

# Consolidated Financial Statements and Supplementary Information

**Salve Regina University**

June 30, 2014 and 2013



# SALVE REGINA UNIVERSITY

## *Consolidated Financial Statements and Supplementary Information*

### *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

#### ***Supplementary Information:***

Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30

#### ***Reporting Under Government Auditing Standards:***

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	31 – 32
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#### ***Reporting Under OMB Circular A-133:***

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133	33 – 35
Schedule of Findings and Questioned Costs	36 – 38



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## *Independent Auditors' Report*

Board of Trustees  
Salve Regina University  
Newport, Rhode Island

### **Report on the Financial Statements**

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, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.



### ***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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Maya Hoffman McCann P.C.*

September 25, 2014  
Providence, Rhode Island

# SALVE REGINA UNIVERSITY

## *Consolidated Statements of Financial Position*

	<i>June 30,</i>	
	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
<b>Assets</b>		
Cash	\$ 307	\$ 208
Short-term investments	3,943	7,225
Accounts receivable, students - less allowance for doubtful accounts of \$1,631 and \$1,546 in 2014 and 2013, respectively	755	837
Accounts receivable, other	1,325	824
Loans and notes receivable - less allowance for doubtful accounts of \$533 and \$536 in 2014 and 2013, respectively	2,078	1,964
Pledges receivable - less allowance for doubtful accounts of \$159 and \$254 in 2014 and 2013, respectively	2,436	2,230
Investments	59,560	50,600
Other assets	2,671	1,306
Land, buildings and equipment, net	88,460	88,584
<b>Total assets</b>	<b>\$ 161,535</b>	<b>\$ 153,778</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 1,305	\$ 2,302
Accrued liabilities	6,340	5,632
Current maturities of long-term debt	2,437	2,352
Deposits and deferred revenue	4,757	2,629
Long-term debt, net	31,883	34,320
Refundable advances from government for student loans	1,689	1,661
<b>Total liabilities</b>	<b>48,411</b>	<b>48,896</b>
Net assets:		
Unrestricted	95,844	90,340
Temporarily restricted	7,624	5,566
Permanently restricted	9,656	8,976
<b>Total net assets</b>	<b>113,124</b>	<b>104,882</b>
<b>Total liabilities and net assets</b>	<b>\$ 161,535</b>	<b>\$ 153,778</b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

**Consolidated Statement of Activities**

*Year Ended June 30, 2014  
(with comparative totals for 2013)*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total 2014</i>	<i>Total 2013</i>
	<i>(in thousands)</i>				
Operating revenues and other support:					
Tuition and fees	\$ 69,580	\$ -	\$ -	\$ 69,580	\$ 70,000
Room and board	13,737	-	-	13,737	14,385
Less: University sponsored scholarships and grants	<u>(26,098)</u>	<u>-</u>	<u>-</u>	<u>(26,098)</u>	<u>(25,986)</u>
<b>Net tuition, fees, room and board</b>	<b>57,219</b>	<b>-</b>	<b>-</b>	<b>57,219</b>	<b>58,399</b>
Gifts and grants	933	28	-	961	1,044
Federal and state government grants	1,099	-	-	1,099	951
Investment income appropriated	1,985	46	-	2,031	1,864
Unrestricted investment income	40	-	-	40	45
Other support	230	-	-	230	195
Auxiliary enterprises	1,553	-	-	1,553	1,500
Net assets released from restrictions	<u>168</u>	<u>(168)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total operating revenues and other support</b>	<b><u>63,227</u></b>	<b><u>(94)</u></b>	<b><u>-</u></b>	<b><u>63,133</u></b>	<b><u>63,998</u></b>
Operating expenses:					
Program:					
Instruction	19,490	-	-	19,490	18,927
Research	417	-	-	417	388
Academic support	6,154	-	-	6,154	6,043
Student services	10,603	-	-	10,603	10,364
Auxiliary enterprises	<u>14,086</u>	<u>-</u>	<u>-</u>	<u>14,086</u>	<u>14,109</u>
<b>Total program expenses</b>	<b>50,750</b>	<b>-</b>	<b>-</b>	<b>50,750</b>	<b>49,831</b>
Management and general	<u>12,315</u>	<u>-</u>	<u>-</u>	<u>12,315</u>	<u>11,935</u>
<b>Total operating expenses</b>	<b><u>63,065</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>63,065</u></b>	<b><u>61,766</u></b>
<b>Change in net assets from operations</b>	<b><u>162</u></b>	<b><u>(94)</u></b>	<b><u>-</u></b>	<b><u>68</u></b>	<b><u>2,232</u></b>
Nonoperating income (expense):					
Gifts and grants	739	1,069	617	2,425	3,213
Income on investments, net of amounts appropriated as operating	4,561	1,378	-	5,939	2,246
Other income	212	-	-	212	20
Change in value of split interest agreements	-	-	21	21	-
Other net assets released from restriction	169	(203)	34	-	-
Restoration of prior endowment losses exceeding corpus	58	(58)	-	-	-
Expenses	<u>(397)</u>	<u>(34)</u>	<u>8</u>	<u>(423)</u>	<u>(155)</u>
<b>Nonoperating income, net</b>	<b><u>5,342</u></b>	<b><u>2,152</u></b>	<b><u>680</u></b>	<b><u>8,174</u></b>	<b><u>5,324</u></b>
<b>Change in net assets</b>	<b>5,504</b>	<b>2,058</b>	<b>680</b>	<b>8,242</b>	<b>7,556</b>
Net assets at beginning of year	<u>90,340</u>	<u>5,566</u>	<u>8,976</u>	<u>104,882</u>	<u>97,326</u>
<b>Net assets at end of year</b>	<b><u>\$ 95,844</u></b>	<b><u>\$ 7,624</u></b>	<b><u>\$ 9,656</u></b>	<b><u>\$ 113,124</u></b>	<b><u>\$ 104,882</u></b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**

*Consolidated Statements of Activities*

*Year Ended June 30, 2013*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>(in thousands)</i>			
Operating revenues and other support:				
Tuition and fees	\$ 70,000	\$ -	\$ -	\$ 70,000
Room and board	14,385	-	-	14,385
Less: University sponsored scholarships and grants	<u>(25,986)</u>	<u>-</u>	<u>-</u>	<u>(25,986)</u>
<b>Net tuition, fees, room and board</b>	<b>58,399</b>	<b>-</b>	<b>-</b>	<b>58,399</b>
Gifts and grants	1,024	20	-	1,044
Federal and state government grants	951	-	-	951
Investment income appropriated	1,801	63	-	1,864
Unrestricted investment income	45	-	-	45
Other support	195	-	-	195
Auxiliary enterprises	1,500	-	-	1,500
Net assets released from restrictions	<u>115</u>	<u>(115)</u>	<u>-</u>	<u>-</u>
<b>Total operating revenues and other support</b>	<b><u>64,030</u></b>	<b><u>(32)</u></b>	<b><u>-</u></b>	<b><u>63,998</u></b>
Operating expenses:				
Program:				
Instruction	18,927	-	-	18,927
Research	388	-	-	388
Academic support	6,043	-	-	6,043
Student services	10,364	-	-	10,364
Auxiliary enterprises	<u>14,109</u>	<u>-</u>	<u>-</u>	<u>14,109</u>
<b>Total program expenses</b>	<b>49,831</b>	<b>-</b>	<b>-</b>	<b>49,831</b>
Management and general	<u>11,935</u>	<u>-</u>	<u>-</u>	<u>11,935</u>
<b>Total operating expenses</b>	<b><u>61,766</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>61,766</u></b>
<b>Change in net assets from operations</b>	<b><u>2,264</u></b>	<b><u>(32)</u></b>	<b><u>-</u></b>	<b><u>2,232</u></b>
Nonoperating income (expense):				
Gifts and grants	1,159	659	1,395	3,213
Gain on investments, net of amounts appropriated as operating	1,683	563	-	2,246
Gain on sale of assets	20	-	-	20
Debt extinguishment expense	-	-	-	-
Other net assets released from restriction	26	(43)	17	-
Restoration of prior endowment losses exceeding corpus	51	(51)	-	-
Expenses	<u>(119)</u>	<u>-</u>	<u>(36)</u>	<u>(155)</u>
<b>Nonoperating income, net</b>	<b><u>2,820</u></b>	<b><u>1,128</u></b>	<b><u>1,376</u></b>	<b><u>5,324</u></b>
<b>Change in net assets</b>	<b>5,084</b>	<b>1,096</b>	<b>1,376</b>	<b>7,556</b>
Net assets at beginning of year	<u>85,256</u>	<u>4,470</u>	<u>7,600</u>	<u>97,326</u>
<b>Net assets at end of year</b>	<b><u>\$ 90,340</u></b>	<b><u>\$ 5,566</u></b>	<b><u>\$ 8,976</u></b>	<b><u>\$ 104,882</u></b>

See accompanying notes to the consolidated financial statements.

**SALVE REGINA UNIVERSITY**  
**Consolidated Statements of Cash Flows**

*Years Ended June 30,*  
**2014**                      **2013**  
*(in thousands)*

<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 8,242	\$ 7,556
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,473	6,431
Change in reserve on receivables	123	272
Change in pledge discounts	(16)	89
Net investment gains	(7,361)	(3,409)
Gains on sale of assets	-	(19)
Contributions restricted for long-term investments	(617)	(1,395)
Changes in operating assets and liabilities:		
Pledges receivable	(231)	(1,045)
Accounts receivable	(505)	(492)
Other assets	(1,444)	51
Accounts payable, accrued liabilities, deposits and deferred revenue	1,838	(14)
	<u>6,502</u>	<u>8,025</u>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchase and construction of land, buildings and equipment	(6,313)	(4,895)
Proceeds from sale of assets	-	22
Purchases of investments	(40,550)	(100,413)
Proceeds from sales of investments	42,279	98,185
Student loans issued	(526)	(453)
Proceeds from student loans	414	425
	<u>(4,696)</u>	<u>(7,129)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investments	617	1,395
Repayment of capital leases, notes payable and long-term debt	(2,352)	(2,421)
Increase in government advances for student loans	28	5
	<u>(1,707)</u>	<u>(1,021)</u>
<b>Net cash used in financing activities</b>		
<b>Increase (decrease) in cash</b>	<b>99</b>	<b>(125)</b>
Cash, beginning	<u>208</u>	<u>333</u>
<b>Cash, ending</b>	<b>\$ <u>307</u></b>	<b>\$ <u>208</u></b>
<b>Supplemental disclosure:</b>		
Cash paid during the year for interest	<u>\$ 1,302</u>	<u>\$ 1,381</u>
Land, buildings and equipment purchases included in accounts payable	<u>\$ -</u>	<u>916</u>



# 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.

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 receivables 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”).

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 \$1,689,000 and \$1,661,000 at June 30, 2014 and 2013, 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.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Financing Receivables (Continued)*

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 \$521,000 and \$534,000 for the years ended June 30, 2014 and 2013, 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.

#### *Other Assets*

Other assets consist of prepaid expenses, amounts due from the Rhode Island Student Loan Authority (“RISLA”), the University’s interest in split interest agreements, and bond issuance costs. Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the bonds. Bond issuance costs of \$637,000 and \$673,000 are included in other assets net of accumulated amortization of \$147,000 and \$111,000 at June 30, 2014 and 2013, respectively. Amortization expense amounted to \$36,000 and \$37,000 for the years ended June 30, 2014 and 2013, respectively. The above includes activity relating to a debt refinancing.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *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 a 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.

#### *Split Interest Agreements*

##### *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 \$271,000 and accrued liabilities of \$147,000 under beneficial interests in remainder trusts at June 30, 2014. No amounts were recorded at June 30, 2013.

##### *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 \$420,000 under life interests in real estate at June 30, 2014. No amounts were recorded at June 30, 2013.

#### *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 is 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 is 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 \$1,045,000 and \$1,027,000 for the years ended June 30, 2014 and 2013, respectively.

#### *Advertising*

Advertising and marketing costs are expensed as incurred and amounted to approximately \$270,000 and \$265,000 for the years ended June 30, 2014 and 2013, 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 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 these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with NAV practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

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 also includes investments reported at NAV per share with lock up periods of 90 days or less. 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. Level 3 also includes investments reported at NAV per share with lock up periods in excess of 90 days.

# 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 loans, 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 25, 2014, the date the consolidated financial statements were issued.

#### *Reclassification*

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 2 - Pledges Receivable*

Pledges receivable consisted of the following at June 30:

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Amounts due in:		
Less than one year	\$ 913	\$ 746
One to five years	1,754	1,656
Greater than 5 years	<u>199</u>	<u>369</u>
<b>Total due</b>	<b>2,866</b>	<b>2,771</b>
Less:		
Unamortized discount	(271)	(287)
Allowance for doubtful accounts	<u>(159)</u>	<u>(254)</u>
<b>Pledges receivable, net</b>	<b>\$ <u>2,436</u></b>	<b>\$ <u>2,230</u></b>

Discount rates used to present value the estimated cash flows from new pledges ranged from 3.20% to 6.20% for 2014 and 2013.



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Values of Financial Instruments*

The following table summarizes the University's financial instruments as of June 30, 2014 and 2013:

<b>2014</b>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Short-term investments:				
Money market funds	\$ 2,842	\$ 2,842	\$ -	\$ -
Certificates of deposits	1,101	-	1,101	-
<b>Total short-term investments</b>	<u><b>3,943</b></u>	<u><b>2,842</b></u>	<u><b>1,101</b></u>	<u><b>-</b></u>
Long-term investments:				
Equity funds:				
Domestic	12,972	11,239	1,733	-
Developed	9,380	7,091	2,289	-
Emerging	5,947	2,961	2,986	-
Fixed income	6,904	4,033	2,871	-
Multi strategy hedge	17,087	-	8,773	8,314
Other:				
REIT	2,513	-	2,513	-
Tangible asset	2,266	-	2,266	-
Natural resources	2,491	2,491	-	-
<b>Total long-term investments</b>	<u><b>59,560</b></u>	<u><b>27,815</b></u>	<u><b>23,431</b></u>	<u><b>8,314</b></u>
<b>Total investments</b>	<b>63,503</b>	<b>30,657</b>	<b>24,532</b>	<b>8,314</b>
Other assets:				
Assets under split interest agreements	1,235	270	965	-
Deposits held by bond trustee	41	41	-	-
<b>Total</b>	<u><u><b>\$ 63,544</b></u></u>	<u><u><b>\$ 30,698</b></u></u>	<u><u><b>\$ 24,532</b></u></u>	<u><u><b>\$ 8,314</b></u></u>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Values of Financial Instruments (Continued)*

2013	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Short-term investments:				
Money market funds	\$ 6,120	\$ 6,120	\$ -	\$ -
Certificates of deposits	1,105	-	1,105	-
<b>Total short-term investments</b>	<u><b>7,225</b></u>	<u><b>6,120</b></u>	<u><b>1,105</b></u>	<u><b>-</b></u>
Long-term investments:				
Equity funds:				
Domestic	11,115	9,504	1,611	-
Developed	7,972	6,075	1,897	-
Emerging	4,808	4,808	-	-
Fixed income	5,700	3,328	2,372	-
Multi strategy hedge	15,313	-	7,849	7,464
Other:				
REIT	1,843	-	1,843	-
Tangible asset	1,907	-	1,907	-
Natural resources	1,942	1,942	-	-
<b>Total long-term investments</b>	<u><b>50,600</b></u>	<u><b>25,657</b></u>	<u><b>17,479</b></u>	<u><b>7,464</b></u>
<b>Total investments</b>	<u><b>57,825</b></u>	<u><b>31,777</b></u>	<u><b>18,584</b></u>	<u><b>7,464</b></u>
Other assets:				
Deposits held by bond trustee	43	43	-	-
<b>Total</b>	<u><b>\$ 57,868</b></u>	<u><b>\$ 31,820</b></u>	<u><b>\$ 18,584</b></u>	<u><b>\$ 7,464</b></u>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Values of Financial Instruments (Continued)*

The changes in multi strategy equity funds measured at fair value for which the University has used Level 3 inputs to determine fair value, as of June 30, is as follows:

	<i>2014</i>	<i>2013</i>
<b>Beginning balance</b>	\$ <u>7,464</u>	\$ <u>1,821</u>
Investment activity:		
Realized/unrealized gains	<u>850</u>	<u>755</u>
Total investment returns	<u>850</u>	<u>755</u>
Purchases	-	6,700
Sales	-	<u>(1,812)</u>
Net purchases	<u>-</u>	<u>4,888</u>
<b>Ending balance</b>	\$ <u><u>8,314</u></u>	\$ <u><u>7,464</u></u>

Investments not considered Level 1 are categorized as Level 2 instruments when the University has the ability to redeem its investment in the entity at NAV per share at quarter-end or within 90 days of quarter-end. Investments not considered Level 1 are categorized as Level 3 instruments when the University cannot redeem its investment within 90 days of year end.

Management has no intention or plans to liquidate any NAV practical expedient investments at other than the NAV per share.

Under certain unusual circumstances, investment managers may alter redemption provisions of their investment vehicles, which could impact the ultimate liquidity of funds.

Management has assessed that fair value approximates carrying value for cash, accounts receivable and accounts payable given the short-term nature of these instruments. The fair value of such instruments has been derived in part by management assumptions using Level 2 fair value methods. Management has no practical or cost effective way of determining fair value for loans and notes receivable, pledges receivable and obligations under capital lease. Management has not evaluated the fair value of its outstanding debt given the majority of outstanding debt is private placement debt. Management believes that this information is not meaningful to readers given the long-term commitments from its financial partners.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investments and Fair Values of Financial Instruments (Continued)*

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

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Investments, beginning of year	\$ <u>57,825</u>	\$ <u>52,188</u>
Gifts and additions:		
Endowment gifts	837	1,424
Endowment additions from operations	2,000	2,000
Operational additions	<u>237</u>	<u>11</u>
Total gifts and additions	<u>3,074</u>	<u>3,435</u>
Investment returns:		
Interest and dividends	649	746
Net realized and unrealized gains (losses)	<u>7,361</u>	<u>3,409</u>
Total investment returns	<u>8,010</u>	<u>4,155</u>
Expenditures:		
Amounts appropriated under endowment spending policy:		
Scholarships	(318)	(293)
Operations	<u>(1,713)</u>	<u>(1,571)</u>
Total amounts appropriated under endowment spending policy	<u>(2,031)</u>	<u>(1,864)</u>
Other expenditures:		
Capital projects	(35)	(39)
Scholarships	(5)	(5)
Operations	<u>(3,335)</u>	<u>(45)</u>
Total other expenditures	<u>(3,375)</u>	<u>(89)</u>
Net investment returns and expenditures	<u>2,604</u>	<u>2,202</u>
<b>Investments, end of year</b>	<b>\$ <u><u>63,503</u></u></b>	<b>\$ <u><u>57,825</u></u></b>

Investment management fees were \$527,000 and \$480,000 for the years ended June 30, 2014 and 2013, 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 - Land, Buildings and Equipment*

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

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Land and improvements	\$ 8,483	\$ 8,424
Buildings and improvements	135,678	129,678
Equipment and computer software	41,417	38,919
Construction in progress	<u>-</u>	<u>2,406</u>
	185,578	179,427
Less: accumulated depreciation	<u>(97,118)</u>	<u>(90,843)</u>
<b>Land, buildings and equipment, net</b>	<b><u>\$ 88,460</u></b>	<b><u>\$ 88,584</u></b>

Depreciation and amortization expense was \$6,473,000 and \$6,394,000 for the years ended June 30, 2014 and 2013, respectively.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 5 - Debt*

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

	<i>2014</i>	<i>2013</i>
	<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 and the other over 20 years with fixed interest of 3.15% and 4.35%, respectively; secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. Bonds were privately placed with a bank.	\$ 27,830	\$ 29,955
Obligations under Rhode Island Higher Education Facility Revenue Bonds of 2006, variable interest rate (0.2% at June 30, 2014 and 2013), due serially to April 1, 2036; interest is payable semiannually on April 1 and October 1 of each year; secured by a letter of credit with a bank for \$5,500,000, <del>expiring in April 2016</del>	5,050	5,200
Mortgage note payable, variable interest rate at prime minus .25% (3.0% at June 30, 2014 and 2013), with monthly principal payments of approximately \$6,000 payable through March 2033; secured by a mortgage on certain property.	1,440	1,517
	34,320	36,672
Less amounts due within one year	2,437	2,352
<b>Long-term debt, net</b>	<b>\$ 31,883</b>	<b>\$ 34,320</b>

The obligations under the Rhode Island Higher Education Facility Revenue Bonds include an annual debt service coverage ratio covenant with which the University was in compliance in 2014 and 2013.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 5 - Debt (Continued)*

Annual principal payments for the next five years and thereafter as of June 30, 2014 are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2015	\$ 2,437
2016	2,487
2017	2,632
2018	2,707
2019	2,792
Thereafter	<u>21,265</u>
	<u><u>\$ 34,320</u></u>

The University maintains an unsecured revolving credit agreement with a bank that provides for maximum borrowings of \$4,000,000 with a five-year term ending December 2016. Any amounts outstanding bear interest at the bank's prime rate. At June 30, 2014 and 2013, there were no amounts outstanding under this agreement.

### *Note 6 - Commitments*

#### *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>
2015	\$ 521
2016	527
2017	515
2018	392
2019	365
Thereafter	<u>2,398</u>
<b>Total lease payments</b>	<u><u>\$ 4,718</u></u>

Rental expense was approximately \$512,000 for the years ended June 30, 2014 and 2013.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

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

#### *Other Commitments*

The University has long-term contracts with outside service vendors for their food and custodial services through August 31, 2016 and June 30, 2016, respectively. Expenses incurred under these contracts are variable each year based on the number of students served and actual expenses incurred. During 2014, total expenses for food services and custodial services amounted to approximately \$2,733,000 and \$1,212,000, respectively. During 2013, total expenses for food services and custodial services amounted to approximately \$2,927,000 and \$1,238,000, respectively.

The University has contracts through 2016 with Senior Administration that stipulated 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.

Historically, the University has offered early retirement incentive programs from time to time to long-time faculty and staff. At June 30, 2013, the remaining liability under the incentive program was approximately \$38,000 and was included in accrued liabilities on the consolidated statements of financial position. The remaining liability was paid in full during 2014 and the University did not enter into any new agreements.

### *Note 7 - Net Assets and Endowment Matters*

#### *Unrestricted Net Assets*

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

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Operating and fixed assets	\$ 50,300	\$ 51,499
Board-designated funds operating as endowment	45,554	38,909
Endowment unrealized losses	<u>(10)</u>	<u>(68)</u>
<b>Unrestricted net assets</b>	<b><u>\$ 95,844</u></b>	<b><u>\$ 90,340</u></b>



# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Net Assets and Endowment Matters (Continued)*

#### *Temporarily Restricted Net Assets*

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

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Accumulated unspent gains:		
Financial aid	\$ 3,034	\$ 2,197
Instructional	894	544
Other	154	99
	4,082	2,840
Purpose restricted gifts:		
Capital improvements	1,485	1,464
Instructional	1,555	753
Financial aid	285	352
Other	217	157
	3,542	2,726
<b>Temporarily restricted net assets</b>	<b>\$ 7,624</b>	<b>\$ 5,566</b>

#### *Permanently Restricted Net Assets*

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

	<i>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Instructional	\$ 3,269	\$ 2,839
Financial aid	5,459	5,076
Pledge receivable	527	690
Other	401	371
	9,656	8,976
<b>Permanently restricted net assets</b>	<b>\$ 9,656</b>	<b>\$ 8,976</b>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - 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>2014</i>	<i>2013</i>
	<i>(in thousands)</i>	
Capital improvements	\$ 50	\$ -
Instructional	107	19
Financial aid	123	123
Other	91	16
<b>Net assets released from restrictions</b>	<b>\$ 371</b>	<b>\$ 158</b>

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2014:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>(in thousands)</i>			
Donor-restricted endowment funds	\$ (10)	\$ 4,082	\$ 9,007	\$ 13,079
Board-designated endowment funds	45,554	-	-	45,554
	<b>\$ 45,544</b>	<b>\$ 4,082</b>	<b>\$ 9,007</b>	<b>\$ 58,633</b>

The following is the composition of endowments assets and those functioning as endowment assets by net asset class as of June 30, 2013:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<i>(in thousands)</i>			
Donor-restricted endowment funds	\$ (68)	\$ 2,840	\$ 8,286	\$ 11,058
Board-designated endowment funds	38,909	-	-	38,909
	<b>\$ 38,841</b>	<b>\$ 2,840</b>	<b>\$ 8,286</b>	<b>\$ 49,967</b>

**SALVE REGINA UNIVERSITY**

*Notes to Consolidated Financial Statements*

*Note 7 - 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:

	<b>2014</b>			
	<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	\$ 38,841	\$ 2,840	\$ 8,286	\$ 49,967
Gifts	84	-	721	805
Additions from operations	2,000	-	-	2,000
Total gifts and additions	<u>2,084</u>	<u>-</u>	<u>721</u>	<u>2,805</u>
Investment returns:				
Interest and dividends	462	-	123	585
Net realized and unrealized gains	5,692	-	1,614	7,306
Total investment returns	<u>6,154</u>	<u>-</u>	<u>1,737</u>	<u>7,891</u>
Expenditures:				
Amounts appropriated under endowment spending policy:				
Scholarships	-	-	(318)	(318)
Operations	(1,593)	-	(119)	(1,712)
Total amounts appropriated under endowment spending policy	<u>(1,593)</u>	<u>-</u>	<u>(437)</u>	<u>(2,030)</u>
Net investment returns and expenditures	<u>4,561</u>	<u>-</u>	<u>1,300</u>	<u>5,861</u>
Other changes:				
Reclassification for endowment losses exceeding corpus	58	(58)	-	-
Reclassification of gains (losses) on permanently restricted net assets	-	1,300	(1,300)	-
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<u><u>\$ 45,544</u></u>	<u><u>\$ 4,082</u></u>	<u><u>\$ 9,007</u></u>	<u><u>\$ 58,633</u></u>

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Net Assets and Endowment Matters (Continued)*

	<b>2013</b>			
	<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	\$ 34,343	\$ 2,450	\$ 7,600	\$ 44,393
Gifts	769	-	686	1,455
Additions from operations	2,000	-	-	2,000
Total gifts and additions	<u>2,769</u>	<u>-</u>	<u>686</u>	<u>3,455</u>
Investment returns:				
Interest and dividends	525	-	136	661
Net realized and unrealized gains	2,596	-	725	3,321
Total investment returns	<u>3,121</u>	<u>-</u>	<u>861</u>	<u>3,982</u>
Expenditures:				
Amounts appropriated under endowment spending policy:				
Scholarships	-	-	(293)	(293)
Operations	(1,443)	-	(127)	(1,570)
Total amounts appropriated under endowment spending policy	<u>(1,443)</u>	<u>-</u>	<u>(420)</u>	<u>(1,863)</u>
Net investment returns and expenditures	<u>1,678</u>	<u>-</u>	<u>441</u>	<u>2,119</u>
Other changes:				
Reclassification for endowment losses exceeding corpus	51	(51)	-	-
Reclassification of gains (losses) on permanently restricted net assets	-	441	(441)	-
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b><u>\$ 38,841</u></b>	<b><u>\$ 2,840</u></b>	<b><u>\$ 8,286</u></b>	<b><u>\$ 49,967</u></b>

The investment return on permanently restricted net assets that was appropriated from temporarily restricted to unrestricted net assets for operations was \$437,000 and \$420,000 for the years ended June 30, 2014 and 2013, respectively.

# SALVE REGINA UNIVERSITY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Net Assets and Endowment Matters (Continued)*

#### *Endowment*

The University's endowment consists of approximately 60 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 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 7 - 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 \$10,000 and \$68,000 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

#### *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, 2015 is approximately \$2,245,000.

#### *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 8 - 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 the College Retirement Equities Fund and Variable Annuity Life Insurance Company. Contributions to these plans were approximately \$1,542,000 and \$1,562,000 for the years ended June 30, 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, the University contributed 7% and plans to contribute 8% for 2015. The planned increase of 1% from 7% to 8% is contingent upon an employee contribution at least 1% of their salary to the plan.

*Supplementary Information*

**SALVE REGINA UNIVERSITY**

*Schedule of Expenditures of Federal Awards*

*Year Ended June 30, 2014*

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
<b>Student Financial Assistance Cluster:</b>			
Department of Education Direct Programs:			
Federal Direct Student Loans	84.268		\$ 16,574,572
Federal Perkins Loans	84.038		1,506,249
Federal Work-Study Program	84.033		190,985
Federal Pell Grant Program	84.063		1,726,790
Federal Supplemental Educational Opportunity Grants	84.007		140,220
Department of Health and Human Services Direct Programs:			
Nursing Student Loans	93.364		936,182
Total Student Financial Assistance Cluster			21,074,998
Rehabilitation Long-Term Training			
SRU-Rehabilitation Counseling Long-Term Training for Rehabilitation of Individuals Who Are Mentally Ill	84.129H		100,109
Rehabilitation Long-Term Training			
SRU-Rehabilitation Counseling Long-Term Training	84.129B		144,782
Total Department of Education Direct Programs			20,383,707
<b>Research and Development Cluster:</b>			
Department of Health and Human Services Pass-Through Programs From:			
University of Rhode Island - National Center for Research Resources/ Research Infrastructure	93.389	2P2ORR016457-09	297,814
Total Department of Health and Human Services			1,233,996
National Science Foundation Pass-Through Programs From:			
University of Rhode Island - Office of Experimental Program to Stimulate Competitive Research/ EPSCOR I	47.081	EPS-0554548	130,655
University of Rhode Island - Office of Program to Stimulate Competitive Research/ EPSCOR II	47.081	EPS-0554548	22,668
University of Rhode Island - Office of Program to Stimulate Competitive Research/ EPSCOR SURF	47.081	EPS-0554548	9,473
Roger Williams University - Office of Experimental Program to Stimulate Competitive Research/ EPSCOR SURF	47.081	EPS-0554548	25,198
Total National Science Foundation Pass-Through Programs			187,994
Total Research and Development Cluster			485,808
Total Expenditures of Federal Awards			\$ 21,805,697



# SALVE REGINA UNIVERSITY

## *Notes to Schedule of Expenditures of Federal Awards*

### ***Note 1 - Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Salve Regina University (the "University") under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the University.

The University includes loans granted under the Federal Perkins Loans Program, Nursing Student Loans Program and Federal Direct Student Loans Program as expenditures of Federal awards.

### ***Note 2 - Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### ***Note 3 - Federal Student Loan Programs***

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University's basic consolidated financial statements. Loans made during the year totaled \$278,700 and \$245,220 under the Federal Perkins Loans Program and Nursing Student Loans Program, respectively, and are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2014 consists of:

<u><i>Cluster/Program Title</i></u>	<u><i>Federal CFDA Number</i></u>	<u><i>Amount Outstanding</i></u>
Federal Perkins Loans	84.038	\$ 1,506,249
Nursing Student Loans	93.364	\$ 936,182

***Reporting Under Government Auditing Standards***



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*Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards*

Board of Trustees  
Salve Regina University  
Newport, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Salve Regina University (the "University"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mayer Hoffman McCann P.C.*

September 25, 2014  
Providence, Rhode Island

***Reporting Under OMB Circular A-133***



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*Independent Auditors' Report on Compliance For Each Major Federal Program  
and Report on Internal Control Over Compliance in  
Accordance With OMB Circular A-133*

Board of Trustees  
Salve Regina University  
Newport, Rhode Island

**Report on Compliance for Each Major Federal Program**

We have audited Salve Regina University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2014, except the requirements discussed in the second paragraph of this report. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

We did not audit the University's compliance with the billing and certain of the collections and due diligence compliance requirements specified by the Federal Perkins Loans Program ("Perkins Loans") and Nursing Student Loans Program ("Nursing Loans"). Those requirements govern functions performed by University Accounting Service, LLC. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. University Accounting Service, LLC's compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2014 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of University Accounting Service, LLC.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing billing and certain of the collections and due diligence compliance requirements specified by the Perkins Loans and Nursing Loans are performed by University Accounting Service, LLC. Internal control over compliance related to such functions for the year ended June 30, 2014 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of University Accounting Service, LLC's internal control over compliance related to such functions.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of



deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Mayer Hoffman McCann P.C.*

September 25, 2014  
Providence, Rhode Island



**SALVE REGINA UNIVERSITY**

*Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2014*

**Section 1**

**Summary of Auditors' Results**

**Financial Statements**

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                          | Unmodified    |
| 2. Internal control over financial reporting:                |               |
| a. Material weaknesses identified?                           | No            |
| b. Significant deficiencies identified?                      | None Reported |
| 3. Noncompliance material to the financial statements noted? | No            |

**Federal Awards**

- |   |            |
|---|------------|
| 1. Internal control over major program:   |            |
| a. Material weaknesses identified?  | No         |
| b. Significant deficiencies identified?   | Yes        |
| 2. Type of auditors' report issued on compliance for major program:   | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes        |

4. Identification of major program:

CFDA Number

Name of Federal Program or Cluster

Cluster Program\*

Student Financial Assistance Programs Cluster

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee?                                 | Yes       |

\* See Schedule of Expenditures of Federal Awards for a complete listing of the student financial assistance programs and their related CFDA numbers.

# SALVE REGINA UNIVERSITY

## *Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2014*

### **Section 2**

#### **Financial Statement Findings**

None noted.

### **Section 3**

#### **Federal Award Findings and Questioned Costs**

##### **2014-001**

Finding – Special Tests and Provisions: Enrollment Reporting – Federal Direct Student Loans, CDFA #84.268, June 30, 2014 Award Year, Department of Education

##### Criteria or Specific Requirements

Changes in enrollment status to less than half-time, graduate, or withdrawn must be reported to National Student Loan Data System (“NSLDS”) within 30 days; however, if a roster file is expected within 60 days, a school may provide the updated data on that roster file. For graduated students, the effective date for the reporting is the date the student completed the course requirements (not presentation date of the diploma or certificate) (FSA Handbook, Volume 2, Chapter 3, pages 2-48; National Student Loan Data System Enrollment Reporting Guide, July 2014, page 272).

##### Condition Found

For nineteen out of twenty students tested for changes in enrollment who graduated, the students were reported to NSLDS using the date of graduation instead of the date the student completed the course requirement which was eight days earlier than the reported date.

##### Questioned Costs

None noted.

##### Cause

There was turnover in personnel who performed this function in the past. This combined with the University not having a documented policy resulted in the incorrect effective date being reported.

##### Effect

A student’s enrollment status determines eligibility for in-school status, deferment, grace periods, and repayments, as well as the Government’s payment of interest subsidies. The notification of student status changes to NSLDS will cause a student to enter into a grace period and determine a repayment date and therefore, accurate notification of student status to NSLDS is important.

# SALVE REGINA UNIVERSITY

## *Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2014*

### **Section 3 (Continued)**

#### **Federal Award Findings and Questioned Costs (Continued)**

##### **2014-001 (Continued)**

###### **Recommendation**

The University should implement a written policy requiring the status effective date to be the date the student completed the course requirements, not the presentation of diploma or certificate, as the graduation date reported to NSLDS.

###### **Views of Responsible Officials and Planned Corrective Action**

The University experienced changes in staff responsible for submitting Clearinghouse data without written documented procedures to follow. Prior year staff submitted data correctly while knowing the proper yet undocumented procedure. The Office of the Registrar will establish a written procedure when running the "Graduates only" Clearinghouse submission, so that that the term end date (end of semester) will be used as the status start date for all "Graduates only" submissions to the Clearinghouse. Further, there will be a second individual outside the Office of the Registrar who will review the data to ensure compliance with written procedure.

### **Section 4**

#### **Summary Schedule of Prior Year Findings**

None noted.