



SAINT MARY'S COLLEGE OF CALIFORNIA

Financial Statements and Auditors' Reports
in Accordance with OMB Circular A-133

Year ended June 30, 2006

(With Independent Auditors' Reports Thereon)

SAINT MARY'S COLLEGE OF CALIFORNIA

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Saint Mary's College of California:

We have audited the accompanying balance sheet of Saint Mary's College of California as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2005 financial statements and, in our report dated August 26, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary's College of California as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2(p) to the financial statements, the College changed its method of accounting for conditional asset retirement obligations to adopt FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of Saint Mary's College of California'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

September 1, 2006

SAINT MARY'S COLLEGE OF CALIFORNIA

Balance Sheet

June 30, 2006

(with comparative financial information as of June 30, 2005)

Assets	2006			2005
	Operating	Endowment	Totals	Totals
Current assets:				
Cash and cash equivalents	\$ 9,889,544	375,297	10,264,841	5,053,762
Investments (note 3)	2,169,570	20,209,625	22,379,195	21,361,995
Student receivables, net	1,218,346	—	1,218,346	1,001,577
Contributions receivable, net (note 4)	562,140	—	562,140	762,517
Accounts receivable – other	556,244	—	556,244	526,353
Inventory	106,485	—	106,485	113,719
Prepaid expenses	1,788,741	—	1,788,741	1,376,755
Total current assets	<u>16,291,070</u>	<u>20,584,922</u>	<u>36,875,992</u>	<u>30,196,678</u>
Noncurrent assets:				
Investments (note 3)	13,543,273	122,126,624	135,669,897	125,503,559
Contributions receivable, net (note 4)	11,201,324	675,934	11,877,258	10,732,002
Notes receivable, net (note 5)	1,678,152	—	1,678,152	1,862,057
Other assets	2,786,693	—	2,786,693	1,845,017
Property, plant and equipment, net of accumulated depreciation (note 6)	<u>81,966,146</u>	<u>—</u>	<u>81,966,146</u>	<u>84,738,088</u>
Total noncurrent assets	<u>111,175,588</u>	<u>122,802,558</u>	<u>233,978,146</u>	<u>224,680,723</u>
Total assets	<u>\$ 127,466,658</u>	<u>143,387,480</u>	<u>270,854,138</u>	<u>254,877,401</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 6,613,914	—	6,613,914	6,534,141
Current portion of long-term debt (note 8)	2,265,113	—	2,265,113	2,201,178
Deferred revenue	4,534,399	—	4,534,399	4,850,621
Total current liabilities	<u>13,413,426</u>	<u>—</u>	<u>13,413,426</u>	<u>13,585,940</u>
Noncurrent liabilities:				
Liabilities under trust agreements	637,702	954,602	1,592,304	1,658,243
Long-term debt, excluding current portion (note 8)	46,275,255	—	46,275,255	48,540,368
Asset retirement obligations (note 2(p))	2,503,460	—	2,503,460	—
Federal government grants refundable	2,075,006	—	2,075,006	2,049,543
Total noncurrent liabilities	<u>51,491,423</u>	<u>954,602</u>	<u>52,446,025</u>	<u>52,248,154</u>
Total liabilities	<u>64,904,849</u>	<u>954,602</u>	<u>65,859,451</u>	<u>65,834,094</u>
Net assets:				
Unrestricted:				
Investment in property, plant and equipment	13,425,358	—	13,425,358	13,476,200
Designated for plant renewal	9,309,208	—	9,309,208	4,785,776
Designated for debt service	10,589,450	—	10,589,450	10,511,152
Designated for long-term investment	—	38,496,906	38,496,906	31,717,922
Designated for budget enhancement	1,352,808	—	1,352,808	1,188,502
Designated for board reserve	—	20,697,990	20,697,990	19,395,695
Undesignated	5,805,308	—	5,805,308	5,825,791
Total unrestricted	<u>40,482,132</u>	<u>59,194,896</u>	<u>99,677,028</u>	<u>86,901,038</u>
Temporarily restricted	21,960,209	5,418,869	27,379,078	23,141,786
Permanently restricted	<u>119,468</u>	<u>77,819,113</u>	<u>77,938,581</u>	<u>79,000,483</u>
Total net assets	<u>62,561,809</u>	<u>142,432,878</u>	<u>204,994,687</u>	<u>189,043,307</u>
Total liabilities and net assets	<u>\$ 127,466,658</u>	<u>143,387,480</u>	<u>270,854,138</u>	<u>254,877,401</u>

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
Statement of Activities
Year ended June 30, 2006
(with summarized financial information as of June 30, 2005)

	2006			Totals	2005 totals
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating:					
Revenues and gains:					
Tuition and fees	\$ 89,126,809	—	—	89,126,809	84,426,580
Less financial aid	(19,734,032)	—	—	(19,734,032)	(17,379,620)
Net tuition and fees	69,392,777	—	—	69,392,777	67,046,960
Sales and services of auxiliary enterprises	14,919,861	—	—	14,919,861	13,988,590
Contributions	1,711,201	817,939	—	2,529,140	2,933,949
Investment income	527,503	202,079	—	729,582	180,665
Endowment income and realized gains distributed	4,450,113	—	—	4,450,113	4,245,778
Other	1,364,932	76,867	—	1,441,799	832,990
Total operating revenues and gains	92,366,387	1,096,885	—	93,463,272	89,228,932
Net assets released from restrictions	1,613,816	(1,613,816)	—	—	—
Total operating revenue, gains, and other support	93,980,203	(516,931)	—	93,463,272	89,228,932
Expenses:					
Instruction	33,970,556	—	—	33,970,556	35,764,150
Academic support	7,997,549	—	—	7,997,549	9,116,014
Student services	12,404,827	—	—	12,404,827	11,716,617
Institutional support	15,006,241	—	—	15,006,241	15,244,178
Operations and maintenance of plant	6,163,794	—	—	6,163,794	6,109,753
Other	—	—	—	—	19,308
Interest expense	1,989,861	—	—	1,989,861	2,120,424
Depreciation expense	4,329,731	—	—	4,329,731	3,135,752
Auxiliary enterprises	7,093,252	—	—	7,093,252	6,904,687
Total operating expenses	88,955,811	—	—	88,955,811	90,130,883
Increase (decrease) in net assets from operations	5,024,392	(516,931)	—	4,507,461	(901,951)
Nonoperating:					
Contributions	548,027	9,764,378	1,765,593	12,077,998	2,927,729
Reserve for contribution receivable	—	(4,583,482)	—	(4,583,482)	—
Net gains and income on endowments, net of distributions	1,662,224	3,399,772	—	5,061,996	6,209,971
Net gains and income on other investments	880,579	—	—	880,579	270,491
Depreciation	—	—	—	—	(1,265,268)
Write-off of construction in progress on abandoned project	(1,432,226)	—	—	(1,432,226)	—
Unrealized gain (loss) on interest rate swaps	2,391,988	—	—	2,391,988	(1,518,119)
Other	2,981,121	(80,761)	(2,900,360)	—	—
Actuarial adjustments	557	(522,896)	72,865	(449,474)	194,459
Net assets released from restrictions	3,222,788	(3,222,788)	—	—	—
Increase (decrease) from nonoperating activities	10,255,058	4,754,223	(1,061,902)	13,947,379	6,819,263
Change in accounting principle (note 2(p))	(2,503,460)	—	—	(2,503,460)	—
Increase (decrease) in net assets	12,775,990	4,237,292	(1,061,902)	15,951,380	5,917,312
Net assets, beginning of year	86,901,038	23,141,786	79,000,483	189,043,307	183,125,995
Net assets, end of year	\$ 99,677,028	27,379,078	77,938,581	204,994,687	189,043,307

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Cash Flows

Year ended June 30, 2006

(with comparative financial information as of June 30, 2005)

	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 15,951,380	5,917,312
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,329,731	4,401,020
Reserve for contribution receivable	4,583,482	—
Net gain on investments and other assets	(6,965,329)	(7,983,748)
Noncash gifts received (stock)	(196,117)	(104,623)
Loss (gain) on sale of property, plant, and equipment	(13,385)	15,049
Write off of abandoned project	1,432,226	—
Change in accounting principle	2,503,460	—
Unrealized loss (gain) from swap	(2,391,988)	1,518,119
Contributions restricted for long-term investment	(5,240,293)	(3,158,255)
Changes in operating assets and liabilities:		
Student receivables, net	(216,769)	(202,174)
Contributions receivable	(5,528,361)	227,038
Accounts receivable—other	(29,891)	(18,343)
Inventory, prepaid expenses, and other assets	(318,091)	257,031
Accounts payable and accrued liabilities	1,443,425	594,719
Deferred revenue	(316,222)	190,702
Liabilities under trust agreements	(65,939)	133,995
Federal government grants refundable	25,463	92,105
Net cash provided by operating activities	8,986,782	1,879,947
Cash flows from investing activities:		
Capital expenditures	(2,995,017)	(2,661,485)
Proceeds from sales of property, plant, and equipment	18,387	3,000
Purchases of investments	(11,255,507)	(10,069,760)
Proceeds from sales of investments	7,233,415	10,451,568
Disbursement of loans to students	(358,470)	(437,951)
Repayments of loans from students	542,374	390,070
Net cash used in investing activities	(6,814,818)	(2,324,558)
Cash flows from financing activities:		
Payments on long-term debt	(2,201,178)	(2,129,454)
Contributions restricted for long-term investment	5,240,293	3,158,255
Net cash provided by financing activities	3,039,115	1,028,801
Net increase in cash and cash equivalents	5,211,079	584,190
Beginning cash and cash equivalents	5,053,762	4,469,572
Ending cash and cash equivalents	\$ 10,264,841	5,053,762
Supplementary cash flow information:		
Cash paid for interest	\$ 1,973,723	2,059,464

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(1) Nature of Organization

Saint Mary's College of California (the College) is an independent liberal arts, Catholic, and Lasallian institution of higher education that is operated by the Brothers of the Christian Schools (Christian Brothers), the oldest religious order in the Catholic Church devoted exclusively to teaching. Chartered by the State of California in 1872 and operated continuously since that date, the College is among the oldest colleges in the West. The College grants associate, baccalaureate, and masters degrees in liberal arts, science, business administration, and education, including a doctorate in education. The College is classified as a Masters I (comprehensive) institution by the Carnegie Commission on Higher Education. Student headcount enrollment in fall 2005 totaled 3,040 full-time and 1,392 part-time students.

(2) Basis of Presentation and Summary of Significant Accounting Policies

The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

For purposes of presentation of the balance sheet, the College has classified information as either *Operating* or *Endowment* funds.

The Endowment fund includes true endowments, funds functioning as endowments, and board reserves. True endowment funds are subject to the restrictions on gift instruments. These restrictions require that the principal be invested in perpetuity and that only the income and gains may be utilized. Funds functioning as endowment have been established by the Board of Trustees to address the same requirements of endowment funds. Board reserves have been established by the Board of Trustees as long-term reserves for operations. Funds functioning as endowment and board reserves differ from true endowment funds because any portion of these funds may be expended.

All other funds are classified as operating, including current, loan, life income, and plant.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net assets and changes therein are classified as follows:

- *Permanently restricted net assets*—Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. The College's permanently restricted net assets are endowment funds invested to support scholarships and various academic programs.
- *Temporarily restricted net assets*—Net assets subject to donor-imposed restrictions that may or will be met by actions of the College and/or the passage of time. As of June 30, 2006 and 2005, \$3,644,280 and \$7,705,201, respectively, are restricted to operating activities and \$23,734,798 and \$15,436,585, respectively, are restricted to the acquisition of long-lived assets.
- *Unrestricted net assets*—Net assets not subject to donor-imposed restrictions.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is limited by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(a) Temporarily Restricted Net Assets

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenue.

Contributions of property, plant, and equipment without donor restrictions concerning use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as temporarily restricted revenues. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

(b) Asset Classification

Current assets are used to designate cash and other assets that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the College.

Noncurrent assets are used to designate such resources as (a) cash and claims to cash, which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts; (b) receivables which are not expected to be collected within twelve months; (c) land and other natural resources; (d) depreciable assets; and (e) long-term prepayments which are fairly chargeable to the operations of several years, or deferred charges such as unamortized debt issuance costs. Contributions receivable including amounts due within the next year, related to property, plant and equipment and endowments are included in this classification.

(c) Cash Equivalents

Cash equivalents of \$10,264,841 and \$5,053,762 as of June 30, 2006 and 2005, respectively, consist of short-term, highly liquid investments with original maturities of three months or less. For purposes of the statement of cash flows, the College considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

Included in the cash equivalents balance as of June 30, 2006 is \$9,899,702 of the College's holdings in the Common Fund for Short-Term Investments which has same day liquidity.

(d) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers or general partners. The College reviews and evaluates the values provided by the third parties and agrees with the valuation methods and assumptions used in determining the fair values of the alternative investments. Alternative investments of the College include private equity, international value equity trust, and real estate partnerships.

Investments designated for use in acquiring property, plant, and equipment, true endowment gifts (including expendable realized gains), and annuity and life income trusts have been classified as noncurrent in the accompanying balance sheet.

Expendable investments, including designated unrestricted and funds functioning as board reserves, have been classified as current in the accompanying balance sheet.

(e) Endowment Investment Pool

Pooled investments and allocation of pooled investment income are accounted for in the endowment on a unit market value method. At the inauguration of the pool, units were assigned an arbitrary value of \$100. The following schedule summarizes data pertaining to this method as of and for the year ended June 30, 2006:

Total net market value of pooled assets	\$ 120,935,351
Units owned at beginning of year	401,466
Units owned at end of year	408,243
Unit market value at end of year	\$ 294.20

The College follows an investment policy, which plans for the endowment fund investments to achieve an average annual total real return over 10 years of 5% plus management costs and fees. The spending policy for the endowment funds that provide funds for current operations is up to 5% of the average value computed from the prior 12 calendar quarters. The amount included in operating revenue is discretionary up to the 5% spending rate. The 2006 and 2005 amounts represent a 4.8% and 4.9% spending rate, respectively.

If the ordinary income of pooled investments is insufficient to provide the full amount of investment return specified, the balance may be appropriated from the available gains of the pooled investments. Cumulative gains and ordinary income in excess of the spending policy are held in unrestricted net assets and are available for appropriation under the College's spending policy. At June 30, 2006 and 2005, these net assets held for long-term investment totaled \$38,496,906 and \$31,717,922, respectively.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(f) *Student Receivables, Net*

Student receivables are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is \$86,000 as of June 30, 2006 and 2005.

(g) *Other Assets*

The issuance costs of bonds and bond discounts are included in other assets. They are deferred and amortized on a basis that approximates the level-yield method over the repayment period of the bonds.

(h) *Property, Plant, and Equipment, Net*

Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts-in-kind. Cost includes the related net interest expense incurred on funds borrowed for construction of facilities. Depreciation is provided on equipment using the straight-line method over the estimated useful lives ranging from 3 to 5 years. Depreciation is provided for heavy equipment using the straight-line method over the estimated useful lives ranging from 5 to 10 years. Depreciation was provided on buildings and improvements using the straight-line method over useful lives ranging from 10 to 30 years, and up to 50 years for buildings placed in service after 2000

Depreciation expense that is funded through internal transfers is reported as an operating expense in the accompanying statement of activities. The remaining amount of depreciation expense is reported as nonoperating as the College relies on gifts to fund a significant portion of the major long-lived assets.

(i) *Deferred Revenue*

Deferred revenue represents payments received, primarily tuition, which will be earned in the following year.

(j) *Works of Art, Historical Treasures, and Similar Assets*

Contributions of works of art, historical treasures, and similar assets held as part of a collection—for education, research, or public exhibition rather than for sale—are not recognized or capitalized. Contributions of works of art, historical treasures, and similar assets not held as part of a collection are recorded as revenue and assets at their estimated fair value at the date of receipt based upon appraisals or similar valuations. Such items acquired through purchase have been capitalized.

(k) *Unemployment Self-insurance*

The College reimburses the State of California for actual unemployment benefits paid resulting from previous employment with the College in lieu of making regular contributions to the State based on wages and salaries.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(l) Federal and State Income Tax

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is exempt from federal and state income taxation on related sources of income.

(m) Credit Risk and Fair Value of Financial Instruments

The College grants credit in the normal course of operations and the credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables.

The carrying amounts of cash, accounts, notes and other receivables, and accounts payable approximate fair value due to the short-term maturities of these instruments.

(n) Use of Estimates

Management of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(o) Comparative Totals

The statement of activities includes certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2005 from which the summarized information was derived.

(p) Change in Accounting Principle

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. In summary, conditional asset retirement obligation reporting is required when the fair value of the retirement obligations can be reasonably estimated. Saint Mary's has identified several facilities that may have conditional asset retirement obligations and therefore an attempt to estimate the fair value of the retirement obligations has been made.

Saint Mary's first looked at the construction date of each significant campus facility on the Moraga campus and based upon the date of construction, assumed either the presence or absence of building materials that could have been in use at the time of construction. Saint Mary's then estimated an average cost per square foot to abate any materials that might require abatement if the facility were to be renovated or demolished. This estimate has been informed by prior renovation and demolition activities at the campus. Additionally, this figure includes an estimated allowance for materials testing prior to and subsequent to any abatement activity. The reported conditional asset retirement obligation assumes, for purposes of this estimate only, that materials that would require abatement are present. Prior to any actual renovation or demolition of any individual facility, testing would be required to determine whether any abatement is actually necessary.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

The impact of adopting the standard was to record a liability and change in accounting principle of \$2,503,460 at July 1, 2005. This amount is recorded as a noncurrent liability on the balance sheet. The estimated asset retirement obligations will be determined annually on June 30 to reflect remediation efforts as well as to reflect updated costs for abatement.

(q) *Reclassifications*

Certain reclassifications have been made to the prior year comparative information to conform to the current year presentation.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(3) Investments

Investments as of June 30, 2006 and 2005 consist of the following:

	2006	2005
Operating:		
Current:		
Common stock	\$ 30,085	9,728
U.S. Treasury notes and bonds	998,395	1,408,971
Corporate notes and bonds	—	501,120
Short term mutual fund	1,141,090	154,846
Total current	\$ 2,169,570	2,074,665
Noncurrent:		
Cash equivalents	\$ 1,462,740	115,068
Common stock	74,834	83,790
Preferred stock	926,831	926,831
U.S. Treasury notes and bonds	4,681,735	3,779,937
Corporate notes and bonds	4,010,063	4,602,103
Short term mutual fund	2,361,803	1,145,078
International equities	25,267	25,267
Total noncurrent	\$ 13,543,273	10,678,074
Endowment:		
Current:		
Domestic stock index mutual fund	\$ 6,201,399	5,709,491
International value equity trust	2,450,957	2,056,727
Bond fund	11,557,269	11,521,112
Total current	\$ 20,209,625	19,287,330
Noncurrent:		
Common stock	\$ 69,160,248	60,505,505
Corporate notes and bonds	702,478	1,703,501
Private equity	1,705,522	1,288,153
Short term mutual fund	726,953	684,436
Bond fund	29,411,246	28,322,548
Real estate partnerships	2,188,679	—
International value equity trust	18,231,498	22,321,335
Total noncurrent	\$ 122,126,624	114,825,478

As of June 30, 2006, the College has committed to invest \$2.5 million in three private equity partnerships and \$7.8 million in two real estate partnerships. When the capital calls are made for these commitments, they will be funded from existing holdings in common stock.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

The following schedule summarizes the investment return during 2006 and 2005 and its classification on the statement of activities:

	2006	2005
Investment income (net of investment expenses of \$482,760 and \$439,608 in 2006 and 2005, respectively)	\$ 4,202,748	2,923,157
Net gain on investments and other assets	6,919,522	7,983,748
Total return on investments	\$ 11,122,270	10,906,905
Operating:		
Investment income	729,582	180,665
Endowment income and realized gains distributed	4,450,113	4,245,778
Nonoperating:		
Net gain and income on endowment, net of distributions	5,061,996	6,209,971
Net gain and income on other investments	880,579	270,491
Total return on investments	\$ 11,122,270	10,906,905

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(4) Contributions Receivable, Net

Promises to give, net of discount to present value (at a rate of 6%, based upon the risk-free rate at pledge establishment) are due to be collected as follows:

	2006	2005
Gross amounts due in:		
Less than one year	\$ 4,923,897	2,115,807
One to five years	12,900,168	9,515,000
More than five years	1,082,815	1,237,816
	18,906,880	12,868,623
Less:		
Discount to present value	(1,884,000)	(1,374,104)
Reserve for contribution receivable	(4,583,482)	—
	\$ 12,439,398	11,494,519
 Current	 \$ 562,140	 762,517
Noncurrent:		
Receivables designated/restricted for acquiring property, plant, and equipment, net of discount	11,201,324	9,988,207
Endowment receivables, net of discount	675,934	743,795
Total noncurrent	11,877,258	10,732,002
	\$ 12,439,398	11,494,519

Gross contributions receivable of \$14 million as of June 30, 2006, were due from four donors. Such amounts are recorded as temporarily restricted or permanently restricted net assets.

(5) Notes Receivable, Net

Notes receivable, net as of June 30, 2006 and 2005 consist of the following:

	2006	2005
Federal Perkins Loan Program	\$ 2,168,152	2,352,057
Less allowance for doubtful accounts	(490,000)	(490,000)
	\$ 1,678,152	1,862,057

The objective of the Federal Perkins Loan Program is to provide long-term, low-interest loans to students who demonstrate the need for financial aid to pursue their courses of study. A revolving loan fund is established by federal government grants and institutional matching contributions. A liability is established on the balance sheet for the net assets of this program refundable to the federal government. The Federal

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

Perkins Loan Program notes which bear interest at 3% to 5% are payable over approximately 11 years after the date the student separates from the College.

(6) Property, Plant, and Equipment, Net of Accumulated Depreciation

Property, plant, and equipment, net as of June 30, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 1,336,000	1,336,000
Land improvements	11,374,855	11,231,040
Buildings and building improvements	112,688,354	112,293,993
Furniture, fixtures, and equipment	13,744,034	13,472,124
Vehicles	1,039,320	1,013,725
Construction in progress	9,021,482	8,580,047
	<u>149,204,045</u>	<u>147,926,928</u>
Accumulated depreciation	<u>(67,237,899)</u>	<u>(63,188,841)</u>
	<u>\$ 81,966,146</u>	<u>84,738,088</u>

(7) Note Payable to Bank

The College has a revolving line of credit with Bank of America in the amount of \$6 million. At the discretion of the College, advances bear interest at either the bank's prime rate minus 0.5% or the 30-day LIBOR plus 1.25%. This line of credit is available through January 1, 2008. As of June 30, 2006, the College had not drawn on this line.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(8) Long-Term Debt

Long-term debt as of June 30, 2006 and 2005 consists of the following:

	2006	2005
Housing System Bonds:		
Series C through E – 2-7/8% to 3%, due through 2012	\$ 506,000	601,000
Note payable to bank – interest at the 360-day LIBOR + .75% (5.69 % as of June 30, 2006) due through February 1, 2020, secured by \$1.470 million contribution receivable	1,470,000	1,575,000
California Educational Facilities Authority 2001A Revenue Bonds – Series A 3.000% – 5.125%, unsecured, due through 2032	6,625,000	6,755,000
California Educational Facilities Authority 2001B Variable Rate Demand Revenue Bonds – interest reset weekly (3.65 % at June 30, 2006), unsecured, due through 2032	15,900,000	16,300,000
California Educational Facilities Authority 2003 Auction Rate Security Revenue Bonds – interest reset weekly (3.78 % at June 30, 2006), unsecured, due through 2020	22,825,000	24,075,000
California Educational Facilities Authority 2004 Master Lease with Option to Purchase Agreement – 3.099% secured by underlying equipment, due through 2010	1,214,368	1,435,546
Total long-term debt	48,540,368	50,741,546
Less current portion	2,265,113	2,201,178
Long-term debt, excluding current portion	\$ 46,275,255	48,540,368

The carrying value of long-term debt net of issuance costs of bonds and bond discounts is \$47,135,351 and \$49,237,900 as of June 30, 2006 and 2005, respectively. Based on the current trading value of long-term debt, the fair value is approximately \$47,506,585 and \$49,772,973 as of June 30, 2006 and 2005, respectively.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

Aggregate future long-term debt principal payments are as follows:

Year ending June 30:		
2007	\$	2,265,113
2008		2,300,266
2009		2,362,642
2010		2,450,250
2011		2,498,097
Subsequent		<u>36,664,000</u>
	\$	<u><u>48,540,368</u></u>

The College's debt is subject to certain financial covenants. Pursuant to the provision of the Housing System Bonds Indenture, the College is required to maintain balances in debt service and repair and replacement reserve collateral accounts aggregating approximately \$443,000. The College has deposited with the trustee investments having a fair value of \$449,663 and \$447,963 as of June 30, 2006 and 2005, respectively.

(9) Interest Rate Swaps

The College has issued variable-rate debt to finance the acquisition of buildings and to defease the CEFA 1993 bonds. These debt obligations expose the College to fluctuations in interest payments due to the changes in interest rates. In an effort to manage the fluctuations in cash flows resulting from interest rate risk, the College entered into two receive-variable, pay-fixed interest rate swaps.

Under the interest rate swaps, the College receives variable interest rate payments that hedge the variable interest rate debt, and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In July 2003, the College entered into a 17-year swap from Bank of America at a fixed rate of 3.29% on \$25,375,000 of the outstanding variable rate debt. In March 2004, the College entered into a 27-year swap from Bank of America at a fixed rate of 3.26% on the remaining \$16,700,000 of the outstanding variable rate debt. There was no cash exchanged at the time the college entered into the Swaps due to the relationship between the variable rates and swap rate at that time.

Changes in the fair market value of the interest rate swaps are reported as unrealized gains or losses on interest rate swaps related to bonds on the statement of activities. As of June 30, 2006 and 2005, the valuation of the swap resulted in an unrealized gain of \$1,182,075 and an unrealized loss of \$592,565, respectively, for CEFA 2001 as well as an unrealized gain of \$1,209,913 and an unrealized loss of \$771,087 for CEFA 2003 respectively. The offsetting asset related to this year's gain is reported on the statement of financial position in other assets. Providing that the College holds the swaps to maturity, the value of the derivatives will be zero. These swapping transactions can be terminated at market rates at anytime during the term of the swap.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Financial Statements

June 30, 2006

(with summarized comparative information as of June 30, 2005)

(10) Retirement Plan

The College participates in the Teachers Insurance Annuity Association (TIAA) and the College Retirement Equity Fund (CREF) defined contribution retirement plans that cover substantially all full-time employees of the College. TIAA is a legal reserve life insurance and annuity company and CREF is a corporate companion to TIAA. Annual contributions, as determined by the Board of Trustees, were 8.25% of all eligible employees' wages and salaries for the years ended June 30, 2006 and 2005. Total College contributions were approximately \$3,135,598 and \$3,145,215 for the years ended June 30, 2006 and 2005, respectively.

(11) Expenses by Function

Expenses by functional classification after allocating operation and maintenance of plant, depreciation expense, interest expense, and separating fundraising are as follows for the years ended June 30, 2006 and 2005:

	2006	2005
Instruction	\$ 38,697,694	40,562,019
Academic support	8,890,097	10,036,926
Student services	13,897,205	13,179,037
Institutional support	14,743,206	16,066,240
Auxiliary enterprise	9,601,476	9,475,747
Fundraising	3,126,133	2,056,874
Other	—	19,308
Expenses by function	\$ 88,955,811	91,396,151

(12) Related Party Transactions

As of June 30, 2006 and 2005, \$814,867 and \$751,256, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

(13) Commitments and Contingencies

The College is contingently liable in connection with claims and contracts, including those currently in litigation arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Federal grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Department of Education:		
Student Financial Aid:		
Federal Supplemental Educational Opportunity Grant Program	84.007	\$ 689,716
Federal Family Education Loan Program	84.032	26,461,660
Federal Work Study Program	84.033	625,878
Federal Perkins Loan Program	84.038	358,719
Federal Pell Grant Program	84.063	<u>1,974,215</u>
Total student financial aid cluster		30,110,188
National Science Foundation:		
Geosciences	47.050	926
Corporation for National and Community Service:		
Americorps	94.006	<u>49,311</u>
Total expenditures of federal awards		<u><u>\$ 30,160,425</u></u>

The accompanying notes are an integral part of this schedule.

SAINT MARY'S COLLEGE OF CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Saint Mary's College of California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Student Financial Aid Expenditures

The College recognizes expenditures for federal student financial aid programs as they are incurred. Student financial aid program expenditures include payments to students, and each program's administrative allowance, and exclude amounts representing cost sharing or matching. Administrative allowances totaling \$98,303 were claimed in the current year.

(3) Federal Student Loan Programs

The College had the following loan balances outstanding as of June 30, 2006. The Federal Perkins Loans expended during the year ended June 30, 2006, totaling \$358,719 included in the balance of Federal Perkins Loans outstanding as of June 30, 2006.

Federal Perkins Loan Program	\$	2,168,152
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With respect to the Federal Family Education Loan Programs, the College is only responsible for the performance of certain administrative duties; therefore, the transactions for these programs are not included in the College's financial statements.



KPMG LLP
55 Second Street
San Francisco, CA 94105

**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***

The Board of Trustees
Saint Mary's College of California:

We have audited the financial statements of Saint Mary's College of California (the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006 which included a reference to a change in accounting principle. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Saint Mary's College of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saint Mary's College of California's financial statements are free of 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*.

We noted certain matters that we have reported to management of Saint Mary's College of California in a separate letter dated October 27, 2006.



This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 1, 2006



KPMG LLP
55 Second Street
San Francisco, CA 94105

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Saint Mary's College of California:

Compliance

We have audited the compliance of Saint Mary's College of California (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006, except those requirements discussed in the third following paragraph. Saint Mary's College of California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Saint Mary's College of California's management. Our responsibility is to express an opinion on Saint Mary's College of California's compliance based on our audit.

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 Saint Mary's College of California'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. Our audit does not provide a legal determination of Saint Mary's College of California's compliance with those requirements.

In our opinion, Saint Mary's College of California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006, other than those requirements discussed in the following paragraph.

We did not audit Saint Mary's College of California's compliance with requirements governing Federal Perkins Loan Program repayments. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS' compliance with the requirements governing the functions that it performs for Saint Mary's College of California was examined by accountants for the servicer whose report has been furnished to us.



The report of the accountants for the servicer indicates that compliance with those requirements was examined 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*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the Compliance Supplement that are applicable to the major program in which Saint Mary's College of California participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on Saint Mary's College of California's major program.

Internal Control over Compliance

The management of Saint Mary's College of California is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Saint Mary's College of California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing Federal Perkins Loan Program repayments are performed by ACS. Internal control over compliance relating to such functions 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*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at ACS.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 27, 2006

SAINT MARY'S COLLEGE OF CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Summary of Auditor's Results

a. Financial Statements

Type of auditors' report issued: *unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

b. Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

Name of Federal Program or cluster:	Student Financial Aid Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ <u>959,096</u>
Auditee qualified as low-risk auditee:	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

ii. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

None

iii. Findings and Questioned Costs Relating to Federal Awards:

None