

# Consolidated Financial Statements

## Salve Regina University

June 30, 2017 and 2016



# **SALVE REGINA UNIVERSITY**

## ***Consolidated Financial Statements***

### ***Table of Contents***

#### ***Consolidated Financial Statements:***

Independent Auditors' Report	1 – 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 – 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 28



56 Exchange Terrace ■ Providence, RI 02903  
Tel: 401.626.3200 ■ Fax: 401.626.3201 ■ [www.cbiztofias.com](http://www.cbiztofias.com)

## *Independent Auditors' Report*

The Board of Trustees  
Salve Regina University  
Newport, Rhode Island

We have audited the accompanying consolidated financial statements of Salve Regina University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Member of Kreston International – a global network of independent accounting firms



*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Salve Regina University as of June 30, 2017 and 2016, 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.

*Mayer Hoffman McCann P.C.*

September 21, 2017  
Providence, Rhode Island

# SALVE REGINA UNIVERSITY

## *Consolidated Statements of Financial Position*

	<i>June 30,</i>	
	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
<b>Assets</b>		
Cash	\$ 849	\$ 868
Short-term investments	8,577	9,619
Accounts receivable, students - less allowance for doubtful accounts of \$1,945 and \$1,807 in 2017 and 2016, respectively	834	728
Accounts receivable, other	450	984
Loans and notes receivable - less allowance for doubtful accounts of \$538 and \$541 in 2017 and 2016, respectively	2,384	2,491
Pledges receivable - less allowance for doubtful accounts of \$583 and \$568 in 2017 and 2016, respectively	3,536	4,636
Investments	59,889	53,836
Deposits with trustee	5	3,771
Other assets	6,275	7,146
Land, buildings and equipment, net	<u>106,154</u>	<u>99,527</u>
<b>Total assets</b>	<b><u>\$ 188,953</u></b>	<b><u>\$ 183,606</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 2,278	\$ 3,700
Accrued liabilities	5,522	6,732
Deposits and deferred revenue	4,947	4,304
Long-term debt, net	46,186	45,528
Obligations under capital lease	24	201
Refundable advances from government for student loans	<u>1,728</u>	<u>1,666</u>
<b>Total liabilities</b>	<b><u>60,685</u></b>	<b><u>62,131</u></b>
Net assets:		
Unrestricted	106,903	98,099
Temporarily restricted	5,842	9,110
Permanently restricted	<u>15,523</u>	<u>14,266</u>
<b>Total net assets</b>	<b><u>128,268</u></b>	<b><u>121,475</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 188,953</u></b>	<b><u>\$ 183,606</u></b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

*Consolidated Statement of Activities*

*Year Ended June 30, 2017  
(with comparative totals for 2016)*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total 2017</i>	<i>Total 2016</i>
	<i>(in thousands)</i>				
Operating revenues and other support:					
Tuition and fees	\$ 80,056	\$ -	\$ -	\$ 80,056	\$ 77,884
Room and board	16,577	-	-	16,577	17,311
Less: University sponsored scholarships and grants	<u>(35,148)</u>	<u>-</u>	<u>-</u>	<u>(35,148)</u>	<u>(33,718)</u>
<b>Net tuition, fees, room and board</b>	<b>61,485</b>	<b>-</b>	<b>-</b>	<b>61,485</b>	<b>61,477</b>
Gifts and grants	992	25	-	1,017	970
Federal and state government grants	713	-	-	713	940
Investment income appropriated	2,391	86	-	2,477	2,415
Unrestricted investment income	104	-	-	104	49
Other support	340	-	-	340	333
Auxiliary enterprises	1,681	-	-	1,681	1,694
Net assets released from restrictions	<u>268</u>	<u>(268)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total operating revenues and other support</b>	<b><u>67,974</u></b>	<b><u>(157)</u></b>	<b><u>-</u></b>	<b><u>67,817</u></b>	<b><u>67,878</u></b>
Operating expenses:					
Program:					
Instruction	22,596	-	-	22,596	21,396
Research	331	-	-	331	469
Academic support	5,847	-	-	5,847	6,104
Student services	11,900	-	-	11,900	11,655
Auxiliary enterprises	<u>14,927</u>	<u>-</u>	<u>-</u>	<u>14,927</u>	<u>14,799</u>
<b>Total program expenses</b>	<b>55,601</b>	<b>-</b>	<b>-</b>	<b>55,601</b>	<b>54,423</b>
Management and general	<u>11,923</u>	<u>-</u>	<u>-</u>	<u>11,923</u>	<u>12,243</u>
<b>Total operating expenses</b>	<b><u>67,524</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>67,524</u></b>	<b><u>66,666</u></b>
<b>Change in net assets from operations</b>	<b><u>450</u></b>	<b><u>(157)</u></b>	<b><u>-</u></b>	<b><u>293</u></b>	<b><u>1,212</u></b>
Nonoperating income (expense):					
Gifts and grants	1,565	997	1,237	3,799	10,682
Return on investments, net of amounts appropriated as operating	2,662	844	-	3,506	(4,800)
Loss on write-off of buildings and equipment	(210)	-	-	(210)	(1,218)
Other income	40	-	-	40	3,004
Change in value of split interest and other agreements	17	(250)	10	(223)	(5)
Other net assets released from restrictions	4,477	(4,477)	-	-	-
Reclassification of endowment losses exceeding corpus	102	(102)	-	-	-
Expenses	<u>(299)</u>	<u>(123)</u>	<u>10</u>	<u>(412)</u>	<u>(525)</u>
<b>Nonoperating income (expense), net</b>	<b><u>8,354</u></b>	<b><u>(3,111)</u></b>	<b><u>1,257</u></b>	<b><u>6,500</u></b>	<b><u>7,138</u></b>
<b>Change in net assets</b>	<b>8,804</b>	<b>(3,268)</b>	<b>1,257</b>	<b>6,793</b>	<b>8,350</b>
Net assets at beginning of year	<u>98,099</u>	<u>9,110</u>	<u>14,266</u>	<u>121,475</u>	<u>113,125</u>
<b>Net assets at end of year</b>	<b><u>\$ 106,903</u></b>	<b><u>\$ 5,842</u></b>	<b><u>\$ 15,523</u></b>	<b><u>\$ 128,268</u></b>	<b><u>\$ 121,475</u></b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

*Consolidated Statement of Activities*

*Year Ended June 30, 2016*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total 2016</i>
	<i>(in thousands)</i>			
Operating revenues and other support:				
Tuition and fees	\$ 77,884	\$ -	\$ -	\$ 77,884
Room and board	17,311	-	-	17,311
Less: University sponsored scholarships and grants	<u>(33,718)</u>	<u>-</u>	<u>-</u>	<u>(33,718)</u>
<b>Net tuition, fees, room and board</b>	<b>61,477</b>	<b>-</b>	<b>-</b>	<b>61,477</b>
Gifts and grants	917	53	-	970
Federal and state government grants	940	-	-	940
Investment income appropriated	2,352	63	-	2,415
Unrestricted investment income	49	-	-	49
Other support	333	-	-	333
Auxiliary enterprises	1,694	-	-	1,694
Net assets released from restrictions	<u>359</u>	<u>(359)</u>	<u>-</u>	<u>-</u>
<b>Total operating revenues and other support</b>	<b>68,121</b>	<b>(243)</b>	<b>-</b>	<b>67,878</b>
Operating expenses:				
Program:				
Instruction	21,396	-	-	21,396
Research	469	-	-	469
Academic support	6,104	-	-	6,104
Student services	11,655	-	-	11,655
Auxiliary enterprises	<u>14,799</u>	<u>-</u>	<u>-</u>	<u>14,799</u>
<b>Total program expenses</b>	<b>54,423</b>	<b>-</b>	<b>-</b>	<b>54,423</b>
Management and general	<u>12,243</u>	<u>-</u>	<u>-</u>	<u>12,243</u>
<b>Total operating expenses</b>	<b>66,666</b>	<b>-</b>	<b>-</b>	<b>66,666</b>
<b>Change in net assets from operations</b>	<b>1,455</b>	<b>(243)</b>	<b>-</b>	<b>1,212</b>
Nonoperating income (expense):				
Gifts and grants	2,564	3,816	4,302	10,682
Return on investments, net of amounts appropriated as operating	(3,760)	(1,040)	-	(4,800)
Loss on bond refinancing	-	-	-	-
Loss on write-off of buildings and equipment	(1,218)	-	-	(1,218)
Gain on sale of buildings and equipment	3,004	-	-	3,004
Change in value of split interest agreements	(18)	-	13	(5)
Other net assets released from restrictions	87	(87)	-	-
Reclassification of endowment losses exceeding corpus	(138)	138	-	-
Expenses	<u>(366)</u>	<u>(168)</u>	<u>9</u>	<u>(525)</u>
<b>Nonoperating income (expense), net</b>	<b>155</b>	<b>2,659</b>	<b>4,324</b>	<b>7,138</b>
<b>Change in net assets</b>	<b>1,610</b>	<b>2,416</b>	<b>4,324</b>	<b>8,350</b>
Net assets at beginning of year	<u>96,489</u>	<u>6,694</u>	<u>9,942</u>	<u>113,125</u>
<b>Net assets at end of year</b>	<b>\$ 98,099</b>	<b>\$ 9,110</b>	<b>\$ 14,266</b>	<b>\$ 121,475</b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

*Consolidated Statements of Cash Flows*

*Years Ended June 30,  
2017                      2016  
(in thousands)*

<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 6,793	\$ 8,350
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,191	6,833
Change in reserve on receivables	150	328
Change in pledge discounts	(422)	497
Net realized and unrealized investment (gains) losses	(6,141)	2,279
Gains on sale of buildings and equipment	-	(3,004)
Loss on write-off of buildings and equipment	210	1,218
Contributions restricted for long-term investments	(1,237)	(4,302)
Changes in operating assets and liabilities:		
Pledges receivable	1,507	(3,218)
Accounts receivable	290	(32)
Other assets	871	(5,127)
Accounts payable, accrued liabilities, deposits and deferred revenue	(621)	389
<b>Net cash provided by operating activities</b>	<b><u>8,591</u></b>	<b><u>4,211</u></b>
<b>Cash flows from investing activities:</b>		
Purchase and construction of land, buildings and equipment	(7,907)	(4,282)
Proceeds from sale of assets	-	5,246
Purchases of investments	(45,105)	(50,513)
Proceeds from sales of investments	46,235	46,122
Student loans issued	(306)	(662)
Proceeds from student loans	416	422
<b>Net cash used in investing activities</b>	<b><u>(6,667)</u></b>	<b><u>(3,667)</u></b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investments	1,237	4,302
Repayment of capital leases and long-term debt	(3,242)	(4,384)
Change in government advances for student loans	62	-
<b>Net cash used in financing activities</b>	<b><u>(1,943)</u></b>	<b><u>(82)</u></b>
<b>Increase (decrease) in cash</b>	<b>(19)</b>	<b>462</b>
Cash, beginning	<u>868</u>	<u>406</u>
<b>Cash, ending</b>	<b><u>\$ 849</u></b>	<b><u>\$ 868</u></b>
<b>Supplemental disclosures:</b>		
Cash paid during the year for interest	\$ 1,543	\$ 1,639
Land, buildings and equipment purchases financed by long-term debt	\$ 7,440	\$ 15,386
Land, buildings and equipment purchases included in accounts payable	\$ 483	\$ 1,851

See accompanying notes to the consolidated financial statements.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

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

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

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

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

The accompanying consolidated financial statements are presented on the accrual basis of accounting and have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

***Permanently restricted net assets*** - Represent assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income and gains earned, if any, on related investments for general or specific purposes. Unexpended appreciation of permanently restricted net assets is included in temporarily restricted net assets.

***Temporarily restricted net assets*** - Represent assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.

***Unrestricted net assets*** - Represent those assets that the University may use at its discretion. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, in which case revenues are reported in temporarily or permanently restricted, depending on the nature of the restrictions. Expenses are reported as decreases in unrestricted net assets. Upon the expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, such assets are released from restrictions and reclassified to unrestricted.

Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Contributions of cash and other assets to be used to acquire land, buildings and equipment are accounted for as temporarily restricted until such resources are used for the related purpose.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Principles of Consolidation*

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

#### *Cash*

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

#### *Short-Term Investments*

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

#### *Accounts Receivable*

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

#### *Financing Receivables*

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

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Financing Receivables (Continued)*

Perkins and Nursing funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Perkins or Nursing programs, the amounts are generally refundable to the Federal government. Funds advanced by the Federal government of \$1,728,000 and \$1,666,000 at June 30, 2017 and 2016, respectively, are classified as liabilities in the consolidated statements of financial position. Loans receivable are carried at their net realizable value. Interest income is recorded when received.

Loans receivable are considered past due if any portion of the balance due is outstanding for more than 240 days. Loans past due or in default totaled \$618,000 and \$616,000 for the years ended June 30, 2017 and 2016, respectively. Interest and late fees on past due accounts are recorded when received. Perkins and Nursing loans that are in default and meet certain requirements are assigned to the Department of Education, which reduces the Perkins and Nursing loans refundable advances.

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

#### *Pledges Receivable*

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

#### *Investments*

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

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Other Assets*

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

#### *Beneficial Interest in Remainder Trusts*

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

The initially recorded fair values of the donated investments are determined based on the underlying nature of the investments received, which have generally represented Level 1 measurements. The University has recorded other assets of \$249,000 and \$259,000 and accrued liabilities of \$131,000 and \$151,000 under beneficial interests in remainder trusts at June 30, 2017 and 2016, respectively.

#### *Life Interest in Real Estate*

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

The initially recorded fair value of the real estate is based on appraisals, which generally represent Level 2 measurements. The University has recorded other assets of \$965,000 and accrued liabilities of \$415,000 and \$433,000 under life interests in real estate at June 30, 2017 and 2016, respectively.

#### *Land, Buildings and Equipment*

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

#### *Accrued Liabilities*

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

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Revenue Recognition*

A major portion of the University's revenue is derived from student tuition and fees and auxiliary enterprises such as food and housing services provided by the University. Tuition, fees and auxiliary revenue are recognized as revenue when earned in the period to which they relate. Student reservation deposits along with advance payments for tuition and auxiliary enterprises are recognized as income when the related educational services are provided.

#### *Income Tax Status*

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

#### *Uncertain Tax Positions*

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

#### *Operations*

The statements of activities report the changes in unrestricted, temporarily restricted and permanently restricted net assets from operating and non-operating activities. Operating expenses consist of those items attributable to the University's primary mission of providing education. The primary operating revenues are derived from tuition, room and board, grants and contracts, restricted and unrestricted gifts for current operations (and related earnings), income and gains appropriated from the earnings of the endowment consistent with the University's spending policy plus earnings from general unrestricted investments.

Investment income and gains/losses on endowment, temporarily restricted and Board-designated funds, other than the amount appropriated for operations, are classified as non-operating activities. Gifts to the endowment and other gifts and grants not directed to current operations as well as capital improvements and facilities are also classified as non-operating activities.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Functional Allocation of Expenses*

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, salaries and benefits, depreciation, interest, operations and maintenance expenses have been allocated to functional classifications based on such criteria as building usage. Included in management and general expenses are fundraising costs of \$1,135,000 and \$1,064,000 for the years ended June 30, 2017 and 2016, respectively.

#### *Advertising*

Advertising and marketing costs are expensed as incurred and amounted to approximately \$370,000 and \$321,000 for the years ended June 30, 2017 and 2016, respectively.

#### *Fair Value Measurements*

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

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

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 methods are also used in measuring the initial fair value of long-term pledges.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Fair Value Measurements (Continued)*

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the University's financial instruments, see Note 3 – Investments and Fair Values of Financial Instruments.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates included in the consolidated financial statements relate to the allowance for doubtful accounts, pledges and accounts receivable, fair value of certain investments, useful lives of depreciable assets, valuation interests in and obligations under split interest agreements, reserve for self insurance and the allocation of common expenses over program functions.

#### *Subsequent Events*

The University has evaluated subsequent events through September 21, 2017, the date the consolidated financial statements were issued.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 2 - Pledges Receivable*

Pledges receivable consisted of the following at June 30:

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Amounts due in:		
Less than one year	\$ 1,183	\$ 1,455
One to five years	2,602	3,308
Greater than 5 years	<u>730</u>	<u>1,259</u>
<b>Total due</b>	<b>4,515</b>	<b>6,022</b>
Less:		
Unamortized discount	(396)	(818)
Allowance for doubtful accounts	<u>(583)</u>	<u>(568)</u>
<b>Pledges receivable, net</b>	<b>\$ <u>3,536</u></b>	<b>\$ <u>4,636</u></b>

Discount rates used to present value the estimated cash flows from new pledges ranged from 4.40% to 4.90% for the year ended June 30, 2017 and from 3.60% to 4.50% for the year ended June 30, 2016.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Value Measurements*

The following table summarizes the University's recurring fair value measurements at June 30, 2017 and 2016:

<b>2017</b>	<b>Total</b>	<b>Investments Measured at NAV</b>	<b>Level 1</b>	<b>Level 2</b>
Short-term investments:				
Money market funds	\$ 8,489	\$ -	\$ 8,489	\$ -
Certificates of deposits	88	-	-	88
<b>Total short-term investments</b>	<b>8,577</b>	<b>-</b>	<b>8,489</b>	<b>88</b>
Long-term investments:				
Equity funds:				
Domestic	14,468	1,836	12,632	-
Developed	11,857	9,613	2,244	-
Emerging	5,657	-	5,657	-
Fixed income	6,645	-	6,645	-
Multi strategy hedge	14,252	13,315	937	-
Other:				
REIT	2,315	2,315	-	-
Tangible asset	1,561	1,559	-	2
Private Equity	766	766	-	-
Natural resources	2,368	-	2,368	-
<b>Total long-term investments</b>	<b>59,889</b>	<b>29,404</b>	<b>30,483</b>	<b>2</b>
<b>Total investments</b>	<b>68,466</b>	<b>29,404</b>	<b>38,972</b>	<b>90</b>
Other assets:				
Assets held under split-interest agreements	1,214	-	249	965
Interest in real estate LLC	4,025	-	-	4,025
<b>Total</b>	<b>\$ 73,705</b>	<b>\$ 29,404</b>	<b>\$ 39,221</b>	<b>\$ 5,080</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Value Measurements (Continued)*

2016	<i>Total</i>	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Level 2</i>
Short-term investments:				
Money market funds	\$ 9,527	\$ -	\$ 9,527	\$ -
Certificates of deposits	92	-	-	92
<b>Total short-term investments</b>	<b>9,619</b>	<b>-</b>	<b>9,527</b>	<b>92</b>
Long-term investments:				
Equity funds:				
Domestic	13,428	1,443	11,985	-
Developed	9,636	7,705	1,931	-
Emerging	4,916	-	4,916	-
Fixed income	5,550	2,704	2,846	-
Multi strategy hedge	13,524	13,235	289	-
Other:				
REIT	2,315	2,302	-	13
Tangible asset	1,657	1,651	-	6
Private Equity	357	357	-	-
Natural resources	2,453	-	2,453	-
<b>Total long-term investments</b>	<b>53,836</b>	<b>29,397</b>	<b>24,420</b>	<b>19</b>
<b>Total investments</b>	<b>63,455</b>	<b>29,397</b>	<b>33,947</b>	<b>111</b>
Other assets:				
Assets held under split-interest agreements	1,224	-	259	965
Interest in real estate LLC	4,275	-	-	4,275
Deposits held by bond trustee	3,771	-	2,615	1,156
<b>Total</b>	<b>\$ 67,226</b>	<b>\$ 29,397</b>	<b>\$ 36,562</b>	<b>\$ 1,267</b>

At June 30, 2017, \$14,060,000 of the investments measured at NAV have redemption periods of over 90 days. Management has no intention or plans to liquidate any NAV practical expedient investment at other than NAV per share. At June 30, 2017, the University had unfunded commitments of \$2,250,000.

The University had no recurring Level 3 fair value measurements at June 30, 2017 and 2016.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Value Measurements (Continued)*

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

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Investments, beginning of year	\$ <u>63,455</u>	\$ <u>61,343</u>
Gifts and additions:		
Endowment gifts	1,426	760
Endowment additions from operations	1,000	1,000
Operational additions	<u>3,427</u>	<u>6,308</u>
Total gifts and additions	<u>5,853</u>	<u>8,068</u>
Investment returns:		
Interest and dividends	545	473
Net realized and unrealized gains (losses)	<u>5,542</u>	<u>(2,809)</u>
Total investment returns	<u>6,087</u>	<u>(2,336)</u>
Expenditures:		
Amounts appropriated under endowment spending policy:		
Scholarships	(358)	(339)
Operations	<u>(2,119)</u>	<u>(2,076)</u>
Total amounts appropriated under endowment spending policy	<u>(2,477)</u>	<u>(2,415)</u>
Other expenditures:		
Capital projects	(4,330)	(12)
Scholarships	(5)	(5)
Operations	<u>(117)</u>	<u>(1,188)</u>
Total other expenditures	<u>(4,452)</u>	<u>(1,205)</u>
Net investment returns and expenditures	<u>(842)</u>	<u>(5,956)</u>
<b>Investments, end of year</b>	<b>\$ <u><u>68,466</u></u></b>	<b>\$ <u><u>63,455</u></u></b>

Investment management fees were \$599,000 and \$530,000 for the years ended June 30, 2017 and 2016, respectively, and are netted against realized and unrealized gains. Additionally, certain investment managers net their investment manager fees against returns, and accordingly, such amounts are not included in the aforementioned fees.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 4 - Other Assets*

Other assets consisted of the following at June 30:

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Interest in real estate LLC	\$ 4,025	\$ 4,275
Life interest in real estate	965	965
Beneficial interest in remainder trust	249	259
Prepaid expenses	376	1,039
Other	660	608
<b>Other assets</b>	<b>\$ 6,275</b>	<b>\$ 7,146</b>

During 2016, the University was gifted an interest in a limited liability company that holds residential real estate. The fair value of this gift was \$4,275,000 and was determined using Level 2 inputs upon the receipt of the gift. Based on the provisions of the gift agreement, \$3,750,000 was recorded in permanently restricted net assets and \$525,000 in temporarily restricted net assets.

### *Note 5 - Land, Buildings and Equipment*

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

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Land and improvements	\$ 7,660	\$ 7,451
Buildings and improvements	162,562	130,384
Equipment and computer software	33,218	42,612
Equipment under capital lease	515	515
Construction in progress	-	21,503
	203,955	202,465
Less: accumulated depreciation	(97,801)	(102,938)
<b>Land, buildings and equipment, net</b>	<b>\$ 106,154</b>	<b>\$ 99,527</b>

Depreciation and amortization expense was \$7,142,000 and \$6,782,000 for the years ended June 30, 2017 and 2016, respectively. Accumulated depreciation on assets held under capital lease was \$322,000 and \$193,000 at June 30, 2017 and 2016, respectively. Interest capitalized at June 30, 2017 and 2016 was \$87,000 and \$465,000, respectively. Construction in progress in 2016 related to the addition and renovation to the University's main academic building.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 5 - Land, Buildings and Equipment (Continued)*

During 2017, in connection with ongoing construction on campus, the University wrote-off buildings and equipment with a cost basis of \$12,268,000 and accumulated depreciation of \$12,058,000 and recognized a loss on disposal of \$210,000. During 2016, in connection with ongoing construction on campus, the University wrote-off buildings and equipment with a cost basis of \$7,570,000 and accumulated depreciation of \$6,352,000 and recognized a loss on disposal of \$1,218,000. Also during 2016, the University sold property with a net book value of \$2,242,000 for proceeds of \$5,246,000 and recognized a gain on the sale of \$3,004,000.

### *Note 6 - Debt*

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

	<b>2017</b>	<b>2016</b>
	<i>(in thousands)</i>	
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2011, comprised of two bonds with one amortizing over 8 years (\$2,765 at June 30, 2017), and the other over 20 years (\$18,225 at June 30, 2017) with fixed interest of 3.15% and 4.35%, respectively; principal and interest paid monthly, secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. Bonds were privately placed with a bank.	\$ 20,990	\$ 23,375
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2015, comprised of two bonds with one amortizing over 30 years (\$19,405 at June 30, 2017) with a fixed rate of 2.55% for 15 years (rate to be reset in year 16 for the following 15 year term ) and the other over 21 years (\$6,727 at June 30, 2017) with variable interest rate at LIBOR (1.15%) respectively; principal and interest paid monthly, secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. Bonds were privately placed with a bank.	<u>26,132</u>	<u>23,138</u>
Long-term debt	47,122	46,513
Less unamortized bond issuance costs	<u>936</u>	<u>985</u>
<b>Long-term debt, net</b>	<b>\$ <u><u>46,186</u></u></b>	<b>\$ <u><u>45,528</u></u></b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 6 - Debt (Continued)*

In May 2015, the University issued its 2015 Series bond issue in the amount of \$27,500,000 to fund the addition to and renovation of O'Hare Academic Center and to refinance a previous bond issue with a balance of \$3,285,000 at a more favorable interest rate. It should be noted that \$3,748,000 of the above total bond issue remaining at June 30, 2016 was drawn down in 2017 and was utilized to the balance of the renovation.

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

Annual principal payments for the next five years and thereafter as of June 30, 2017 are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2018	\$ 3,197
2019	3,292
2020	1,977
2021	2,030
2022	2,116
Thereafter	<u>34,510</u>
	<u><u>\$ 47,122</u></u>

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the related bonds. Bond issuance costs of \$936,000 and \$985,000 are net of accumulated amortization of \$217,000 and \$167,000 at June 30, 2017 and 2016, respectively. Amortization expense amounted to \$49,000 and \$51,000 for the years ended June 30, 2017 and 2016, respectively.

The University maintains an unsecured revolving credit agreement with a bank that provides for maximum borrowings of \$4,000,000 with a one-year term ending December 2017. Any amounts outstanding bear interest at the bank's prime rate. At June 30, 2017 and 2016, there were no amounts outstanding under this agreement.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Commitments*

#### *Capital Lease*

The University has a capital lease expiring August 2017 associated with its administrative computer system. The minimum rental obligation due in 2018 is \$24,000 at which point the lease will be paid in full.

#### *Operating Leases*

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

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2018	\$ 524
2019	365
2020	349
2021	354
2022	354
Thereafter	<u>1,341</u>
<b>Total lease payments</b>	<b>\$ <u><u>3,287</u></u></b>

Rental expense was approximately \$515,000 and \$527,000 for the years ended June 30, 2017 and 2016, respectively.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Other Commitments*

The University has long-term contracts with outside service vendors for their food and custodial services through August 31, 2023 and June 30, 2021, respectively. Expenses incurred under these contracts are variable each year based on the number of students served and actual expenses incurred. During 2017, total expenses for food services and custodial services amounted to approximately \$3,250,000 and \$1,249,000, respectively. During 2016, total expenses for food services and custodial services amounted to approximately \$3,250,000 and \$1,145,000, respectively.

The University has contracts through 2018 with Senior Administration that stipulate a variety of business terms typical in the education sector and also states if the University terminated these employees without cause, the University would be liable for a period equal to the lesser of nine months or the balance of the term of the agreement.

### *Note 8 - Net Assets and Endowment Matters*

#### *Unrestricted Net Assets*

Unrestricted net assets are comprised of the following at June 30:

	<i>2017</i>		<i>2016</i>
	<i>(in thousands)</i>		
Operating and fixed assets	\$ 61,915	\$	56,868
Board-designated funds operating as endowment	45,042		41,387
Endowment unrealized losses	<u>(54)</u>		<u>(156)</u>
<b>Unrestricted net assets</b>	<b><u>\$ 106,903</u></b>	<b>\$</b>	<b><u>98,099</u></b>



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are comprised of the following at June 30:

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Accumulated unspent gains:		
Financial aid	\$ 2,478	\$ 1,945
Instructional	650	465
Other	112	83
	3,240	2,493
Purpose restricted gifts:		
Capital improvements	1,553	5,039
Instructional	473	614
Financial aid	392	772
Other	184	192
	2,602	6,617
<b>Temporarily restricted net assets</b>	<b>\$ 5,842</b>	<b>\$ 9,110</b>

#### *Permanently Restricted Net Assets*

Permanently restricted net assets are comprised of the following at June 30:

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Instructional	\$ 7,469	\$ 7,168
Financial aid	7,642	6,506
Pledge receivable	-	183
Other	412	409
	15,523	14,266
<b>Permanently restricted net assets</b>	<b>\$ 15,523</b>	<b>\$ 14,266</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

#### *Net Assets Released from Restrictions*

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

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Capital improvements	\$ 4,315	\$ -
Instructional	181	327
Financial aid	48	84
Other	201	35
	<u>4,745</u>	<u>446</u>
<b>Net assets released from restrictions</b>	<b>\$ <u>4,745</u></b>	<b>\$ <u>446</u></b>

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2017:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>(in thousands)</i>			
Donor-restricted endowment funds	\$ (54)	\$ 3,240	\$ 11,657	\$ 14,843
Board-designated endowment funds	45,042	-	-	45,042
	<u>44,988</u>	<u>3,240</u>	<u>11,657</u>	<u>59,885</u>
	<b>\$ <u>44,988</u></b>	<b>\$ <u>3,240</u></b>	<b>\$ <u>11,657</u></b>	<b>\$ <u>59,885</u></b>

The following is the composition of endowments assets and those functioning as endowment assets by net asset class as of June 30, 2016:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>(in thousands)</i>			
Donor-restricted endowment funds	\$ (156)	\$ 2,493	\$ 10,227	\$ 12,564
Board-designated endowment funds	41,387	-	-	41,387
	<u>41,231</u>	<u>2,493</u>	<u>10,227</u>	<u>53,951</u>
	<b>\$ <u>41,231</u></b>	<b>\$ <u>2,493</u></b>	<b>\$ <u>10,227</u></b>	<b>\$ <u>53,951</u></b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

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

	<i>2017</i>			
	<i>(in thousands)</i>			
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 41,231	\$ 2,493	\$ 10,227	\$ 53,951
Gifts	5	-	1,430	1,435
Additions from operations	1,000	-	-	1,000
Total gifts and additions	1,005	-	1,430	2,435
Investment returns:				
Interest and dividends	330	104	-	434
Net realized and unrealized gains	4,159	1,383	-	5,542
Total investment returns	4,489	1,487	-	5,976
Expenditures:				
Amounts appropriated under endowment spending policy:				
Scholarships	-	(358)	-	(358)
Operations	(1,839)	(280)	-	(2,119)
Total amounts appropriated under endowment spending policy	(1,839)	(638)	-	(2,477)
Net investment returns and expenditures	2,650	849	-	3,499
Other changes:				
Reclassification for endowment losses exceeding corpus	102	(102)	-	-
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 44,988</b>	<b>\$ 3,240</b>	<b>\$ 11,657</b>	<b>\$ 59,885</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

	2016			
	<i>(in thousands)</i>			
	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 44,107	\$ 3,409	\$ 9,490	\$ 57,006
Gifts	23	-	737	760
Additions from operations	1,000	-	-	1,000
Total gifts and additions	<u>1,023</u>	<u>-</u>	<u>737</u>	<u>1,760</u>
Investment returns:				
Interest and dividends	318	87	-	405
Net realized and unrealized gains	<u>(2,170)</u>	<u>(635)</u>	<u>-</u>	<u>(2,805)</u>
Total investment returns	<u>(1,852)</u>	<u>(548)</u>	<u>-</u>	<u>(2,400)</u>
Expenditures:				
Amounts appropriated under endowment spending policy:				
Scholarships	-	(339)	-	(339)
Operations	<u>(1,909)</u>	<u>(167)</u>	<u>-</u>	<u>(2,076)</u>
Total amounts appropriated under endowment spending policy	<u>(1,909)</u>	<u>(506)</u>	<u>-</u>	<u>(2,415)</u>
Net investment returns and expenditures	<u>(3,761)</u>	<u>(1,054)</u>	<u>-</u>	<u>(4,815)</u>
Other changes:				
Reclassification for endowment losses exceeding corpus	<u>(138)</u>	<u>138</u>	<u>-</u>	<u>-</u>
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b><u>\$ 41,231</u></b>	<b><u>\$ 2,493</u></b>	<b><u>\$ 10,227</u></b>	<b><u>\$ 53,951</u></b>

The investment return on permanently restricted net assets that was appropriated from temporarily restricted to unrestricted net assets for operations was \$638,000 and \$506,000 for the years ended June 30, 2017 and 2016, respectively.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

#### *Endowment*

The University's endowment consists of 88 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

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

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 8 - Net Assets and Endowment Matters (Continued)*

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted are \$54,000 and \$156,000 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations.

#### *Return Objectives and Risk Parameters*

The University's investment portfolio is managed to provide for the long-term support of the University. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed-upon levels of risk. It is the goal of the aggregate endowment fund assets to generate a long-term rate of return which would meet the annual spending rate, (between 4% and 4.5% of a rolling three-year average of the fair value of the endowment to be set annually by the investment committee) provide for inflation, and fees. The expected spending draw for the year ended June 30, 2018 is approximately \$2,500,000.

#### *Strategies Employed for Achieving Objectives*

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

### *Note 9 - Defined Contribution Plans*

The University makes discretionary employer contributions as a percentage of the salaries of all eligible participating employees to defined contribution plans administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund and Variable Annuity Life Insurance Company. Contributions to these plans were approximately \$1,953,000 and \$1,863,000 for the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, the University contributed 8% of eligible salaries.