

Consolidated Financial Statements

Salve Regina University

June 30, 2019 and 2018



SALVE REGINA UNIVERSITY

Consolidated Financial Statements

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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, 2019 and 2018, 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.



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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the University adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Maye Heyman McCann P.C.

September 26, 2019
Providence, Rhode Island

SALVE REGINA UNIVERSITY

Consolidated Statements of Financial Position

	<i>June 30,</i>	
	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Assets		
Cash	\$ 1,689	\$ 1,302
Short-term investments	10,253	9,578
Accounts receivable, students - less allowance for doubtful accounts of \$2,345 and \$2,104 in 2019 and 2018, respectively	832	829
Accounts receivable, other	548	466
Loans and notes receivable - less allowance for doubtful accounts of \$537 and \$514 in 2019 and 2018, respectively	2,138	2,377
Pledges receivable - less allowance for doubtful accounts of \$973 and \$894 in 2019 and 2018, respectively	1,599	2,109
Investments	64,249	61,996
Other assets	7,756	6,517
Land, buildings and equipment, net	100,314	104,564
Total assets	\$ 189,378	\$ 189,738
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,707	\$ 1,522
Accrued liabilities	5,794	5,584
Deposits and deferred revenue	4,621	4,188
Long-term debt, net	39,796	43,039
Refundable advances from government for student loans	1,913	1,913
Total liabilities	53,831	56,246
Net assets:		
Without donor restrictions	111,670	110,685
With donor restrictions	23,877	22,807
Total net assets	135,547	133,492
Total liabilities and net assets	\$ 189,378	\$ 189,738

See accompanying notes to the consolidated financial statements.

SALVE REGINA UNIVERSITY

Consolidated Statement of Activities

Year Ended June 30, 2019

(with comparative totals for 2018)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions (in thousands)</i>	<i>Total 2019</i>	<i>Total 2018</i>
Operating revenues and other support:				
Tuition and fees	\$ 84,104	\$ -	\$ 84,104	\$ 86,250
Room and board	17,253	-	17,253	18,005
Less: University sponsored scholarships and grants	<u>(38,265)</u>	<u>-</u>	<u>(38,265)</u>	<u>(39,695)</u>
Net tuition, fees, room and board	63,092	-	63,092	64,560
Gifts, grants and contracts	1,505	64	1,569	1,651
Federal and state government grants	1,027	-	1,027	852
Investment income appropriated	2,696	143	2,839	2,504
Unrestricted investment income	270	-	270	125
Other support	372	-	372	395
Auxiliary enterprises	1,917	-	1,917	1,984
Net assets released from restrictions	<u>294</u>	<u>(294)</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>71,173</u>	<u>(87)</u>	<u>71,086</u>	<u>72,071</u>
Operating expenses:				
Program:				
Instruction	22,666	-	22,666	23,312
Research	477	-	477	496
Academic support	5,961	-	5,961	6,058
Student services	12,342	-	12,342	12,409
Auxiliary enterprises	<u>15,447</u>	<u>-</u>	<u>15,447</u>	<u>15,734</u>
Total program expenses	56,893	-	56,893	58,009
Management and general	<u>13,026</u>	<u>-</u>	<u>13,026</u>	<u>12,742</u>
Total operating expenses	<u>69,919</u>	<u>-</u>	<u>69,919</u>	<u>70,751</u>
Change in net assets from operations	<u>1,254</u>	<u>(87)</u>	<u>1,167</u>	<u>1,320</u>
Nonoperating income (expense):				
Gifts and grants	264	1,401	1,665	2,666
Return on investments	1,952	75	2,027	4,017
Investment return appropriated to operations	(2,696)	(143)	(2,839)	(2,504)
Gain on sale of equipment	52	-	52	-
Other income	266	-	266	175
Change in value of split interest and other agreements	(1)	251	250	316
Other net assets released from restrictions	230	(230)	-	-
Expenses	<u>(336)</u>	<u>(197)</u>	<u>(533)</u>	<u>(766)</u>
Nonoperating income, net	<u>(269)</u>	<u>1,157</u>	<u>888</u>	<u>3,904</u>
Change in net assets	985	1,070	2,055	5,224
Net assets at beginning of year	<u>110,685</u>	<u>22,807</u>	<u>133,492</u>	<u>128,268</u>
Net assets at end of year	<u>\$ 111,670</u>	<u>\$ 23,877</u>	<u>\$ 135,547</u>	<u>\$ 133,492</u>

SALVE REGINA UNIVERSITY
Consolidated Statement of Activities

Year Ended June 30, 2018

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions (in thousands)</i>	<i>Total 2018</i>
Operating revenues and other support:			
Tuition and fees	\$ 86,250	\$ -	\$ 86,250
Room and board	18,005	-	18,005
Less: University sponsored scholarships and grants	<u>(39,695)</u>	<u>-</u>	<u>(39,695)</u>
Net tuition, fees, room and board	64,560	-	64,560
Gifts, grants and contracts	1,594	57	1,651
Federal and state government grants	852	-	852
Investment income appropriated	2,412	92	2,504
Unrestricted investment income	125	-	125
Other support	395	-	395
Auxiliary enterprises	1,984	-	1,984
Net assets released from restrictions	<u>89</u>	<u>(89)</u>	<u>-</u>
Total operating revenues and other support	72,011	60	72,071
Operating expenses:			
Program:			
Instruction	23,312	-	23,312
Research	496	-	496
Academic support	6,058	-	6,058
Student services	12,409	-	12,409
Auxiliary enterprises	<u>15,734</u>	<u>-</u>	<u>15,734</u>
Total program expenses	58,009	-	58,009
Management and general	<u>12,742</u>	<u>-</u>	<u>12,742</u>
Total operating expenses	70,751	-	70,751
Change in net assets from operations	1,260	60	1,320
Nonoperating income (expense):			
Gifts and grants	263	2,403	2,666
Return on investments	3,432	585	4,017
Investment return appropriated to operations	(2,412)	(92)	(2,504)
Other income	175	-	175
Change in value of split interest and other agreements	222	94	316
Other net assets released from restrictions	1,393	(1,393)	-
Expenses	<u>(605)</u>	<u>(161)</u>	<u>(766)</u>
Nonoperating income, net	2,468	1,436	3,904
Change in net assets	3,728	1,496	5,224
Net assets at beginning of year	<u>106,957</u>	<u>21,311</u>	<u>128,268</u>
Net assets at end of year	\$ 110,685	\$ 22,807	\$ 133,492

SALVE REGINA UNIVERSITY

Consolidated Statements of Cash Flows

Years Ended June 30,
2019 ***2018***
(in thousands)

Cash flows from operating activities:		
Change in net assets	\$ 2,055	\$ 5,224
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,618	7,769
Change in reserve on receivables	344	446
Change in pledge discounts	(106)	(101)
Net realized and unrealized investment gains	(1,942)	(4,150)
Gain on sale of equipment	(52)	-
Contributions restricted for long-term investments	(912)	(324)
Changes in operating assets and liabilities:		
Pledges receivable	537	1,217
Accounts receivable	(326)	(170)
Other assets	(1,239)	(237)
Accounts payable, accrued liabilities, deposits and deferred revenue	896	(1,249)
Net cash provided by operating activities	<u>6,873</u>	<u>8,425</u>
Cash flows from investing activities:		
Purchase and construction of land, buildings and equipment	(3,387)	(6,357)
Purchases of investments	(49,182)	(39,740)
Proceeds from sales of investments	48,196	40,782
Proceeds from sale of assets	52	-
Student loans issued	(198)	(369)
Proceeds from student loans	414	400
Net cash used in investing activities	<u>(4,105)</u>	<u>(5,284)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investments	912	324
Repayment of long-term debt	(3,293)	(3,197)
Change in government advances for student loans	-	185
Net cash used in financing activities	<u>(2,381)</u>	<u>(2,688)</u>
Increase in cash	387	453
Cash, beginning	<u>1,302</u>	<u>849</u>
Cash, ending	<u>\$ 1,689</u>	<u>\$ 1,302</u>
Supplemental disclosures:		
Cash paid during the year for interest	\$ 1,436	\$ 1,503
Land, buildings and equipment purchases included in accounts payable	<u>186</u>	<u>255</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 Commission of Higher Education, Inc., formerly known as 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 and International Relations.

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:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Trustees has designated from net assets without donor restrictions, net assets for endowment. The College’s policy is to designate unrestricted donor gifts at the discretion of the Board of Trustees. Net assets without donor restriction also include the investment in plant, net of accumulated depreciation, funds for facilities and student loans and undesignated funds.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as revenue without donor restrictions. Contributions of cash and other assets to be used to acquire land, buildings and equipment are accounted for as with donor restrictions 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.

Included in cash are restricted account of \$1,400,000 and \$957,000 at June 30, 2019 and 2018, respectively.

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.

Loans and Notes 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”).

Nursing funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Nursing program, the amounts are generally refundable to the Federal government. Following expiration of the Perkins program, the University continued with disbursements to eligible borrowers through the disbursement deadline and will continue to administer the Program through final liquidation. Funds advanced by the Federal government of \$1,913,000 at June 30, 2019 and 2018, 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)

Loans and Notes Receivables (Continued)

Loans receivable are considered past due if any portion of the balance due is outstanding for more than 120 days for Nursing loans and for more than 240 days for Perkins Loans. Loans past due or in default totaled \$605,000 and \$599,000 for the years ended June 30, 2019 and 2018, 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.

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.

Net investments return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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, deposits with trustees, and the University's beneficial interest in remainder trusts, life interest in real estate and interest held in a LLC.

Beneficial Interest in Remainder Trust

The University records its beneficial interest in remainder trusts 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 \$221,000 and \$241,000 and accrued liabilities of \$109,000 and \$129,000 under beneficial interests in remainder trusts at June 30, 2019 and 2018, 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 \$1,200,000 and accrued liabilities of \$430,000 and \$429,000 under life interests in real estate at June 30, 2019 and 2018, respectively.

Interest Held in an LLC

The University was gifted an interest in a limited liability company that holds residential real estate. The fair value of this gift was determined using Level 2 inputs upon the receipt of the gift and fair value is remeasured on a recurring basis using Level 2 inputs. The fair value of this asset was \$4,375,000 and \$4,125,000 at June 30, 2019 and 2018, respectively.

Land, Buildings and Equipment

Land, constructed and purchased property, and equipment with a useful life greater than one year 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

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.

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as net assets released from restriction between the classes of net assets. Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as revenue without donor restrictions.

The University reports gifts of land, buildings and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions and released from restrictions when such resources are used for the related purpose.

A substantial 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 in which the services are provided. Student reservation deposits along with advance payments for tuition and auxiliary enterprises are recognized as income when the related educational services are provided.

The statements of activities report the changes in 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, gifts with and without donor restrictions 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 investments without donor restrictions.

Investment income and gains/losses on endowment, donor 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. Non-operating expenses includes bad debt expense and expenditures related to non-operating grant activities.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

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.

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in Note 11 and this footnote presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on such criteria as building usage. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt.

Advertising

Advertising and marketing costs are expensed as incurred and amounted to approximately \$614,000 and \$637,000 for the years ended June 30, 2019 and 2018, 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. Fair value defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

Fair Value Measurements (Continued)

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.

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 4 – Investments and Fair Value Measurements.

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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

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

New Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented which increased July 1, 2017 net assets without donor restriction by \$54,000 and decreased net assets with donor restrictions by the same amount. June 30, 2018 net assets without donor restriction increased by \$39,000 and net assets with donor restrictions decreased by the same amount and change in net assets without donor restrictions for the year ended June 30, 2018 decreased by \$15,000 and change in net assets with donor restrictions increased by the same amount.

Reclassifications

Certain amounts reported in the June 30, 2018 consolidated financial statements have been reclassified to conform to the June 30, 2019 presentation.

Subsequent Events

The University has evaluated subsequent events through September 26, 2019, the date the consolidated financial statements were issued.

Note 2 - Liquidity and Availability

The University regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of education, research and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the University’s cash and shows positive cash generated by operations for the years ended June 30, 2019 and 2018.

Although not expected to be needed, the spendable yet restricted portion of the University’s net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. See Notes 4 and 9 for further information about the University’s investment portfolio and net assets.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 2 – Liquidity and Availability (Continued)

The following tables show the total financial assets held by the University and the amounts of those financial assets available within one year of the balance sheet date to meet general expenditures at June 30, 2019:

	<i>(in thousands)</i>
Financial assets at year end:	
Cash	\$ 1,689
Short-term investments	10,253
Accounts receivable, students, net	832
Accounts receivable, other	548
Loans and notes receivable, net	2,138
Pledges receivable, net	1,599
Investments	64,249
Other assets	976
	<hr/>
Total financial assets at year end	\$ <u><u>82,284</u></u>
Financial assets available to meet general expenditures over the next 12 months:	
Cash	\$ 1,689
Short-term investments	9,748
Accounts receivable, net	832
Accounts receivable, other	548
Other assets	27
Pledges receivable for general expenditure due in one year or less, net (Note 3)	383
Endowment spending rate distribution and appropriations	2,733
	<hr/>
Total financial assets available to meet general expenditures over the next 12 months	\$ <u><u>15,960</u></u>

In addition, the University has available approximately \$47,287,000 of board designated funds which are eligible to be spent on operations, if needed, upon approval by the Board of Trustees of the University.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 3 - Pledges Receivable

Pledges receivable consisted of the following at June 30:

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Amounts due in:		
Less than one year	\$ 508	\$ 851
One to five years	1,283	1,927
Greater than 5 years	<u>970</u>	<u>520</u>
Total due	2,761	3,298
Less:		
Unamortized discount	(189)	(295)
Allowance for doubtful accounts	<u>(973)</u>	<u>(894)</u>
Pledges receivable, net	\$ <u>1,599</u>	\$ <u>2,109</u>

Discount rates used to present value the estimated cash flows from new pledges ranged from 5.70% to 5.75% for the year ended June 30, 2018. There were no new pledges received during the year ended June 30, 2019.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements

The following table summarizes the University's recurring fair value measurements at June 30, 2019 and 2018:

2019	Total	Investments Measured at NAV (in thousands)	Level 1	Level 2
Short-term investments:				
Money market funds	\$ 10,173	\$ -	\$ 10,173	\$ -
Certificates of deposits	80	-	-	80
Total short-term investments	10,253	-	10,173	80
Long-term investments:				
Equity funds:				
Domestic	20,446	3,457	16,989	-
Developed	12,453	9,675	2,778	-
Emerging	2,667	-	2,667	-
Fixed income	8,044	-	8,044	-
Multi strategy hedge	14,581	14,581	-	-
Other:				
REIT	3,359	3,359	-	-
Private equity	2,699	2,699	-	-
Total long-term investments	64,249	33,771	30,478	-
Total investments	74,502	33,771	40,651	80
Other assets:				
Assets held under split-interest agreements	1,421	-	221	1,200
Interest in real estate LLC	4,375	-	-	4,375
Total	\$ 80,298	\$ 33,771	\$ 40,872	\$ 5,655

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

	<i>Total</i>	<i>Investments Measured at NAV (in thousands)</i>	<i>Level 1</i>	<i>Level 2</i>
2018				
Short-term investments:				
Money market funds	\$ 9,494	\$ -	\$ 9,494	\$ -
Certificates of deposits	84	-	-	84
Total short-term investments	<u>9,578</u>	<u>-</u>	<u>9,494</u>	<u>84</u>
Long-term investments:				
Equity funds:				
Domestic	14,907	3,450	11,457	-
Developed	12,612	10,990	1,622	-
Emerging	5,016	-	5,016	-
Fixed income	6,728	-	6,728	-
Multi strategy hedge	14,266	13,867	399	-
Other:				
REIT	2,468	2,468	-	-
Tangible asset	1,970	1,958	-	12
Private Equity	1,482	1,482	-	-
Natural resources	2,547	-	2,547	-
Total long-term investments	<u>61,996</u>	<u>34,215</u>	<u>27,769</u>	<u>12</u>
Total investments	<u>71,574</u>	<u>34,215</u>	<u>37,263</u>	<u>96</u>
Other assets:				
Assets held under split-interest agreements	1,441	-	241	1,200
Interest in real estate LLC	4,125	-	-	4,125
Total	<u>\$ 77,140</u>	<u>\$ 34,215</u>	<u>\$ 37,504</u>	<u>\$ 5,421</u>

Redemption/liquidity of investments are as follows at June 30, 2019:

	<i>(in thousands)</i>
Daily	\$ 43,647
Monthly	16,492
Quarterly to annually	11,571
Illiquid	<u>2,792</u>
Total long-term and short-term investments	<u>\$ 74,502</u>

Management has no intention or plans to liquidate any NAV practical expedient investment at other than NAV per share. At June 30, 2019, the University had unfunded commitments of \$4,622,000.

The University had no recurring Level 3 fair value measurements at June 30, 2019 and 2018.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

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

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Investments and short-term investments, beginning of year	\$ <u>71,574</u>	\$ <u>68,466</u>
Gifts and additions:		
Endowment gifts	887	281
Endowment additions from operations	1,000	1,000
Operational additions	<u>2,379</u>	<u>3,995</u>
Total gifts and additions	<u>4,266</u>	<u>5,276</u>
Investment returns:		
Interest and dividends	927	651
Net realized and unrealized gains	<u>1,370</u>	<u>3,491</u>
Total investment returns	<u>2,297</u>	<u>4,142</u>
Expenditures:		
Amounts appropriated under endowment spending policy:		
Scholarships	(450)	(424)
Operations	<u>(2,389)</u>	<u>(2,080)</u>
Total amounts appropriated under endowment spending policy	<u>(2,839)</u>	<u>(2,504)</u>
Other expenditures:		
Capital projects	(365)	(3,775)
Scholarships	(5)	(5)
Operations	<u>(426)</u>	<u>(26)</u>
Total other expenditures	<u>(796)</u>	<u>(3,806)</u>
Net investment returns and expenditures	<u>(1,338)</u>	<u>(2,168)</u>
 Investments and short-term investments, end of year	 \$ <u>74,502</u>	 \$ <u>71,574</u>

Investment management fees were \$572,000 and \$659,000 for the years ended June 30, 2019 and 2018, 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 5 - Other Assets

Other assets consisted of the following at June 30:

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Interest in real estate LLC	\$ 4,375	\$ 4,125
Life interest in real estate	1,200	1,200
Beneficial interest in remainder trust	221	241
Prepaid expenses	907	79
Other	<u>1,053</u>	<u>872</u>
Other assets	<u>\$ 7,756</u>	<u>\$ 6,517</u>

Note 6 - Land, Buildings and Equipment

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

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Land and improvements	\$ 7,843	\$ 7,759
Buildings and improvements	166,464	165,461
Equipment and computer software	37,367	35,725
Equipment under capital lease	-	-
Construction in progress	<u>1,467</u>	<u>1,089</u>
	213,141	210,034
Less: accumulated depreciation	<u>(112,827)</u>	<u>(105,470)</u>
Land, buildings and equipment, net	<u>\$ 100,314</u>	<u>\$ 104,564</u>

Depreciation and amortization expense was \$7,568,000 and \$7,719,000 for the years ended June 30, 2019 and 2018, respectively. Construction in progress in 2018 and 2019 related to the planned expansion of housing to the junior class. In order to accommodate the housing policy change, the University is planning construction of two new dormitories that are subject to city regulatory approval at this time.

The University disposed of \$211,000 and \$50,000 of fully depreciated equipment for the years ended June 30, 2019 and 2018, respectively.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 7 - Debt

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

	<i>2019</i>	<i>2018</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 (\$0 at June 30, 2019), and the other over 20 years (\$16,000 at June 30, 2019) 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. The bonds are privately placed with a bank.	\$ 16,000	\$ 18,535
Obligations under Rhode Island Higher Education Facility Revenue Bonds of Refunding Series 2015, comprised of three bonds with one amortizing over 30 years (\$18,427 at June 30, 2019) with a fixed rate of 2.55% for 15 years (rate to be reset in year 16 for the following 15 year term), one over 21 years (\$2,751 at June 30, 2019) with variable interest rate of an adjusted 30-day LIBOR rate (3.1% at June 30, 2019) and one over 30 years (\$3,454 at June 30, 2019) with variable interest rate of an adjusted 30-day LIBOR rate (3.1% at June 30, 2019); principal and interest paid monthly, secured by a pledge of annual tuition and dormitory revenues and a mortgage on certain property. the bonds are privately placed with a bank.	<u>24,632</u>	<u>25,390</u>
Long-term debt	40,632	43,925
Less unamortized bond issuance costs	<u>836</u>	<u>886</u>
Long-term debt, net	<u>\$ 39,796</u>	<u>\$ 43,039</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 7 - Debt (Continued)

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, 2019 are as follows:

<i>Year Ending June 30,</i>	<i>(in thousands)</i>
2020	\$ 1,977
2021	2,030
2022	2,116
2023	2,183
2024	2,259
Thereafter	<u>30,067</u>
	<u><u>\$ 40,632</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 \$836,000 and \$886,000 are net of accumulated amortization of \$317,000 and \$267,000 at June 30, 2019 and 2018, respectively. Amortization expense amounted to \$50,000 for each of the years ended June 30, 2019 and 2018, 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 2024. Any amounts outstanding bear interest at the bank's prime rate. At June 30, 2019 and 2018, there were no amounts outstanding under this agreement. The University expects to renew the credit agreement prior to its expiration on similar terms.

Note 8 - 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>
2020	\$ 610
2021	615
2022	598
2023	240
2024	216
Thereafter	<u>976</u>
Total lease payments	<u><u>\$ 3,255</u></u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 8 - Commitments (Continued)

Operating Leases (Continued)

Rental expense was approximately \$598,000 and \$541,000 for the years ended June 30, 2019 and 2018, respectively.

Long-Term Contracts

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 2019, total expenses for food services and custodial services amounted to approximately \$3,476,000 and \$1,229,000, respectively. During 2018, total expenses for food services and custodial services amounted to approximately \$3,463,000 and \$1,312,000, respectively.

The University has contracts through 2019 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.

The University participates in a self-insured health insurance captive (the "Captive") in order to manage its health insurance costs. The University is an equity participant in the Captive that currently includes fifteen other educational institutions, with four more joining July 1, 2019. As a participant, the University is liable for its pro-rata share of any Captive losses. Any Captive gains or losses will be allocated to the members at the end of the year. The Captive has purchase reinsurance for itself to limit claims to the capital provided by the members. The University cannot be allocated any more in claims than this initial capital contribution. Specific to the University's plan a stop-loss insurance policy is in force providing coverage for claims in excess of \$160,000 per participant in a calendar year. In addition, there is a general aggregate stop loss of \$125,000. An accrual of \$390,000 and \$380,000 was recorded for benefit claims incurred but not reported at June 30, 2019 and 2018, respectively.

During June 2018, the University entered into a fixed rate contract to purchase and receive credits associated with energy generated by solar power electrical facilities. The contract terminates twenty-five years after commercial operations commences.

During 2019, the University entered into a contract with a service provider to assist and facilitate marketing efforts surrounding its online educational courses. The contract spans seven and a half years after operations commence.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following at June 30:

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Operating and fixed assets	\$ 64,383	\$ 63,640
Board-designated funds operating as endowment	<u>47,287</u>	<u>47,045</u>
Net assets without donor restrictions	<u>\$ 111,670</u>	<u>\$ 110,685</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of the following at June 30:

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Purpose restricted gifts:		
Capital improvements	\$ 829	\$ 838
Instructional	1,523	1,719
Financial aid	662	375
Other	<u>498</u>	<u>349</u>
	<u>3,512</u>	<u>3,281</u>
Accumulated unspent gains:		
Financial aid	2,778	2,825
Instructional	714	741
Other	<u>114</u>	<u>119</u>
	<u>3,606</u>	<u>3,685</u>
Endowment corpus:		
Financial aid	8,775	7,860
Instructional	7,566	7,566
Other	<u>418</u>	<u>415</u>
	<u>16,759</u>	<u>15,841</u>
Net assets with donor restrictions	<u>\$ 23,877</u>	<u>\$ 22,807</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

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:

	2019	2018
	<i>(in thousands)</i>	
Capital improvements	\$ 19	\$ 1,196
Instructional	393	180
Financial aid	23	54
Other	<u>89</u>	<u>52</u>
Net assets released from restrictions	<u>\$ 524</u>	<u>\$ 1,482</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

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

	2019		
	<i>(in thousands)</i>		
	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 47,045	\$ 15,666	\$ 62,711
Gifts	10	918	928
Additions from operations	1,000	-	1,000
Total gifts and additions	1,010	918	1,928
Investment returns:			
Interest and dividends	460	159	619
Net realized and unrealized gains	999	372	1,371
Total investment returns	1,459	531	1,990
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(31)	(419)	(450)
Operations	(2,196)	(193)	(2,389)
Total amounts appropriated under endowment spending policy	(2,227)	(612)	(2,839)
Net investment returns and expenditures	(768)	(81)	(849)
Endowment assets and those functioning as endowment assets, end of year	\$ 47,287	\$ 16,503	\$ 63,790

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

	2018		
	<i>(in thousands)</i>		
	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 45,042	\$ 14,843	\$ 59,885
Gifts	-	324	324
Additions from operations	1,000	-	1,000
Total gifts and additions	<u>1,000</u>	<u>324</u>	<u>1,324</u>
Investment returns:			
Interest and dividends	323	192	515
Net realized and unrealized gains	2,622	869	3,491
Total investment returns	<u>2,945</u>	<u>1,061</u>	<u>4,006</u>
Expenditures:			
Amounts appropriated under endowment spending policy:			
Scholarships	(26)	(398)	(424)
Operations	(1,916)	(164)	(2,080)
Total amounts appropriated under endowment spending policy	<u>(1,942)</u>	<u>(562)</u>	<u>(2,504)</u>
Net investment returns and expenditures	<u>1,003</u>	<u>499</u>	<u>1,502</u>
Endowment assets and those functioning as endowment assets, end of year	<u>\$ 47,045</u>	<u>\$ 15,666</u>	<u>\$ 62,711</u>

The investment return on net assets with donor restrictions that was appropriated from net assets with donor restrictions to net assets without donor restrictions for operations was \$612,000 and \$562,000 for the years ended June 30, 2019 and 2018, respectively.

Endowment

The University's endowment consists of 92 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.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

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 retains in perpetuity: (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. Donor restricted amounts not retained in perpetuity are subject to appropriation 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.

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. These deficiencies resulted from unfavorable market fluctuations. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Funds with deficiencies were reported in net assets with donor restrictions as follows at June 30, 2019 and 2018:

	<i>2019</i>	<i>2018</i>
	<i>(in thousands)</i>	
Fair value of underwater endowment funds	\$ 1,473	\$ 1,000
Original endowment gift amount	<u>1,525</u>	<u>1,039</u>
Deficiencies of underwater endowment funds	\$ <u>(52)</u>	\$ <u>(39)</u>

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

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, 2020 is approximately \$2,733,000.

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 10 - 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 \$1,931,000 and \$1,952,000 for the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the University contributed 8% of eligible salaries.

SALVE REGINA UNIVERSITY

Notes to Consolidated Financial Statements

Note 11 - Natural Classification of Expenses

Expenses presented by natural classification and function are as follows for the year ended June 30, 2019 and with comparative totals for the year ended June 30, 2018:

	2019							2018	
	<i>Instruction</i>	<i>Research</i>	<i>Academic Support</i>	<i>Student Services</i>	<i>Auxiliary Enterprises</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>	<i>Total</i>
Salaries and benefits	\$ 17,461	\$ 358	\$ 3,409	\$ 6,934	\$ 2,865	\$ 8,043	\$ 721	\$ 39,791	\$ 40,454
Contract services	305	-	5	534	3,832	1,508	1	6,185	6,194
Occupancy and related expenses	1,066	12	560	801	4,217	559	34	7,249	7,202
Depreciation	1,872	19	744	1,181	2,941	817	44	7,618	7,769
Interest	662	7	144	262	277	81	-	1,433	1,499
Other operating expenses	1,300	81	1,099	2,630	1,315	943	275	7,643	7,633
Total expenses	\$ 22,666	\$ 477	\$ 5,961	\$ 12,342	\$ 15,447	\$ 11,951	\$ 1,075	\$ 69,919	\$ 70,751