(322)	190	190
Total Deferred Income	<u>\$ 8,096</u>	<u>\$ (8,096)</u>	<u>\$ 7,101</u>	<u>\$ 7,101</u>

12. Obligations Under Long-Term Agreements

During fiscal year 2004, the School entered into a long-term agreement with a third party in order to purchase the Center for Integrative Technology building. The principal amount outstanding on the capital lease was \$4,428 and \$4,704 at June 30, 2020 and 2019, respectively. The net book value of the capital lease was \$7,078 and \$7,239 at June 30, 2020 and 2019, respectively. Based on a variety of assumptions, the current estimation is that the lease term will end on or about 2031.

Minimum annual lease payments due for the building over the next five years and thereafter are as follows:

2021	\$ 439
2022	439
2023	439
2024	483
2025	483
2026-2031	<u>3,046</u>
Total minimum lease payments	5,329
Interest expense	<u>(901)</u>
Total obligation	<u>\$ 4,428</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 \$5,214 and \$5,304 at June 30, 2020 and 2019, respectively, and are included within obligations under long-term agreements on the consolidated statements of financial position.

In December 2019, 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 \$540 as of June 30, 2020 and is included within obligations under long-term agreements on the consolidated statements of financial position.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

13. Bonds Payable and Other Debt

<u>Name</u>	<u>Original Issue</u>	<u>Rate</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
Rhode Island Health and Education Building Corporation					
Series 2008A	\$61,930	1.25% - 2.60%	2035	\$ 41,760	\$ 43,620
Series 2008B	\$31,850	1.25% - 2.60%	2037	31,850	31,850
Series 2012	\$28,340	2.50% - 4.00%	2031	22,760	23,510
Series 2012B	\$51,815	2.50% - 5.00%	2036	40,255	42,150
Series 2018	\$54,950	4.00% - 5.25%	2049	54,950	54,950
Bonds payable, net				191,575	196,080
Add: Unamortized premium on bonds				9,021	9,453
Less: Bond issuance costs				(1,219)	(1,291)
Bonds payable, net				\$ 199,377	\$ 204,242

All bond premiums and issuance costs are being accreted straight line over the lives of the Bonds which approximates the effective interest basis. Amortization expense for the years ended June 30, 2020 and 2019, was \$360 and \$316, respectively.

Rhode Island Health and Education Building Corporation (“RIHEBC”)

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 RISD, 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. 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 Institution 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.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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.

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.

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, 2020.

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:

	<u>RIHEBC</u>
2021	\$ 4,705
2022	4,915
2023	6,110
2024	6,385
2025	6,650
2026–2049	<u>162,810</u>
Annual principal payments	<u>\$ 191,575</u>

Cash paid for interest on long-term debt for the years ended June 30, 2020 and 2019, was \$6,101 and \$5,932, respectively. Interest expense, net of capitalized interest, was \$5,478 and \$6,316 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the School incurred net realized and unrealized losses of \$3,522 and \$2,935, 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

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

which commenced on February 1, 2020 to hedge a portion of its outstanding variable rate debt. RISD owns an option to cancel the swap beginning August 15, 2027 and semi-annual thereafter.

The following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2020 and 2019.

Maturity	Original Notional	Fair Value 2020	Fair Value 2019
February 1, 2020	\$ 18,000	\$ -	\$ (132)
August 15, 2025	24,300	(1,228)	(1,185)
August 15, 2034	28,500	(3,663)	(2,052)
August 15, 2036	17,995	(1,880)	(813)
Liability for interest rate swap		<u>\$ (6,771)</u>	<u>\$ (4,182)</u>

14. Net Assets

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

	2020	2019
Without donor restrictions		
Designated funds	\$ 8,437	\$ 10,820
Designated for endowment	243,747	250,926
Capital and other undesignated funds	55,332	47,974
Total net assets without donor restrictions	<u>307,516</u>	<u>309,720</u>
With donor restrictions		
Restricted by time or purpose	35,913	43,132
Restricted by time or purpose within endowment	40,790	40,710
Restricted in perpetuity	64,475	59,495
Total net assets with donor restrictions	<u>141,178</u>	<u>143,337</u>
Total net assets	<u>\$ 448,694</u>	<u>\$ 453,057</u>

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

15. Endowment Funds

The School's endowment consists of approximately 282 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 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

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

Endowment net asset composition by type of fund as of June 30, 2020 and 2019, were as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated			
For scholarships	\$ 14,049	\$ -	\$ 14,049
For academic and institutional purposes	227,288	-	227,288
For museum support	2,410	-	2,410
Total board designated	<u>243,747</u>	<u>-</u>	<u>243,747</u>
Donor-restricted			
For scholarships	-	42,455	42,455
For academic and institutional purposes	-	27,773	27,773
For 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>
2019			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated			
For scholarships	\$ 12,320	\$ -	\$ 12,320
For academic and institutional purposes	236,130	-	236,130
For museum support	2,476	-	2,476
Total board designated	<u>250,926</u>	<u>-</u>	<u>250,926</u>
Donor-restricted			
For scholarships	-	41,020	41,020
For academic and institutional purposes	-	25,504	25,504
For museum support	-	33,681	33,681
Total donor restricted	<u>-</u>	<u>100,205</u>	<u>100,205</u>
Total endowment funds	<u>\$ 250,926</u>	<u>\$ 100,205</u>	<u>\$ 351,131</u>

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

Changes in endowment net assets for the years ended June 30, 2020 and 2019, were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at June 30, 2019	\$ 250,926	\$ 100,205	\$ 351,131
Investment return			
Investment income, net of fees	(973)	(433)	(1,406)
Net appreciation (realized and unrealized)	5,869	2,765	8,634
Total investment return	4,896	2,332	7,228
Gifts	12	6,980	6,992
Endowment return allocated for spending	(12,087)	(4,252)	(16,339)
Endowment net assets at June 30, 2020	<u>\$ 243,747</u>	<u>\$ 105,265</u>	<u>\$ 349,012</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at June 30, 2018	\$ 251,995	\$ 99,454	\$ 351,449
Investment return			
Investment income, net of fees	(475)	(186)	(661)
Net appreciation (realized and unrealized)	10,708	4,162	14,870
Total investment return	10,233	3,976	14,209
Gifts	1	953	954
Endowment return allocated for spending	(12,303)	(4,178)	(16,481)
Designated for endowment	1,000	-	1,000
Endowment net assets at June 30, 2019	<u>\$ 250,926</u>	<u>\$ 100,205</u>	<u>\$ 351,131</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, 2020 and 2019, 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

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

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).

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 2020 and 2019, the spending policy was to spend 5.00% of a rolling twelve-quarter average.

16. Museum

Museum revenues for the years ended June 30, 2020 and 2019, are described below:

	<u>2020</u>	<u>2019</u>
Service revenue	\$ 817	\$ 962
Investment income	1,709	1,682
Gifts and grants	906	2,792
Total museum revenues	<u>\$ 3,432</u>	<u>\$ 5,436</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 \$606 and \$932 for acquisitions during the years ended June 30, 2020 and 2019, respectively. The School sold collections in the amount of \$16 and \$0 during the years ended June 30, 2020 and 2019, respectively. The School did not use any proceeds from the sale of its collections to support the direct care of existing collections for the year ended June 30, 2020.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

17. 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, 2020 and 2019, were as follows:

	Instruction and Academic Support	Administrative and Institutional Support	Auxiliary Services	Museum	2020 Total
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>

	Instruction and Academic Support	Administrative and Institutional Support	Auxiliary Services	Museum	2019 Total
Salaries and wages	\$ 41,706	\$ 23,649	\$ 4,463	\$ 5,375	\$ 75,193
Benefits	12,207	5,924	1,447	1,922	21,500
Contracted services	2,686	10,062	1,352	2,659	16,759
Depreciation, amortization and interest	4,968	2,441	7,284	3,220	17,913
Utilities, plant and equipment	4,959	4,475	3,767	1,019	14,220
Supplies and general	1,851	888	5,473	376	8,588
Other operating expenses	1,859	949	102	198	3,108
Total operating expenses	<u>\$ 70,236</u>	<u>\$ 48,388</u>	<u>\$ 23,888</u>	<u>\$ 14,769</u>	<u>\$ 157,281</u>

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

18. 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 \$4,956 and \$4,744 for the years ended June 30, 2020 and 2019, respectively.

19. The Coronavirus Aid, Relief and Economic Security (“CARES”) Act

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.

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 will be applied in the second quarter calendar year 2020 payroll tax form 941.

20. 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, 2020, the line of credit was amended to extend the maturity date to June 15, 2021 and increase the limit to \$20,000. The School had no outstanding borrowings against the line of credit as of June 30, 2020 and 2019.

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.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2020 and 2019
(Dollars in thousands)

21. Subsequent Events

Management has evaluated the subsequent events for the period after June 30, 2020 through October 1, 2020, the date the consolidated financial statements were issued.