

**SALUS UNIVERSITY AND ITS FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**



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**SALUS UNIVERSITY AND ITS FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Salus University and Its Foundation
Elkins Park, Pennsylvania

We have audited the accompanying consolidated financial statements of Salus University and Its Foundation (the University), 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

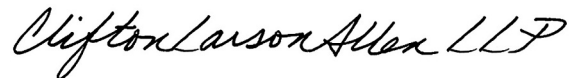
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, management has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. Our opinion is not modified with respect to these matters.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 13, 2021

SALUS UNIVERSITY AND ITS FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Cash and Cash Equivalents	\$ 13,688,498	\$ -	\$ 13,688,498	\$ 12,349,792	\$ -	\$ 12,349,792
Cash Restricted as to Purpose	6,388,535	141,890	6,530,425	7,326,455	141,890	7,468,345
Tuition and Other Accounts Receivable, Net	2,370,931	-	2,370,931	2,043,326	-	2,043,326
Patient Care Receivable, Net	383,172	-	383,172	352,617	-	352,617
Contributions Receivable, Net	-	381,445	381,445	-	234,111	234,111
Beneficial Interest in Third-Party Trusts	-	171,223	171,223	-	444,185	444,185
Other Assets	1,724,523	9,418	1,733,941	1,836,687	9,415	1,846,102
Government Loans to Students, Net	9,429,833	-	9,429,833	10,104,361	-	10,104,361
Investments	49,384,964	11,437,088	60,822,052	40,788,459	8,590,420	49,378,879
Land, Buildings, Furniture, and Equipment, Net	36,529,238	-	36,529,238	36,784,217	-	36,784,217
	<u>\$ 119,899,694</u>	<u>\$ 12,141,064</u>	<u>\$ 132,040,758</u>	<u>\$ 111,585,914</u>	<u>\$ 9,420,021</u>	<u>\$ 121,005,935</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable	\$ 818,041	\$ -	\$ 818,041	\$ 842,340	\$ -	\$ 842,340
Accrued Expenses	1,984,447	-	1,984,447	1,736,551	-	1,736,551
Deferred Income	5,912,353	-	5,912,353	10,908,180	-	10,908,180
Other Liabilities	1,412,112	-	1,412,112	2,172,770	-	2,172,770
Capital Lease Obligations	1,008,770	-	1,008,770	1,347,920	-	1,347,920
Debt	13,669,320	-	13,669,320	14,096,394	-	14,096,394
Government Advances	10,996,166	-	10,996,166	12,342,846	-	12,342,846
Postretirement Benefits	9,260,990	-	9,260,990	10,191,259	-	10,191,259
Total Liabilities	<u>45,062,199</u>	<u>-</u>	<u>45,062,199</u>	<u>53,638,260</u>	<u>-</u>	<u>53,638,260</u>
NET ASSETS	<u>74,837,495</u>	<u>12,141,064</u>	<u>86,978,559</u>	<u>57,947,654</u>	<u>9,420,021</u>	<u>67,367,675</u>
Total Liabilities and Net Assets	<u>\$ 119,899,694</u>	<u>\$ 12,141,064</u>	<u>\$ 132,040,758</u>	<u>\$ 111,585,914</u>	<u>\$ 9,420,021</u>	<u>\$ 121,005,935</u>

See accompanying Notes to Consolidated Financial Statements.

**SALUS UNIVERSITY AND ITS FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and Fees, Net of Financial Aid of \$1,813,639	\$ 43,753,256	\$ -	\$ 43,753,256
Investment Return	23,204	-	23,204
Allocation of Endowment Spending	1,671,579	-	1,671,579
Grant Revenue	3,159,431	-	3,159,431
Contributions	200,631	1,102,383	1,303,014
Patient Care, Net	2,868,785	-	2,868,785
Other	320,904	-	320,904
Sales and Services:			
Auxiliary Enterprises	1,086,410	-	1,086,410
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	331,713	(331,713)	-
Total Revenues, Gains, and Other Support	<u>53,415,913</u>	<u>770,670</u>	<u>54,186,583</u>
OPERATING EXPENSES			
Instruction	22,943,281	-	22,943,281
Academic Support	3,204,517	-	3,204,517
Research	1,299,206	-	1,299,206
Student Services	3,490,032	-	3,490,032
Patient Care	8,062,227	-	8,062,227
Institutional Support	11,129,308	-	11,129,308
Auxiliary Enterprises	904,823	-	904,823
Scholarships and Fellowships	266,446	-	266,446
Total Operating Expenses	<u>51,299,840</u>	<u>-</u>	<u>51,299,840</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	2,116,073	770,670	2,886,743
NONOPERATING GAINS (LOSSES)			
Investment Income	340,090	69,220	409,310
Net Unrealized and Realized Gains on Investments	10,038,785	2,108,386	12,147,171
Allocation of Endowment Spending	(1,488,342)	(183,237)	(1,671,579)
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	70,209	(70,209)	-
Other	813,443	26,213	839,656
Total Nonoperating Gains	<u>9,774,185</u>	<u>1,950,373</u>	<u>11,724,558</u>
CHANGE IN NET ASSETS	11,890,258	2,721,043	14,611,301
Net Assets - Beginning of Year	57,947,654	9,420,021	67,367,675
Adoption of ASU 2014-09	4,999,583	-	4,999,583
Net Assets - Beginning of Year (Restated)	<u>62,947,237</u>	<u>9,420,021</u>	<u>72,367,258</u>
NET ASSETS - END OF YEAR	<u>\$ 74,837,495</u>	<u>\$ 12,141,064</u>	<u>\$ 86,978,559</u>

See accompanying Notes to Consolidated Financial Statements.

**SALUS UNIVERSITY AND ITS FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and Fees, Net of Financial Aid of \$1,532,086	\$ 41,427,147	\$ -	\$ 41,427,147
Investment Return	74,441	-	74,441
Allocation of Endowment Spending	1,656,688	-	1,656,688
Grant Revenue	3,381,804	-	3,381,804
Contributions	290,532	574,354	864,886
Patient Care, Net	2,996,192	-	2,996,192
Other	438,824	-	438,824
Sales and Services:			
Auxiliary Enterprises	1,355,406	-	1,355,406
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	470,601	(470,601)	-
Total Revenues, Gains, and Other Support	<u>52,091,635</u>	<u>103,753</u>	<u>52,195,388</u>
OPERATING EXPENSES			
Instruction	23,405,747	-	23,405,747
Academic Support	2,904,167	-	2,904,167
Research	1,203,301	-	1,203,301
Student Services	3,834,153	-	3,834,153
Patient Care	7,860,029	-	7,860,029
Institutional Support	10,207,940	-	10,207,940
Auxiliary Enterprises	887,538	-	887,538
Scholarships and Fellowships	237,210	-	237,210
Total Operating Expenses	<u>50,540,085</u>	<u>-</u>	<u>50,540,085</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	1,551,550	103,753	1,655,303
NONOPERATING GAINS (LOSSES)			
Investment Income	630,978	126,029	757,007
Net Unrealized and Realized Gains on Investments	281,129	60,714	341,843
Allocation of Endowment Spending	(1,449,900)	(206,788)	(1,656,688)
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	105,663	(105,663)	-
Other	375,566	(7,825)	367,741
Total Nonoperating Gains (Losses)	<u>(56,564)</u>	<u>(133,533)</u>	<u>(190,097)</u>
CHANGE IN NET ASSETS	1,494,986	(29,780)	1,465,206
Net Assets - Beginning of Year	<u>56,452,668</u>	<u>9,449,801</u>	<u>65,902,469</u>
NET ASSETS - END OF YEAR	<u>\$ 57,947,654</u>	<u>\$ 9,420,021</u>	<u>\$ 67,367,675</u>

See accompanying Notes to Consolidated Financial Statements.

**SALUS UNIVERSITY AND ITS FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 14,611,301	\$ 1,465,206
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,976,504	3,014,984
Imputed Interest on Deferred Bond Costs	(40,270)	13,503
Provision for Bad Debts	38,300	(23,500)
Net Unrealized and Realized Gains on Investments	(12,147,171)	(341,843)
Contributions Designated for the Acquisition of Long-Lived Assets and Endowments	(30,569)	(57,161)
Changes in Assets and Liabilities:		
Tuition, Patient Care, and Other Receivables	(358,160)	(68,578)
Contributions Receivable	(185,634)	78,070
Beneficial Interest in Third-Party Trusts	272,962	33,857
Other Assets	112,161	(432,463)
Accounts Payable	(24,299)	(95,154)
Accrued Expenses	247,896	83,464
Deferred Income	3,756	574,294
Other Liabilities	(760,658)	885,566
Postretirement Benefits	(930,269)	(1,312,613)
Net Cash Provided by Operating Activities	3,785,850	3,817,632
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	12,679,912	10,900,834
Purchases of Investments	(11,975,914)	(11,041,730)
Collections on Loans to Students - Government and Other	2,097,686	2,685,793
Loans Issued to Students - Government and Other	(1,423,158)	(1,329,804)
Purchase of Land, Buildings, Furniture, and Equipment, Net	(2,721,525)	(1,666,462)
Net Cash Used by Investing Activities	(1,342,999)	(451,369)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of New Debt	13,969,734	-
Repayment of Debt	(14,356,538)	(495,649)
Repayment of Capital Lease Obligations	(339,150)	(329,540)
Contributions Designated for the Acquisition of Long-Lived Assets and Endowments	30,569	57,161
Change in Government Advances	(1,346,680)	(3,608,704)
Net Cash Used by Financing Activities	(2,042,065)	(4,376,732)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND CASH RESTRICTED AS TO PURPOSE	400,786	(1,010,469)
Cash, Cash Equivalents, and Cash Restricted as to Purpose - Beginning of Year	19,818,137	20,828,606
CASH, CASH EQUIVALENTS, AND CASH RESTRICTED AS TO PURPOSE - END OF YEAR	\$ 20,218,923	\$ 19,818,137
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 346,684	\$ 430,003
Cash and Cash Equivalents	\$ 13,688,498	\$ 12,349,792
Cash Restricted as to Purpose	6,530,425	7,468,345
Total	\$ 20,218,923	\$ 19,818,137

See accompanying Notes to Consolidated Financial Statements.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 DESCRIPTION OF THE ORGANIZATION

Salus University is a nonprofit Pennsylvania corporation of higher education. Salus, Latin for health and well-being, is a fitting name for an institution dedicated to educating caring professionals for the health care, teaching, and rehabilitation fields. Salus University consists of the following colleges:

The Pennsylvania College of Optometry
The George S. Osborne College of Audiology
The College of Health Science Education and Rehabilitation

The mission of Salus University is to advance integrated health care through innovative education, research, and clinical services.

The Pennsylvania College of Optometry Foundation (the Foundation) is a nonprofit Pennsylvania corporation controlled by Salus University (collectively, the "University"). The Foundation is limited to acting for the benefit of Salus University and its charitable and educational purposes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the University and Foundation. All inter-company activities have been eliminated. The consolidated financial statements of the University have been prepared on the accrual basis of accounting. The University classifies revenues based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that: a) restrict their use to a specific purpose and/or the passage of time; or b) require that they be maintained in perpetuity by the University; generally, the donor of these assets permits the University to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Net Assets Without Donor Restrictions – Net assets not subject to donor-imposed stipulations. Certain of these amounts have been designated by the board for investment purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same year the gift is made are reported as contributions with donor restrictions and releases in the current year. Expirations of donor-imposed restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished, and/or the stipulated time period has elapsed, are reported as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The University considers all highly liquid investments, with purchased maturities of three months or less, to be cash equivalents.

Cash Restricted as to Purpose

Cash restricted as to purpose includes funds held in accordance with the University's outstanding debt agreements and funds restricted for the University's student loan programs.

Concentration of Credit Risk

The University invests its cash and cash equivalents with a financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. The University has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The University's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including cash restricted as to purpose and investments. These funds are held in various high-quality financial institutions and are managed by University personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions at levels that typically exceed federally insured limits. The University believes that the concentrations of credit risk are reasonable for its cash and cash equivalents, including restricted cash and investments.

Contributions Receivable and Contribution Revenue

Contributions, including unconditional promises to give, are reported as an increase in the appropriate net asset group, subject to the existence or absence of donor-imposed stipulations. Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value. For the years ended June 30, 2021 and 2020, the discount was computed using the University's incremental borrowing rate commensurate with the expected receipt of the pledge (approximately 4%). Conditional promises to give are not included as support until such time as the conditions are substantially met.

Allowance for Doubtful Accounts

The allowance for doubtful accounts on tuition receivable, contributions receivable, patient care receivables, and loans to students is provided based upon management's judgment, including such factors as prior collection history and type of receivable. The University writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The tuition and other accounts receivable balance is net of an allowance for doubtful accounts of \$250,000 at June 30, 2021 and 2020.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Appropriation and Contracts

The University receives contracts from various states. Students from the respective states receive a tuition benefit during the academic period. The University recognizes the benefit received as a reduction of the tuition balance due from the student.

Investments

The University records investments at fair value. Debt securities, equity securities, and mutual funds are valued at quoted market prices. Alternative investments are recorded at net asset value (NAV). Investment sales and purchases are recorded on a trade-date basis.

Nonoperating Activities

Interest income from operating cash and cash equivalents is recorded in operating activities. Interest, dividends, and realized and unrealized gains and losses on investments are reported in nonoperating activities. Nonoperating activities also include other items, including the nonoperating portion of the gains or losses resulting from the actuarial valuation of the postretirement obligation, the allocation of endowment spending and Foundation expenses.

Government Loans to Students

The University administers federally funded loan programs and awards loans in accordance with federal guidelines. The government requires a funding match from the University. The loans are guaranteed by the federal government subject to certain provisions. Loans to students also include institutional loans by the University to students that are not guaranteed by the government. The government loans to students balance is net of an allowance for doubtful accounts of \$641,100 at June 30, 2021 and 2020.

Land, Buildings, Furniture, and Equipment

Land, buildings, furniture, and equipment are recorded at cost or at fair value at the date of the gift. Equipment costing \$5,000 or greater and construction projects costing \$25,000 or greater are capitalized and depreciated within the University's depreciation guidelines. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets (15 to 20 years for land improvements; 10 to 40 years for buildings and improvements; and 4 to 10 years for furniture and equipment). Assets acquired under capital leases are amortized at the lesser of the lease term or useful life of the asset.

Government Agency Advances and Funding

The University receives funding or reimbursement from governmental agencies for various activities, including student loans, research, and training. In general, funding received from government agencies is recognized as revenue when the funds are used for their intended purpose. Amounts received from governmental agencies that have been advanced to students in the form of loans are shown as government advances on the consolidated statements of financial position.

Allocation of Certain Expenses

The consolidated statements of activities present expenses by functional classification. Operation and maintenance of physical plant and related interest and depreciation are allocated based on square footage.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Auxiliary Enterprises

Auxiliary enterprises include the rental activities of the University's 8380 Office Building, the Hafter Student Community Center and the net activities of the bookstore and the cafeteria.

Income Taxes

The University has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and files federal tax Form 990, *Return of Organization Exempt from Income Tax*, annually for informational purposes. Accordingly, no provision for income taxes is required in the accompanying consolidated financial statements.

The University follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. The University does not believe its consolidated financial statements include any material uncertain tax positions.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. The most significant management estimates and assumptions relate to the determination of allowance for tuition and other accounts receivable, patient care receivables, contributions receivable, government loans to students, useful lives of fixed assets, valuation of alternative investments, the allocation of functional expenses, assumptions related to the postretirement liability, and the reported fair values of certain of the University's assets and liabilities. Actual results could differ from those estimates.

Adoption of New Accounting Standards

As of July 1, 2020, the University adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of transition. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The University applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2020. Adoption of the new guidance resulted in changes to the University's accounting policies for revenue recognition and deferred income as detailed below.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

The University has a summer term that spans fiscal years. The University's policy has been to defer all revenues from the summer term and recognize the revenues in the following fiscal year. As part of this policy, the University billed students prior to fiscal year-end and recorded student accounts receivable and deferred income at June 30. Under the new guidance, the University has an unconditional right to consideration under the contract since the add/drop period has ended prior to June 30. Therefore, the University now recognizes revenue related to the summer term that falls in the current fiscal year and defers the remaining portion at year-end to be recognized as revenue in the following fiscal year as the services are delivered.

The modified retrospective method of transition requires the University to disclose the effect of applying the new guidance on each item included in the 2021 consolidated financial statements. Following are the line items from the consolidated statement of financial position as of June 30, 2020, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Would Have Been Reported</u>	<u>Adjustments</u>	<u>As Reported</u>
Assets:			
Tuition and Other Accounts Receivable, Net	\$ 2,043,326	\$ -	\$ 2,043,326
Total Assets	<u>121,005,935</u>	<u>-</u>	<u>121,005,935</u>
Liabilities:			
Deferred Income	5,908,597	4,999,583	10,908,180
Total Liabilities	<u>62,368,092</u>	<u>4,999,583</u>	<u>67,367,675</u>
Net Assets:			
Without Donor Restrictions	62,947,237	4,999,583	57,947,654
Total Net Assets	<u>\$ 62,368,092</u>	<u>\$ 4,999,583</u>	<u>\$ 67,367,675</u>

In adopting ASU 2014-09, the University determined that certain tuition and fee revenues related to summer 2020 recognized in fiscal 2021 should be recognized in fiscal 2020. The above table shows the effect on beginning net assets of the change in the timing of this revenue. There was also an effect on the fiscal 2020 liabilities which is also reflected in the above table. The consolidated statement of activities show the impact as an adjustment to beginning net assets for the year ended June 30, 2021.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes and modifies disclosure requirements retrospectively for non-public entities. The provisions were effective for the University's fiscal year ending June 30, 2021. Management has applied this standard retrospectively.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standard

In February 2016, the FASB issued ASU 2016-02, *Leases*. This standard establishes guidance that will result in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions.

The new guidance will result in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position and will improve the understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets used in their businesses. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which deferred the effective date to the University's fiscal year ending June 30, 2023. At adoption, the University will recognize a right-of-use asset and a lease liability measured at the present value of its operating lease payments.

The University is assessing the impact this standard will have on its consolidated financial statements.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on higher education, businesses, and communities. As a result of COVID-19, the University's campus and clinics were ordered to close in March 2020. The remainder of the spring semester education was delivered through online learning. Some students in clinical rotation had their course study temporarily paused until summer and fall terms.

COVID-19 may also impact various parts of the University's future operations and financial results, including, but not limited to fluctuations in enrollment, loss of clinical and auxiliary revenues, cost increases in technology and cleaning the facilities. Management believes the University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

Reclassifications

Certain reclassifications have been made to the 2020 amounts to conform to the 2021 presentation.

Subsequent Events

Management evaluated events and transactions that occurred after the statement of financial position date for potential recognition and disclosure through October 13, 2021, the date on which the consolidated financial statements were available to be issued. No significant subsequent events were noted.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The University had the following financial assets available for expenditure within one year as of June 30:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 13,688,498	\$ 12,349,792
Accounts Receivable	2,467,696	2,228,946
Other Miscellaneous Receivables	112,200	45,263
Payout of Board-Designated Funds	1,579,600	1,529,600
Total	<u>\$ 17,847,994</u>	<u>\$ 16,153,601</u>

Federal student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans.

The University's governing board has designated a portion of its resources to function as endowment and for other purposes. Those amounts are identified as board-designated in the table below. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board.

	<u>2021</u>	<u>2020</u>
Institutional Loan Fund	\$ 968,389	\$ 956,101
Board-Designated Investments	47,873,580	39,496,305
Total	<u>\$ 48,841,969</u>	<u>\$ 40,452,406</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue in the next year to cover general expenditures.

The University also has a \$3,000,000 working capital line of credit. See Note 12 for information about this arrangement.

**SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue, or transaction price, is a measure of the amount of consideration expected to be received in exchange for goods or services. Revenue is recognized when services to customers (students or patients) are provided, in an amount that reflects the consideration the University expects to be entitled in exchange for those services.

Performance Obligations and Revenue Recognition

Tuition

The University has four academic terms; summer, fall, winter and spring. Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, pro rata over the academic terms.

Each program has a unique tuition charge appropriate for the course of study. Payment policy is set forth in the student handbook and financial aid handbook. Generally, payments for tuition and fees are due prior to the start of the academic terms. Many students obtain Title IV or other financial aid resulting in the University receiving a significant amount of the transaction price at the beginning of the academic term.

Patient Care

The Salus University clinics provide both clinical learning experiences and patient care. The primary service area includes Philadelphia, Pennsylvania and the surrounding communities. The patient care receivables are comprised primarily of amounts due from patients and third-party payors such as Medicare, Medicaid, BC/BS, Davis Vision, and Cigna Health Springs-Superior. It is the policy of the University to provide care to needy members of the community, regardless of their ability to pay.

These programs are subject to audit by the government and/or their agents. Retroactive adjustments are accrued when known and adjusted in future periods as final settlements are determined. Laws and regulations governing these programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

Transaction Price

Tuition

Tuition and fees are reported at established rates, net of financial assistance provided by the University.

Students may receive discounts or institutional scholarships. The amount of discounts or scholarships are applied to individual student accounts when such amounts are disbursed. Therefore, the tuition is reduced directly by these discounts or institutional scholarships from the amount of the standard rates charged. Students who adjust their course load or withdraw completely prior to 60% of the academic term (add/drop period) may receive a full or partial refund in accordance with the University's refund policy.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 4 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Transaction Price (Continued)

Patient Care

Patient care revenue is accounted for at established rates on the accrual basis in the period the service is provided and is net of appropriate allowances to give recognition to reimbursement programs of third-party payors and charity care. Adjustments to the estimated allowance are reflected in the period in which they become known.

Contract Balances

Tuition

Tuition and fees are recognized in the period services are provided and amounts received for future periods are reported as deferred income. The University's performance obligations are to provide instructional services and patient care. As instruction is satisfied over the academic term, deferred income is reduced. When payments are received, either from the student or financial aid provider, accounts receivable is reduced.

Deferred revenue represents tuition that was billed for the summer term prior to year-end but is not recognizable until the next fiscal year as tuition and will be recognized over the fiscal year in which academic programs are delivered, pro rata over the term of the related semester. In fiscal year 2021, \$4,999,583 was recognized as revenue related to the summer term which was deferred income in prior years. Any payments received in advance for the subsequent year are classified as deferred income in the consolidated statements of financial position.

The University's contract liabilities consist of the following at June 30, 2021:

Revenue Recognized over Time:

Deferred Income - Students	<u>\$ (5,791,971)</u>
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Patient Care

Payments for patient care services are due when billed. No patient revenue is deferred.

Practical Expedient

As the University's performance obligations have an expected duration of less than one year, we have not disclosed the amount of the transaction price allocated to our obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period and when the University expects to recognize this amount as revenue. All consideration from contracts with customers is considered in the transaction price.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 5 CASH RESTRICTED AS TO PURPOSE

The following is a summary of cash restricted as to purpose as of June 30:

	<u>2021</u>	<u>2020</u>
Construction Funds Held by Bank	\$ 3,041,648	\$ 3,041,648
Government and University Loan Funds	3,317,386	4,254,701
Permanently Restricted Loan Funds	141,890	141,890
Tenant Escrow	29,501	30,106
Total	<u>\$ 6,530,425</u>	<u>\$ 7,468,345</u>

NOTE 6 INVESTMENTS

The following is a summary of investments by type at June 30:

	<u>2021</u>	<u>2020</u>
Short-Term Investments	\$ 484,707	\$ 475,917
Fixed Income Securities	15,155,411	12,355,405
Equity Securities	33,168,906	27,234,394
Alternative Investments	11,818,033	9,112,728
Total	<u>60,627,057</u>	<u>49,178,444</u>
Cash Surrender Value of Student Life Insurance Policies	194,995	200,435
Total	<u>\$ 60,822,052</u>	<u>\$ 49,378,879</u>

Included in the investments, with a corresponding offset in other liabilities, are funds held on behalf of the University's Alumni Association of \$69,114 and \$64,594 at June 30, 2021 and 2020, respectively.

NOTE 7 FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The fair value levels are as follows:

Level 1 – Inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.

Level 2 – Inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The University’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

The following tables present the University’s assets measured at fair value on a recurring basis, aggregated by level in the fair value hierarchy within which those measurements fall, as of June 30:

	2021			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Short-Term Investments	\$ 484,707	\$ -	\$ -	\$ 484,707
Fixed Income Securities	15,155,411	-	-	15,155,411
Equity Securities	33,168,906	-	-	33,168,906
Cash Surrender Value of Student Life Insurance Policies	-	194,995	-	194,995
Beneficial Interest in Third-Party Trusts	-	-	171,223	171,223
Total	<u>\$ 48,809,024</u>	<u>\$ 194,995</u>	<u>\$ 171,223</u>	49,175,242
Investments Measured Using Net Asset Value per Share				11,818,033
Total Assets				<u>\$ 60,993,275</u>

	2020			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Short-Term Investments	\$ 475,917	\$ -	\$ -	\$ 475,917
Fixed Income Securities	12,355,405	-	-	12,355,405
Equity Securities	27,234,394	-	-	27,234,394
Cash Surrender Value of Student Life Insurance Policies	-	200,435	-	200,435
Beneficial Interest in Third-Party Trusts	-	-	444,185	444,185
Total	<u>\$ 40,065,716</u>	<u>\$ 200,435</u>	<u>\$ 444,185</u>	40,710,336
Investments Measured Using Net Asset Value per Share				9,112,728
Total Assets				<u>\$ 49,823,064</u>

**SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

All investments were valued by the University using the market approach valuation technique. Investments measured at NAV include investments in hedge funds that generally invest in equity and fixed income securities. In addition, the managers may invest in various arbitrage strategies. The fair values have been estimated using the NAV per share of the investments. These investments in hedge funds are not redeemable and the University had no outstanding capital commitments as of June 30, 2021.

During fiscal years 2021 and 2020, there were no transfers into or out of Level 3 of the fair value hierarchy and there were no purchases or issues of Level 3 assets and liabilities.

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs
	2021	2020		
Beneficial Interest in Third-Party Trusts	\$ 171,223	\$ 444,185	Fair Value of Trust Instruments	Value of Underlying Assets

Cash Surrender Value of Student Life Insurance Policies

The fair value of this item is based on the cash value of the policy at year-end. The fair value was \$194,995 and \$200,435 for the years ended June 30, 2021 and 2020, respectively.

NOTE 8 BENEFICIAL INTEREST IN THIRD-PARTY TRUSTS

The University is the recipient of two trusts established by alumni. For 15 years, the University received the income from one trust, which was used for scholarships. During fiscal 2021, the trust terminated and the University received any remaining funds, and established an endowed scholarship. The University receives the income from the other trust to be used as scholarship money for a student from the University of Delaware. The University's interest in the fair value of this trust is recorded on the consolidated statements of financial position.

The University had recorded a \$171,223 and \$444,185 receivable with donor restrictions at June 30, 2021 and 2020, respectively.

SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 CONTRIBUTIONS RECEIVABLE

Included in contributions receivable at June 30 are the following unconditional promises:

	<u>2021</u>	<u>2020</u>
Unconditional Promises Expected Within 1 Year	\$ 196,208	\$ 141,980
Unconditional Promises Expected Between 1-5 Years	311,570	166,364
Unconditional Promises Greater Than 5 Years	<u>2,167</u>	<u>1,167</u>
Total	509,945	309,511
Less:		
Discount	(33,300)	(18,500)
Allowance for Uncollectibles	<u>(95,200)</u>	<u>(56,900)</u>
Total	<u>\$ 381,445</u>	<u>\$ 234,111</u>

NOTE 10 GOVERNMENT LOANS TO STUDENTS

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2021 and 2020, student loans represented 7% and 8%, respectively, of total assets.

At June 30, student loans consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal Government Programs	\$ 10,025,297	\$ 10,688,811
Institutional Programs	<u>45,636</u>	<u>56,650</u>
Total	10,070,933	10,745,461
Less: Allowance for Doubtful Accounts	<u>(641,100)</u>	<u>(641,100)</u>
Total	<u>\$ 9,429,833</u>	<u>\$ 10,104,361</u>

The University participates in the federal revolving loan programs. The availability of funds for loans under the programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$10,996,166 and \$12,342,846 at June 30, 2021 and 2020, respectively, are ultimately refundable to the government, and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2021 and 2020, the following amounts were past due under student loan programs:

<u>June 30,</u>	<u>Less Than</u>	<u>Within</u>	<u>Within</u>	<u>Within</u>	<u>Within</u>	<u>Greater</u>	<u>Total</u>
	<u>1 Year</u>	<u>1 and 2</u>	<u>2 and 3</u>	<u>3 and 4</u>	<u>4 and 5</u>	<u>Than</u>	
		<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>5 Years</u>	
2021	\$ 79,672	\$ 14,696	\$ 16,425	\$ 28,144	\$ 2,928	\$ 324,919	\$ 466,784
2020	\$ 149,941	\$ 34,699	\$ -	\$ 28,144	\$ 2,928	\$ 325,179	\$ 540,891

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NOTE 10 GOVERNMENT LOANS TO STUDENTS (CONTINUED)

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Federal Perkins, Health Professions, and Loans for Disadvantaged Students programs are guaranteed by the federal government, with defaulted loans eligible for assignment/return and potential cancellation. The allowances for doubtful accounts reflect the possibility that some of the longstanding past-due accounts may not be accepted for cancellation.

NOTE 11 LAND, BUILDINGS, FURNITURE, AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land and Land Improvements	\$ 3,755,865	\$ 3,854,354
Buildings and Building Improvements	57,477,270	55,957,395
Furniture and Equipment	22,737,185	21,420,513
Construction in Progress	<u>478,143</u>	<u>500,876</u>
Total	84,448,463	81,733,138
Less: Accumulated Depreciation	<u>(47,919,225)</u>	<u>(44,948,921)</u>
Total	<u>\$ 36,529,238</u>	<u>\$ 36,784,217</u>

Depreciation expense of \$2,976,504 and \$3,014,984 was recognized in the consolidated statements of activities for the years ended June 30, 2021 and 2020, respectively.

The University is comprised of five buildings on two campuses: the Oak Lane clinical campus – one building (the Eye Institute) and the Elkins Park academic campus – four buildings (Elkins Park West, South, Hafter Student Center, and the 8380 Office Park). These clinical, student, and academic facilities were financed with a combination of University assets and debt. The 8380 Office Park on the Elkins Park campus is leased to tenants for commercial use.

NOTE 12 LINE OF CREDIT

The University entered into a \$3,000,000 line of credit on July 25, 2019 which is set to expire on March 31, 2022. There were no amounts outstanding at June 30, 2021 and 2020. The interest rate for the line of credit is set at the 30-day LIBOR plus 2.5%, which was 2.58% and 2.66% as of June 30, 2021 and 2020, respectively.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 13 RENTAL INCOME

The University owns a four-story office building (8380 Office Park) adjacent to its academic facilities, which is leased to third parties. Rental income totaled \$857,601 and \$1,119,716 for the years ended June 30, 2021 and 2020, respectively, and was recorded in the auxiliary enterprises on the consolidated statements of activities. A summary of future annual lease payments related to these office leases is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 718,068
2023	960,713
2024	952,453
2025	880,114
2026	845,388
Thereafter	3,071,716
Total	<u>\$ 7,428,452</u>

The University also leases office space to third parties in The Eye Institute. Rental income totaled \$206,646 and \$223,014 for the years ended June 30, 2021 and 2020, respectively, and was recorded in patient care revenue on the consolidated statements of activities. A summary of future annual lease payments related to The Eye Institute leases is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 196,658
2023	198,678
2024	200,737
2025	202,838
2026	204,981
Thereafter	224,446
Total	<u>\$ 1,228,338</u>

NOTE 14 LONG-TERM DEBT

On July 15, 2016, the University issued North Penn Health, Hospital and Education Authority Fixed Rate Tax-Exempt Revenue Bonds, Series 2016A, in the original issue amount of \$14,425,000. The Series 2016A Bonds were used to retire a 2012 bank loan and to fund capital projects including the Learning Resource Center, Clinical Skills Lab, and other facilities improvements. On November 30, 2020, the University issued North Penn Health, Hospital and Education Authority Fixed Rate Revenue Bonds in the amount of \$13,969,732. The Series 2020 Bonds were issued to pay the outstanding principal of the Series 2016A Bonds. As of both June 30, 2021 and 2020, \$3,041,648 of proceeds remained available for future projects and are included in cash restricted as to purpose in the consolidated statements of financial position.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 14 LONG-TERM DEBT (CONTINUED)

Additionally, on July 15, 2016, the University issued North Penn Health, Hospital and Education Authority Fixed Rate Federally Taxable Revenue Bonds, Series 2016B in the amount of \$1,575,000. The Series 2016B Bonds were used for renovation of a patient centered medical home at The Eye Institute. This loan was paid off during fiscal 2020.

These loans require that the University maintain certain financial covenants. Management was not aware of any violations of the covenants for the year ended June 30, 2021.

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

	2021	2020
North Penn Health Revenue Bonds, Series 2016A	\$ -	\$ 14,177,418
North Penn Health Revenue Bonds, Series 2020	13,790,614	-
Unamortized Deferred Bond Costs	(121,294)	(81,024)
Total	<u>\$ 13,669,320</u>	<u>\$ 14,096,394</u>

Minimum scheduled payments on long-term debt at June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 361,417
2023	368,362
2024	374,520
2025	381,378
2026	388,365
Thereafter	11,916,572
Total	<u>\$ 13,790,614</u>

Interest expense for all borrowings for 2021 and 2020 was \$346,684 and \$430,003, respectively.

NOTE 15 CAPITAL LEASE OBLIGATIONS

The University has furniture and equipment leases that have been capitalized for financial reporting purposes. In 2017, the University entered into a capital lease financing agreement in the amount of \$2,223,999 for the purchase of ophthalmic equipment and furniture for the newly renovated clinical skills lab. As of June 30, 2021 and 2020, the University had capital lease obligations outstanding of \$1,008,770 and \$1,347,920 respectively. Net book value was \$1,054,665 and \$1,428,480 as of June 30, 2021 and 2020, respectively.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 15 CAPITAL LEASE OBLIGATIONS (CONTINUED)

The aggregate future maturities of the capital lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 351,555
2023	351,555
2024	351,555
Total Future Minimum Lease Payments	1,054,665
Less: Amount Representing Interest	(45,895)
Present Value of Net Future Minimum Lease Payments	<u>\$ 1,008,770</u>

NOTE 16 DEFINED CONTRIBUTION PENSION PLAN

The University provides a defined contribution pension plan for all qualified employees. Total pension expense for the years ended June 30, 2021 and 2020 was \$2,369,825 and \$2,241,349, respectively.

NOTE 17 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The University provides substantially all full-time employees hired before October 23, 2003 with postretirement benefits other than pensions, primarily medical and life insurance coverage. The University uses the accrual method of accounting for postretirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the University.

Reconciliation of Benefit Obligation, Plan Assets, and Funded Status

	<u>2021</u>	<u>2020</u>
Benefit Obligation - Beginning of Year	\$ 10,191,259	\$ 11,503,872
Service Cost	51,415	62,265
Interest Cost	220,161	352,255
Plan Participant Contributions	14,336	15,163
Actuarial Gain	(872,748)	(1,326,455)
Benefits Paid	(343,433)	(415,841)
Benefit Obligation - End of Year	<u>\$ 9,260,990</u>	<u>\$ 10,191,259</u>
Fair Value of Plan Assets - Beginning of Year	\$ -	\$ -
Employer Contribution	329,097	400,678
Plan Participant Contributions	14,336	15,163
Benefits Paid	(343,433)	(415,841)
Fair Value of Plan Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>
Funded Status - Accrued Benefit Cost	<u>\$ (9,260,990)</u>	<u>\$ (10,191,259)</u>

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 17 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Assumptions

Weighted-average assumptions used to determine benefit obligations as of year-end and net periodic benefit costs were:

	<u>2021</u>	<u>2020</u>
Discount Rate	2.50%	2.30%
Current Year Health Care Cost Trend Rate	6.50%	7.00%
Ultimate Health Care Cost Trend Rate	5.00%	5.00%
Years Until Ultimate is Reached	3	4
	<u>2021</u>	<u>2020</u>
Service Cost	\$ 51,415	\$ 62,265
Interest Cost	220,161	352,255
Net Periodic Postretirement Benefit Cost	<u>\$ 271,576</u>	<u>\$ 414,520</u>

Net Periodic Postretirement Benefit Cost

	<u>2021</u>	<u>2020</u>
Other Changes in Plan Assets and Benefit Obligations:		
Net Actuarial Gain	\$ (872,748)	\$ (1,326,455)
Total Amount Recognized in Nonoperating Gains, Other	<u>\$ (872,748)</u>	<u>\$ (1,326,455)</u>

Sensitivity Analysis

The obligations are not significantly impacted by the health care cost trend assumption because current health care premiums are greater than or are approaching the University's maximum monthly payment and the health care cost trend assumption is greater than the 3% annual inflation factor that the University may apply to increase the maximum monthly payment.

Estimated Future Benefit Payments

The benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 442,494
2023	458,282
2024	483,455
2025	504,637
2026	540,556
2027-2031	2,581,355

Other

The estimated contributions for the year ended June 30, 2021 are \$442,494.

SALUS UNIVERSITY AND ITS FOUNDATION
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NOTE 18 NET ASSETS

Net assets without donor restrictions include board-designated funds available for program and University support of \$49,384,164 and \$39,872,188 as of June 30, 2021 and 2020, respectively.

Net assets with donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
Time or Purpose Restricted	\$ 1,849,653	\$ 1,381,612
Pledges	381,445	234,111
Beneficial Interest in Third-Party Trusts	171,223	444,185
Cash Surrender Value Life Insurance	194,995	200,435
Other	9,418	9,415
Endowment Funds:		
Unexpended Endowment Income	4,753,039	3,072,060
Donor-Restricted Endowment Funds	<u>4,781,291</u>	<u>4,078,203</u>
Total	<u>\$ 12,141,064</u>	<u>\$ 9,420,021</u>

NOTE 19 FUNDRAISING EXPENSE

Fundraising expenses are those expenses incurred to induce donors to contribute to an organization. Included are all of the direct costs associated with and supporting the actual solicitation of contributions. Fundraising costs for the years ended June 30, 2021 and 2020 were \$631,082 and \$491,418, respectively.

NOTE 20 ENDOWMENTS

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes donor-restricted endowment funds and funds designated by the board of trustees to function as quasi-endowments, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements, and other net assets.

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NOTE 20 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The University has interpreted Commonwealth of Pennsylvania Act 141 (Act 141) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to be maintained in perpetuity in the University's 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. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not to be maintained in perpetuity and is regarded as "net appreciation" is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the University's spending policy. The University considers the following factors in making a determination to appropriate or accumulate endowment funds.

- a) The duration and preservation of the fund
- b) The mission of the University and the donor-restricted endowment fund
- c) General economic conditions
- d) The possible effect of inflation and deflation
- e) The expected total return from investments
- f) Other resources of the University
- g) The investment policy of the University

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." The University's interpretation of Act 141 allows for any deficiencies of this nature to be reported as reductions to the related net asset grouping. There were no deficiencies at June 30, 2021 and 2020.

Investment Policy

The University has adopted an investment policy that is intended to maintain the purchasing power of the endowment assets. Under this approach, as approved by the finance committee of the board of trustees, the University expects its endowment funds, over time, to provide an average annual real total return of at least 5.0% per year over a rolling five-year time period. Actual returns in any given year may vary from this amount. To satisfy as long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (interest and dividends) and capital appreciation (realized and unrealized). The University employs a professional investment management consultant to manage the investment portfolio. Different managers have been employed over the years and have included a wide range of investments, including alternative strategies.

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NOTE 20 ENDOWMENTS (CONTINUED)

Investment Policy (Continued)

Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally, they have had low correlations, thus providing diversification benefits at the total fund level.

Endowment Spending Policy

The University's spending policy is designed to stabilize annual spending levels and preserve the real value of the endowment over time. With regard to net assets with donor restrictions to be maintained in perpetuity, where the donor is silent on the annual draw amount, the board elected to adopt a 4% draw using the average market value of the funds for the trailing 12 quarters for both 2021 and 2020. The board elected to adopt the same 4% draw for board-designated quasi-endowment funds. The board expects a 4% draw for the upcoming June 30, 2022 fiscal year.

Endowment Fund Activity

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets - June 30, 2019	\$ 39,193,483	\$ 7,060,572	\$ 46,254,055
Investment Return:			
Investment Income	597,277	145,062	742,339
Net Unrealized and Realized Gains	<u>275,913</u>	<u>17,996</u>	<u>293,909</u>
Net Investment Return	873,190	163,058	1,036,248
Contributions	100,000	133,421	233,421
Appropriation of Endowment Asset for Expenditure (Draw)	(1,449,900)	(206,788)	(1,656,688)
Board Approved Scholarship Fund	<u>750,000</u>	<u>-</u>	<u>750,000</u>
Net Assets - June 30, 2020	39,466,773	7,150,263	46,617,036
Investment Return:			
Investment Income	313,334	59,308	372,642
Net Unrealized and Realized Gains	<u>9,581,815</u>	<u>1,805,690</u>	<u>11,387,505</u>
Net Investment Return	9,895,149	1,864,998	11,760,147
Contributions	-	702,306	702,306
Appropriation of Endowment Asset for Expenditure (Draw)	<u>(1,488,342)</u>	<u>(183,237)</u>	<u>(1,671,579)</u>
Net Assets - June 30, 2021	<u>\$ 47,873,580</u>	<u>\$ 9,534,330</u>	<u>\$ 57,407,910</u>

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JUNE 30, 2021 AND 2020

NOTE 20 ENDOWMENTS (CONTINUED)

Endowment Fund Activity (Continued)

The University's endowment net assets were classified as follows as of June 30, 2021 and 2020:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted and Board-Designated Endowment Funds	\$ 47,873,580	\$ -	\$ 47,873,580
Donor-Restricted Endowment Funds:			
Time or Purpose Restrictions	-	4,753,039	4,753,039
Held in Perpetuity	-	4,781,291	4,781,291
Total	<u>\$ 47,873,580</u>	<u>\$ 9,534,330</u>	<u>\$ 57,407,910</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted and Board-Designated Endowment Funds	\$ 39,466,773	\$ -	\$ 39,466,773
Donor-Restricted Endowment Funds:			
Time or Purpose Restrictions	-	3,072,060	3,072,060
Held in Perpetuity	-	4,078,203	4,078,203
Total	<u>\$ 39,466,773</u>	<u>\$ 7,150,263</u>	<u>\$ 46,617,036</u>

NOTE 21 COMMITMENTS AND CONTINGENCIES

The University leases space for its program services under operating leases with the option to renew. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 98,405
2023	10,241
Total	<u>\$ 108,646</u>

Rental expense under operating lease agreements for the years ended June 30, 2021 and 2020 was \$180,107 and \$147,873, respectively.

The University is involved in litigation and regulatory investigations arising in the ordinary course of business. Based on the information currently available, in the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are of such kind, or involve such amounts as would not have a material adverse effect on the financial position, changes in net assets, or cash flows of the University.

**SALUS UNIVERSITY AND ITS FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 22 FUNCTIONAL EXPENSES

Expenses reported in the consolidated financial statements are classified among program services and management and general services for the year ended June 30, 2021 as follows:

	PROGRAM SERVICES							MANAGEMENT AND GENERAL SERVICES					
	Academic		Student	Scholarships			Subtotal	Management	Institutional	Auxiliary	Foundation	Subtotal	Total
	Instruction	Support	Services	Research	Patient Care	and Fellowships		and General	Advancement				
Salaries and Benefits	\$ 18,762,016	\$ 2,072,627	\$ 2,211,059	\$ 519,338	\$ 4,153,550	\$ -	\$ 27,718,590	\$ 5,197,121	\$ 549,728	\$ -	\$ -	\$ 5,746,849	\$ 33,465,439
Services and Professional Fees	786,013	5,179	662,599	31,677	816,210	-	2,301,678	1,011,503	202,044	154,020	-	1,367,567	3,669,245
Supplies and Travel	245,199	17,112	34,981	(6,658)	368,997	-	659,631	125,636	4,745	10,909	-	141,290	800,921
Cost of Goods Sold	-	-	-	-	184,691	-	184,691	-	-	-	-	-	184,691
Rent	103,909	-	-	-	161,156	-	265,065	-	-	84,690	-	84,690	349,755
Insurance	-	-	-	-	-	-	-	626,916	-	-	-	626,916	626,916
Technology and Equipment	122,255	556,217	75,726	68,668	600,972	-	1,423,838	1,431,880	40,176	81,484	-	1,553,540	2,977,378
Other	104,839	11,210	(33,100)	(158,870)	426,293	-	350,372	(244,294)	49,616	321,787	62,483	189,592	539,964
Tuition and Trainee Stipends	25,094	-	-	-	-	-	25,094	-	-	-	-	-	25,094
Plant Operations - Facilities	1,142,464	249,551	192,926	176,309	345,145	-	2,106,395	843,540	-	-	-	843,540	2,949,935
Depreciation	978,121	177,097	136,229	147,127	607,579	-	2,046,153	678,418	-	251,933	-	930,351	2,976,504
Interest	150,803	38,287	29,692	23,832	43,409	-	286,023	137,520	-	-	-	137,520	423,543
Grants and Contributions	522,568	77,237	179,920	497,783	354,225	-	1,631,733	412,276	-	-	-	412,276	2,044,009
COVID-19 Student Support	-	-	-	-	-	266,446	266,446	-	-	-	-	-	266,446
Total	<u>\$ 22,943,281</u>	<u>\$ 3,204,517</u>	<u>\$ 3,490,032</u>	<u>\$ 1,299,206</u>	<u>\$ 8,062,227</u>	<u>\$ 266,446</u>	<u>\$ 39,265,709</u>	<u>\$ 10,220,516</u>	<u>\$ 846,309</u>	<u>\$ 904,823</u>	<u>\$ 62,483</u>	<u>\$ 12,034,131</u>	<u>\$ 51,299,840</u>

Expenses reported in the consolidated financial statements are classified among program services and management and general services for the year ended June 30, 2020 as follows:

	PROGRAM SERVICES							MANAGEMENT AND GENERAL SERVICES					
	Academic		Student	Scholarships			Subtotal	Management	Institutional	Auxiliary	Foundation	Subtotal	Total
	Instruction	Support	Services	Research	Patient Care	and Fellowships		and General	Advancement				
Salaries and Benefits	\$ 18,206,071	\$ 1,906,003	\$ 2,178,780	\$ 478,368	\$ 4,261,667	\$ -	\$ 27,030,889	\$ 5,176,303	\$ 518,663	\$ -	\$ -	\$ 5,694,966	\$ 32,725,855
Services and Professional Fees	894,732	274,713	526,920	29,261	690,087	-	2,415,713	789,320	339,799	498	58,448	1,188,065	3,603,778
Supplies and Travel	618,986	32,110	94,989	44,035	186,080	-	976,200	247,572	35,499	-	1,764	284,835	1,261,035
Cost of Goods Sold	-	-	-	-	353,605	-	353,605	-	-	-	-	-	353,605
Rent	41,051	-	-	-	41,051	-	41,051	-	-	-	-	-	41,051
Insurance	-	-	-	-	285,432	-	285,432	142,005	-	37,500	-	179,505	464,937
Technology and Equipment	50,574	218,881	39,964	-	554,565	-	863,984	1,196,754	17,025	119	-	1,213,898	2,077,882
Other	161,458	20,302	129,084	(182,140)	78,850	-	207,554	65,502	5,061	408,446	216,280	695,289	902,843
Tuition and Trainee Stipends	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant Operations - Facilities	971,590	230,589	130,649	178,758	675,978	-	2,187,564	558,268	-	184,372	-	742,640	2,930,204
Depreciation	962,675	182,053	135,161	187,570	601,327	-	2,068,786	689,595	-	256,603	-	946,198	3,014,984
Interest	148,087	39,516	29,138	32,332	44,351	-	293,424	150,082	-	-	-	150,082	443,506
Grants and Contributions	1,350,523	-	569,468	435,117	128,087	-	2,483,195	-	-	-	-	-	2,483,195
COVID-19 Student Support	-	-	-	-	-	237,210	237,210	-	-	-	-	-	237,210
Total	<u>\$ 23,405,747</u>	<u>\$ 2,904,167</u>	<u>\$ 3,834,153</u>	<u>\$ 1,203,301</u>	<u>\$ 7,860,029</u>	<u>\$ 237,210</u>	<u>\$ 39,444,607</u>	<u>\$ 9,015,401</u>	<u>\$ 916,047</u>	<u>\$ 887,538</u>	<u>\$ 276,492</u>	<u>\$ 11,095,478</u>	<u>\$ 50,540,085</u>

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