



SAINT MARY'S COLLEGE OF CALIFORNIA

FINANCIAL STATEMENTS

Including Independent Auditor's Report

As of and for the Years Ended June 30, 2020 and 2019



Saint Mary's College of California

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June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Saint Mary's College of California

We have audited the accompanying financial statements of Saint Mary's College of California (the College), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of activities, cash flows for the years then ended and functional expenses for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
October 15, 2020

Saint Mary's College of California

Balance Sheets
June 30, 2020 and 2019
(Dollars in Thousands)

Assets	2020	2019
Current Assets		
Cash and cash equivalents	\$ 4,836	\$ 2,513
Investments (Note 3)	9,521	7,556
Student receivables, net	1,271	913
Contributions receivable, net (Note 4)	1,636	2,181
Accounts receivable, other	1,093	2,024
Prepaid expenses, and other	1,707	1,960
Total current assets	<u>20,064</u>	<u>17,147</u>
Noncurrent Assets		
Investments (Note 3)	191,287	195,794
Contributions receivable, net (Note 4)	5,372	6,665
Notes receivable, net (Note 5)	1,068	1,486
Other assets	392	390
Property, plant and equipment, net of accumulated depreciation (Note 6)	<u>128,236</u>	<u>128,319</u>
Total noncurrent assets	<u>326,355</u>	<u>332,654</u>
Total assets	<u><u>\$ 346,419</u></u>	<u><u>\$ 349,801</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,992	\$ 8,649
Interest rate swap liability (Note 9)	20,543	15,057
Current portion of long-term debt (Note 8)	1,475	1,530
Deferred revenue	8,127	5,839
Total current liabilities	<u>40,137</u>	<u>31,075</u>
Noncurrent Liabilities		
Liabilities under trust agreements (Note 2)	1,992	2,113
Long-term debt, excluding current portion, net (Note 8)	53,161	54,568
Post retirement benefits payable (Note 10)	1,241	2,740
Asset retirement obligations (Note 2)	2,586	2,586
Federal government grants refundable (Note 5)	<u>1,253</u>	<u>1,676</u>
Total noncurrent liabilities	<u>60,233</u>	<u>63,683</u>
Total liabilities	<u>100,370</u>	<u>94,758</u>
Net Assets		
Without donor restrictions	92,093	97,955
With donor restrictions		
Time or purpose	16,489	17,015
Endowment returns subject to future appropriation	28,469	33,598
Perpetual	<u>108,998</u>	<u>106,475</u>
Total net assets	<u>246,049</u>	<u>255,043</u>
Total liabilities and net assets	<u><u>\$ 346,419</u></u>	<u><u>\$ 349,801</u></u>

See notes to financial statements

Saint Mary's College of California
Statement of Activities

Year Ended June 30, 2020

With Comparative Totals for 2019

(Dollars in Thousands)

	2020		2019 Totals	
	Without Donor Restrictions	With Donor Restrictions		Totals
Operating				
Revenues and gains:				
Tuition and fees	\$ 88,474		\$ 88,474	90,031
Sales and services of auxiliary enterprises	17,555		17,555	24,550
Grant and contract revenue	4,662		4,662	1,832
Contributions	1,827	\$ 3,260	5,087	5,694
Endowment income and realized gains distributed	8,859		8,859	8,366
Investment Income	146	2	148	172
Other	4,229	133	4,362	4,944
	<u>125,752</u>	<u>3,395</u>	<u>129,147</u>	<u>135,589</u>
Total operating revenues and gains				
	125,752	3,395	129,147	135,589
Net Assets Released From Restrictions				
	<u>2,731</u>	<u>(2,731)</u>	<u>-</u>	
Total operating revenue, gains and other support	<u>128,483</u>	<u>664</u>	<u>129,147</u>	<u>135,589</u>
Expenses				
Instruction	46,269		46,269	47,218
Academic support	10,474		10,474	10,337
Student services	23,523		23,523	23,394
Institutional support	23,215		23,215	23,269
Operations and maintenance of plant	7,208		7,208	8,633
Interest expense	2,667		2,667	2,641
Auxiliary enterprises	9,608		9,608	10,818
	<u>122,964</u>		<u>122,964</u>	<u>126,310</u>
Total operating expenses excluding depreciation				
	122,964		122,964	126,310
Increase in net assets from operations before depreciation expense	5,519	664	6,183	9,279
Depreciation Expense	<u>7,647</u>		<u>7,647</u>	<u>7,071</u>
Increase (decrease) in net assets from operations	<u>(2,128)</u>	<u>664</u>	<u>(1,464)</u>	<u>2,208</u>
Nonoperating				
Contributions	352	4,959	5,311	7,186
Net (loss) gain and income on endowments, net of distributions	(6,266)	652	(5,614)	(794)
Net gain and income on other investments	1	73	74	194
Other non operating expense	(1,700)		(1,700)	
Unrealized loss on interest rate swap	(5,486)		(5,486)	(3,303)
Actuarial adjustments		(115)	(115)	29
Net assets released from restrictions	9,365	(9,365)		
	<u>(3,734)</u>	<u>(3,796)</u>	<u>(7,530)</u>	<u>3,312</u>
Increase from nonoperating activities				
	(3,734)	(3,796)	(7,530)	3,312
Change in net assets	(5,862)	(3,132)	(8,994)	5,520
Net Assets, Beginning	<u>97,955</u>	<u>157,088</u>	<u>255,043</u>	<u>249,523</u>
Net Assets, Ending	<u>\$ 92,093</u>	<u>\$ 153,956</u>	<u>\$ 246,049</u>	<u>\$ 255,043</u>

See notes to financial statements

Saint Mary's College of California

Statement of Activities
 Year Ended June 30, 2019
 (Dollars in Thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Operating			
Revenues and gains:			
Tuition and fees	\$ 90,031		\$ 90,031
Sales and services of auxiliary enterprises	24,550		24,550
Grant and contract revenue	1,832		1,832
Contributions	2,267	\$ 3,427	5,694
Endowment income and realized gains distributed	8,366		8,366
Investment Income	158	14	172
Other	3,945	999	4,944
	<u>131,149</u>	<u>4,440</u>	<u>135,589</u>
Total operating revenues and gains			
	<u>2,924</u>	<u>(2,924)</u>	
Net Assets Released From Restrictions			
Total operating revenue, gains and other support	<u>134,073</u>	<u>1,516</u>	<u>135,589</u>
Expenses			
Instruction	47,218		47,218
Academic support	10,337		10,337
Student services	23,394		23,394
Institutional support	23,269		23,269
Operations and maintenance of plant	8,633		8,633
Interest expense	2,641		2,641
Auxiliary enterprises	10,818		10,818
	<u>126,310</u>		<u>126,310</u>
Total operating expenses excluding depreciation			
Increase in net assets from operations before depreciation expense	7,763	1,516	9,279
Depreciation Expense	7,071	-	7,071
	<u>692</u>	<u>1,516</u>	<u>2,208</u>
Increase (decrease) in net assets from operations			
Nonoperating			
Contributions	164	7,022	7,186
Net (loss) gain and income on endowments, net of distributions	(4,614)	3,820	(794)
Net gain and income on other investments	50	144	194
Unrealized (loss) gain on interest rate swap	(3,303)		(3,303)
Actuarial adjustments		29	29
Net assets released from restrictions	7,711	(7,711)	-
	<u>8</u>	<u>3,304</u>	<u>3,312</u>
Increase from nonoperating activities			
Change in net assets	700	4,820	5,520
Net Assets, Beginning	<u>97,255</u>	<u>152,268</u>	<u>249,523</u>
Net Assets, Ending	<u>\$ 97,955</u>	<u>\$ 157,088</u>	<u>\$ 255,043</u>

See notes to financial statements

Saint Mary's College of California

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>
Cash flows From Operating Activities		
Change in net assets	\$ (8,994)	\$ 5,520
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,647	7,071
Amortization of issuance costs	68	68
Actuarial adjustment of annuities payable	115	29
Net gain on investments and other assets	(3,615)	(7,942)
Loss from interest rate swap	5,486	3,303
Loss on sale of property, plant, and equipment, net		59
Changes in operating assets and liabilities:		
Student receivables, net	(358)	53
Contributions receivable, net	545	(782)
Accounts receivable, other	929	220
Prepaid expenses, and other assets	253	806
Accounts payable and accrued liabilities	2,084	(447)
Post retirement liability	(1,852)	(2,184)
Deferred revenue	2,288	(145)
Liabilities under trust agreements	6	(28)
Contributions restricted for plant and long-term investment	(5,311)	(7,186)
Net cash flows from operating activities	<u>(709)</u>	<u>(1,585)</u>
Cash Flows From Investing Activities		
Capital expenditures	(7,952)	(7,320)
Proceeds from sale of property, plant and equipment		14
Purchases of investments	(60,122)	(53,897)
Proceeds from sales of investments	66,182	55,430
Repayments of loans from students	418	374
Net cash flows from investing activities	<u>(1,474)</u>	<u>(5,399)</u>
Cash Flows From Financing Activities		
Change in refundable government grants, net	(423)	35
Payments on long-term debt	(1,530)	(1,480)
Payments to annuitants	(145)	(138)
Increase in annuities payable from new gifts		99
Contributions received for plant and long-term investment	6,604	8,022
Net cash flows from financing activities	4,506	6,538
Change in cash and cash equivalents	2,323	(446)
Cash and Cash Equivalents, Beginning	<u>2,513</u>	<u>2,959</u>
Cash and Cash Equivalents, Ending	<u>\$ 4,836</u>	<u>\$ 2,513</u>
Supplementary Cash Flow Information		
Cash paid for interest	<u>\$ 2,605</u>	<u>\$ 2,595</u>
Noncash Investing and Financing Activities		
Construction in progress included in accounts payable	<u>\$ 137</u>	<u>\$ 525</u>

See notes to financial statements

Saint Mary's College of California

Statement of Functional Expenses

Year Ended June 30, 2020

(Dollars in Thousands)

	Program Services				Supporting Services		Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Operations and Maintenance of Plant	
Compensation	\$ 43,945	\$ 6,910	\$ 15,399	\$ 1,458	\$ 14,641	\$ 2,870	\$ 85,223
Academic and student program costs	654	1,963	1,130	99	369	18	4,233
Emergency grants to students			1,263				1,263
Information technology	21	1,323	193	35	2,094	191	3,857
Facility and equipment expense	148	168	865	3,877	912	2,044	8,014
Travel	284	85	3,852	1	212	12	4,446
Contracted services	1,585	41	819	4,129	708	2,829	10,111
Other expenses	974	192	764	62	1,052	106	3,150
Depreciation expense	2,185	490	1,237	2,419	946	370	7,647
Interest expense	740			1,271	550	106	2,667
Total expenses	\$ 50,536	\$ 11,172	\$ 25,522	\$ 13,351	\$ 21,484	\$ 8,546	\$ 130,611

See notes to financial statements

Saint Mary's College of California

Statement of Functional Expenses
Year Ended June 30, 2019
(Dollars in Thousands)

	Program Services				Supporting Services		Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Operations and Maintenance of Plant	
Compensation	\$ 44,405	\$ 6,555	\$ 15,425	\$ 1,471	\$ 14,453	\$ 2,583	\$ 84,892
Academic and student program costs	717	2,073	1,718	158	674	21	5,361
Information technology	11	1,194	146	26	1,837	216	3,430
Facility and equipment expense	183	184	831	3,746	548	3,688	9,180
Travel	658	144	3,726	6	339	14	4,887
Contracted services	1,704	179	1,086	5,402	723	2,944	12,038
Other expenses	796	208	876	35	1,861	105	3,881
Depreciation expense	1,969	431	1,156	2,152	968	395	7,071
Interest expense	732	-	-	1,259	545	105	2,641
Total expenses	<u>\$ 51,175</u>	<u>\$ 10,968</u>	<u>\$ 24,964</u>	<u>\$ 14,255</u>	<u>\$ 21,948</u>	<u>\$ 10,071</u>	<u>\$ 133,381</u>

See notes to financial statements

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

1. Nature of Organization

Saint Mary's College of California (the College) is 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 2019 and 2018 totaled 3,076 and 3,196 full-time and 616 and 685 part-time students, respectively.

2. Basis of Presentation and Summary of Significant Accounting Policies

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:

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time or that are to be permanently maintained by the College. The College's net assets held in perpetuity are endowment funds invested to support scholarships and various academic programs.

Without Donor Restrictions - Net assets not subject to donor-imposed restrictions that are available for use in general operations, board designated quasi endowments or invested in property, plant and equipment.

The Board of Trustees has established policies to designate a portion of bequests received by the College as quasi endowment so that the funds can be invested and provide sustainable income streams for operating needs.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. 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 limited by explicit donor restriction or by law. Expiration of donor restrictions (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.

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. 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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

Net Assets With Donor Restrictions

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions.

Contributions of property, plant and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant and equipment are reported as donor restricted revenues. The restrictions are considered to be released when the asset is placed in service, unless stipulated otherwise by the donor as the asset is constructed.

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. Contributions receivable including amounts due within the next year, related to property, plant and equipment and endowments are included in this classification.

Cash Equivalents

Cash equivalents 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.

Prepaid Expenses and Other

Prepaid expenses consist of dues, travel fees paid for semester abroad programs and other expenses whose benefit will be realized in the next fiscal year.

Investments

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

Expendable investments, including designated investments without donor restrictions have been classified as current in the accompanying balance sheets.

Student Receivables, Net

Student receivables are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts was \$171 as of June 30, 2020 and 2019, and is based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured. A student account receivable is considered delinquent if not paid by the due date. A monthly service fee is charged on delinquent amounts.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

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. The College capitalizes property, plant and equipment additions of \$10 to \$50, depending on the type of addition. 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 longer-lived 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.

Liabilities Under Trust Agreements

The College uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, the asset is recorded at fair value when a gift is received and is included in noncurrent Investments. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries.

Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging between 4.0 percent and 7.1 percent and on estimated lives according to the applicable mortality tables.

The College is subject to additional legally mandated annuity reserve requirements by the State of California on its California gift annuity contracts. As of June 30, 2020 and 2019, the College's investment of the annuity reserve accounts is in compliance with these regulations. In addition, total assets recorded on the balance sheets related to these agreements totaled \$1 million for the years ended June 30, 2020 and 2019.

In January 2017, the College implemented a Grantor Trust, funded solely by the College, to provide for certain insured health benefits for those employees covered under the Post-Retirement Healthcare Plan. The College has delegated much of the plan administration to Emeriti Retirement Health Solutions. As of June 30, 2020 and 2019, the liability under this plan was \$581 and \$654, respectively, and is included in the liabilities under trust agreements on the balance sheets.

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. Significant 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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

Unemployment Self-Insurance

The College reimburses applicable States 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.

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. The College is, however, subject to federal and state income tax on unrelated business income and an appropriate provision for any such taxes is included in the accompanying financial statements.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2020 and 2019. The College's tax returns are subject to review and examination by federal and state authorities.

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.

Concentrations

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable and notes receivable. Cash and cash equivalents in excess of FDIC and similar coverages is subject to the usual risks of balances in excess of those limits. The majority of the College's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Northwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by government agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's program and activities.

As of June 30, 2020 and 2019, the College had investments of \$61,636 and \$87,803, which were concentrated in one and three funds, respectively.

Revenue from Contracts with Students

Revenue from contracts with students for tuition and fees, residential services and meal plan services is reported at the amount that reflects the consideration the College expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$57,198 and \$59,179 for the years ended June 30, 2020 and 2019, respectively.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

Tuition and Fees revenue is recognized in the period during which the related academic services are rendered. Revenue from auxiliary enterprises is recognized when goods or services are provided. In addition, students who adjust their course load or withdraw completely within the first eight weeks of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. Generally, the College bills students prior to the beginning of the semester and student accounts receivable are due in full before classes begin. Student tuition and fees received in advance of services being rendered are recorded as deferred revenue on the balance sheets. Performance obligations for certain ancillary services are satisfied when the services are performed. The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2019/2020 academic year. The College determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the College's policies.

Deferred Revenue

These amounts represent payments received for College tuition and fees prior to the start of the academic terms. As of June 30, 2020, certain summer terms have not yet begun; thus, all revenue received relating to the 2020 summer and fall 2020 terms are included in deferred revenue. The following table notes the activity within the deferred revenue accounts relating to tuition and fees.

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	\$ 5,839	\$ 5,984
Revenue recognized during the year	(5,839)	(5,984)
Cash received in advance of performance	<u>8,127</u>	<u>5,839</u>
Balance at end of the year	<u>\$ 8,127</u>	<u>\$ 5,839</u>

Asset Retirement Obligations

Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in net assets without donor restrictions. The asset retirement obligation is recorded as a noncurrent liability on the balance sheets. The estimated asset retirement obligation is determined annually at June 30 to reflect remediation efforts as well as to reflect updated costs for abatement.

Expenses by Function

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the College. These expenses include depreciation and amortization and interest. Depreciation is allocated based on square footage and interest is allocated based on usage of space. Fundraising costs of \$4,000 are included in institutional support.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

New Accounting Pronouncement

The following Accounting Standards Update (ASU) has been issued, but is not yet effective:

- ASU 2016-02, *Leases* - ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted.

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

Revenue Recognition

As of July 1, 2019 the College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption for all contracts in effect as of July 1, 2019. The core guidance in ASU 2014-09 is to recognize revenue at the transfer of promised goods or services to students in amounts that reflect the consideration the College expects in exchange for those goods or services. This amount is calculated as the transaction price and recorded as revenue in exchange for providing the goods or services.

Adoption of ASU 2014-09 resulted in changes in the presentation of financial statements and related disclosures in the notes to the financial statements. The adoption has no impact on overall change in net assets or net cash provided by operating activities.

Contributions Received and Contributions Made

As of July 1, 2019, the College adopted the FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* using a prospective method of adoption to all grants and contributions received after July 1, 2019.

The intent of ASU 2018-08 is to assist an organization evaluating whether transactions are considered non-reciprocal transactions, and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. The guidance also helps entities evaluate whether a contribution is conditional or unconditional. The adoption has no impact on overall change in net assets or net cash provided by operating activities.

Reclassifications

Certain amounts appearing in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

Subsequent Events Review

The College has evaluated subsequent events through October 15, 2020, which is the date that the financial statements were approved and available to be issued.

3. Fair Value of Financial Instruments

Fair value is defined in the accounting guidance as the exchange 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. Under this guidance, a three level hierarchy is used for fair value measurements which is based upon the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

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Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.

Level 3 - Inputs are unobservable for the assets or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Assets

Level 1 assets include investments in short term investments, comprised primarily of money market funds, fixed income securities, U.S. and non-U.S. equity securities that are actively traded, mutual funds and real estate funds.

Level 2 assets include investments in fixed income securities, comprised of US Treasury notes and municipal and corporate bonds.

Liabilities

Level 2 liabilities include an interest rate swap agreement as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

There have been no changes in the techniques and inputs used as of June 30, 2020 and 2019.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Certain mutual funds and alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value. The College has estimated the fair value of these funds by using the net asset value provided by the investee.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Short-term investments	\$ 10,017	\$ 10,017	\$	\$
Fixed income securities	23,786	807	22,979	
U.S. equity securities	62,610	62,610		
Non-U.S. equity securities	26,147	26,147		
Mutual funds				
Domestic fixed income	14,409	14,409		
Other	2,024	2,024		
Real estate funds	12,430	12,430		
Subtotal assets by valuation hierarchy	<u>149,423</u>	<u>\$ 126,444</u>	<u>\$ 22,979</u>	<u>\$ -</u>
Investments measured using NAV:				
Non-U.S. equity securities	17,706			
Private equity	23,785			
Real estate funds	98			
Subtotal assets by NAV	<u>41,589</u>			
Total investments at fair value	191,012			
Total investments at cost	<u>9,796</u>			
Total investments	<u>\$ 200,808</u>			
Liabilities:				
Interest rate swap	<u>\$ 20,543</u>	<u>\$ -</u>	<u>\$ 20,543</u>	<u>\$ -</u>

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Short-term investments	\$ 11,848	\$ 11,848	\$	\$
Fixed income securities	22,158	834	21,324	
U.S. equity securities	68,471	68,471		
Non-U.S. equity securities	33,514	33,514		
Mutual funds				
Domestic fixed income	7,094	7,094		
Other	2,214	2,214		
Real estate funds	12,342	12,342		
Subtotal assets by valuation hierarchy	<u>157,641</u>	<u>\$ 136,317</u>	<u>\$ 21,324</u>	<u>\$ -</u>
Investments measured using NAV:				
Non-U.S. equity securities	23,337			
Private equity	11,361			
Real estate funds	401			
Subtotal assets by NAV	<u>35,099</u>			
Total investments at fair value	192,740			
Total investments at cost	<u>10,610</u>			
Total investments	<u>\$ 203,350</u>			
Liabilities:				
Interest rate swap	<u>\$ 15,057</u>	<u>\$ -</u>	<u>\$ 15,057</u>	<u>\$ -</u>

Investment income and (losses) gains on the investments measured using NAV totaled \$(1,678) and \$524 for the years ended June 30, 2020 and 2019, respectively.

The fair value of certain funds has been estimated using the Net Asset Value (NAV) as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College's interest in the fund.

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Investments in non-U.S. equity securities measured at NAV have no unfunded commitments or subscriptions and are able to be redeemed in the near term. The following table lists the investments measured at NAV for which there are redemption limitations:

	<u>Private Equity</u>	<u>Real Estate</u>
Fair Value, June 30, 2019	\$11,361	\$401
Fair Value, June 30, 2020	\$23,785	\$98
Significant investment strategy	Primarily buyout, Venture and growth equity in US	US real estate
Remaining life	3 to 8 years	1 to 3 years
Dollar amount of unfunded commitments	\$1,825	N/A
Timing to draw down commitments	1 to 5 years	N/A
Redemption terms	N/A	N/A

4. Contributions Receivable, Net

The carrying value of contributions receivable is based on a discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. Contributions receivable, net of discount to present value and allowance for uncollectible accounts are due to be collected as follows:

	<u>2020</u>	<u>2019</u>
Current, net of discount	\$ 1,636	\$ 2,181
Noncurrent:		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	3,685	5,709
Endowment receivables, net of discount	1,688	956
Total noncurrent	<u>5,372</u>	<u>6,665</u>
	<u>\$ 7,008</u>	<u>\$ 8,846</u>
Gross amounts due in:		
Less than one year	\$ 3,535	
One to five years	3,530	
More than five years	500	
Total contributions receivable	<u>7,565</u>	
Less allowance for uncollectible accounts	(250)	
Less discount to present value	<u>(307)</u>	
	<u>\$ 7,008</u>	

Gross contributions receivable of \$3.8 million and \$5.4 million as of June 30, 2020 and 2019, respectively, were due from one donor.

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5. Notes Receivable, Net

Notes receivable, net as of June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Federal Perkins loan program	\$ 1,653	\$ 2,071
Less allowance for doubtful accounts	(585)	(585)
Student loans receivable, net	<u>\$ 1,068</u>	<u>\$ 1,486</u>

The objective of the Federal Perkins Loan Program is to provide long-term, uncollateralized, 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 sheets for the net assets of this program refundable to the federal government. The Federal Perkins Loan Program notes which bear interest at 3 percent to 5 percent are payable over approximately 11 years.

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program. However, the College may choose to liquidate at any time in the future. During the year ended June 30, 2020, the College returned to the government \$459 in excess cash and recognized \$11 in reimbursement for cancellations, which equally reduced the receivable for Perkins cancellations and the government grants refundable. As of June 30, 2020, the College continues to service the Perkins Loan Program.

After a student is no longer enrolled in an institution of higher education and after a grace period, the student is responsible for monthly debt service payments. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2020 and 2019, student loans represented approximately .3 and .5 percent of total assets, respectively.

Funds advanced by the Federal government of approximately \$1.3 million and \$1.7 million at June 30, 2020 and 2019 respectively are ultimately refundable to the government and are classified as liabilities on the balance sheets.

At June 30, 2020 and 2019, the following amounts were past due under student loan programs:

	<u>Amounts Past Due</u>			
	<u>1 - 60 days</u>	<u>60 - 90 days</u>	<u>90+ days</u>	<u>Total</u>
June 30, 2020	\$ 62	\$ 37	\$ 287	\$ 386
June 30, 2019	32	46	412	490

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6. Property, Plant and Equipment, Net of Accumulated Depreciation

Property, plant and equipment, net as of June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,336	\$ 1,336
Land improvements	18,183	17,831
Buildings and building improvements	219,341	215,386
Furniture, fixtures and equipment	19,662	19,283
Vehicles	893	977
Construction in progress	4,417	1,962
	<u>263,832</u>	<u>256,775</u>
Less accumulated depreciation	<u>(135,596)</u>	<u>(128,456)</u>
	<u>\$ 128,236</u>	<u>\$ 128,319</u>

7. Note Payable to Bank

The College has an unsecured, revolving line of credit with Bank of America in the amount of \$10,000 for operating cash flow purposes and advances bear interest at the BBA LIBOR daily rate plus 0.95 percent. This line of credit is available through December 31, 2020. As of June 30, 2020 and June 30, 2019, the College had not drawn on the line. As of June 30, 2020 and 2019, the College had reserved \$522 as a Stand by Letter of Credit in support of the high deductible insurance program for the College's workers' compensation plan.

8. Long-Term Debt, Net

Long-term debt as of June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Note payable to bank, interest at the 360-day LIBOR plus 0.75% paid in full February 1, 2020.	\$ -	\$ 105
California Educational Facilities Authority 2007 Revenue Bonds, interest reset monthly (.938% at June 30, 2020), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043.	<u>56,275</u>	<u>57,700</u>
Principal outstanding on long-term debt	56,275	57,805
Bond issuance costs	<u>(1,639)</u>	<u>(1,707)</u>
Total long-term debt, net	54,636	56,098
Less current portion	<u>(1,475)</u>	<u>(1,530)</u>
	<u>\$ 53,161</u>	<u>\$ 54,568</u>

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The College has a direct purchase agreement with Bank of America Public Capital Corporation for the CEFA 2007 bonds that has a maturity date of October 2, 2024. As a result of the agreement, the interest on the bonds is adjusted monthly based upon the monthly LIBOR rate plus the applicable spread based on the College's Moody's rating. The applicable spread as of June 30, 2020 was .80 percent. The Bonds are secured by an unrestricted gross revenue pledge of the College.

Costs of bond issuance are deferred and amortized on a basis that approximates the level-yield method over the repayment period of the bonds.

Aggregate future long-term debt principal payments as of June 30, 2020 are as follows:

Years ending June 30:	
2021	\$ 1,475
2022	1,525
2023	1,600
2024	1,650
2025	1,700
Subsequent	<u>48,325</u>
Total	<u>\$ 56,275</u>

The CEFA Series 2007 bond agreements contain various covenants, which include maintenance of certain financial ratios, as defined in the agreements. The College was in compliance with all covenants as of June 30, 2020.

Interest Rate Swap

The College has issued variable-rate demand bond (VRDB) debt to finance the construction and renovation of buildings and to defease the CEFA 2003 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 an interest rate swap.

Under the interest rate swap agreement, the College receives variable interest rate payments that partially hedge the variable interest rate debt, and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The net swap payments (receipts) are recorded in interest expense. In July 2008, the College amended a 36-year swap from Bank of New York Mellon originated in August 2007 at a fixed rate of 3.546 percent on the then \$70,275 of outstanding variable rate debt. There was no cash exchanged at the time the College entered into the swap due to the relationship between the variable rates and swap rate at that time. The notional amount of this swap equals the current outstanding debt of the respective issuance.

Changes in the fair market value of the interest rate swap are reported as unrealized gains or losses on the interest rate swap related to bonds on the statements of activities. The valuations of the swap resulted in an unrealized loss of \$5,486 and \$3,303 as of June 30, 2020 and 2019, respectively. The liability related to the interest rate swap agreement was \$20,543 and \$15,057 at June 30, 2020 and 2019, respectively, is reported on the balance sheets in current liabilities. Providing that the College holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at market rates at any time during the term of the swap. Pursuant to the agreement, the College is required to post collateral if the swap agreement valuation exceeds a liability of \$2,500. At June 30, 2020 and June 30, 2019, the value of the collateral posted was \$19,130 and \$12,800 respectively and is included in noncurrent investments on the balance sheets.

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9. Retirement Plan and Post-Retirement Benefits

Retirement Plan

The College participates in the Teachers Insurance Annuity Association (TIAA) defined contribution retirement plans that cover substantially all full-time employees of the College. TIAA is a legal reserve life insurance and annuity company. Annual contributions, as determined by the Board of Trustees, were 6.25 percent of all eligible employees' wages and salaries for the year ended June 30, 2019, 7.25 percent from July 1, 2019 through April 26, 2020 and 2.25 percent from April 27, 2020 through June 30, 2020. Total College contributions were approximately \$3,802 and \$3,774 for the years ended June 30, 2020 and 2019, respectively.

Voluntary Employees Benefit Association Plan

Effective July 2007, the College joined Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under the IRC 501(c)(9). The Emeriti program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses. All benefit eligible faculty and staff, hired after June 30, 2007 over the age of 40 participate in the plan. Benefit eligible employees hired before July 1, 2007, had the opportunity to enroll in the Emeriti plan in lieu of the College's existing retirement health programs. The College contributes a monthly fixed amount to an employer VEBA investment account with TIAA for all plan participants and the total annual contribution to EMERITI was \$564 and \$509 for the years ended June 30, 2020 and 2019, respectively. Employees age 21 and above can also make post-tax contributions of any amount to an employee VEBA account. Employee contributions are immediately vested and contributions by the College are vested after five (5) years of continuous service. As of December 31, 2019, the plan assets totaled \$12,765. These assets consisted of \$11,838 of mutual funds and \$927 of money market funds. As of December 31, 2018, the plan assets totaled \$10,897. These assets consisted of \$10,071 of mutual funds and \$826 of money market funds.

Post-Retirement Healthcare Plan

The College provides funds for healthcare benefits of eligible retirees (hired prior to July 1, 2007) for a period of 5 years after their date of retirement. In order to participate, benefits eligible employees must retire from the College at age fifty-five or older with at least 15 years of service. The College accrues the cost of the post-retirement benefits during the service lives of employees. The plan is a recorded liability of the College, but does not have offsetting dedicated assets. The College therefore funds the benefits on a pay as you go basis.

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The following sets forth the status of the Post-Retirement Healthcare Plan and the accumulated post-retirement benefit obligation (APBO) as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Change in projected APBO		
Benefit obligation at July 1	\$ 4,148	\$ 6,332
Service cost	45	81
Interest cost	113	185
Plan amendments	(1,713)	
Actuarial (gain) loss	237	(1,984)
Benefits paid	(534)	(466)
Total projected APBO at June 30	<u>\$ 2,296</u>	<u>\$ 4,148</u>
Amounts recognized in the balance sheets		
Current liabilities, accounts payable and accrued liabilities	\$ 1,055	\$ 1,408
Noncurrent liabilities	1,241	2,740
Total projected APBO	<u>\$ 2,296</u>	<u>\$ 4,148</u>

The following sets forth the status of the plan as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accumulated post-retirement benefit of obligation (APBO)		
Retirees	\$ 30	\$ 79
Active employees	2,266	4,069
Total APBO	<u>\$ 2,296</u>	<u>\$ 4,148</u>

The components of net periodic post-retirement benefit cost (NPPBC) for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Interest cost	\$ 112	\$ 185
Service cost	45	81
Amortization of unrecognized loss (ALG)	52	1
Amortization of unrecognized prior service cost	(91)	80
Net periodic post-retirement benefit expense	<u>\$ 118</u>	<u>\$ 347</u>

The actuarial losses yet to be recognized in the net periodic post-retirement benefit cost as of June 30, 2020 and 2019 are \$ (605) and \$831, respectively.

The assumed healthcare cost trend rates range from a high of 7.33 percent in fiscal year end 2020 to a low of 4.65 percent by fiscal year end 2024. A one-percentage point increase in the assumed healthcare cost trend rate for each year would increase the accumulated post-retirement benefit obligation as of June 30, 2020 by approximately 42 percent, or \$963. A one-percentage point decrease in the assumed healthcare cost trend rate for each year would decrease the accumulated post-retirement benefit obligation as of June 30, 2020 by approximately 37 percent, or \$838. The assumed discount rate used in determining the net periodic post-retirement benefit cost is 3.7 percent and the accumulated post-retirement benefit obligation is 2.8 percent for 2020 and the net periodic post-retirement benefit cost, as well as accumulated post-retirement benefit obligation was 3.7 percent for 2019.

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Benefits expected to be paid in the next fiscal years are:

Years ending June 30:	
2021	\$ 1,055
2022	5
2023	0
Thereafter	<u>908</u>
Total	<u>\$ 1,968</u>

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

10. Related-Party Transactions

As of June 30, 2020 and 2019, \$295 and \$478, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

11. 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.

12. Endowments

General

The College's endowment consists of 346 individual funds established for a variety of purposes. Its endowment includes true endowment funds, funds functioning as endowments and board reserves. True endowment funds are subject to the donor 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. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments or board reserves, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment investments are recorded at market value of \$178,002 and \$181,307 for the years ended June 30, 2020 and 2019, respectively. The total return on all investments held by the endowment funds, on a market basis, was 1.5 percent and 4.7 percent for the years ended June 30, 2020 and 2019, respectively.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets, and prudently earn the highest possible rate of return consistent with the College's ability to accommodate risk. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to provide an average real total return of 5 percent, net of fees. Actual returns in any given year may vary from this amount.

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Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College 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 College targets a diversified asset allocation including asset classes such as public equities, fixed income and alternative assets in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Trustees designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

In developing its spending policy, the College considers certain of the following factors which it determines relevant:

1. The duration and preservation of the fund
2. The purposes of the College 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 College
7. The investment policies of the College

The Board has adopted a policy to appropriate for distribution during each fiscal year an amount per endowment unit calculated at a rate no greater than 5.0 percent of the average endowment market value per endowment unit from the preceding 12 quarters established as of the end of the calendar year prior to the beginning of the fiscal year.

Interpretation of Relevant Law

The College's governing board has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 2 for further information on net asset classifications.

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Funds With Deficiencies

Because UPMIFA does not establish a fixed level below which an endowment fund is not permitted to fall, there are no deficiencies in the endowment funds held by the College. Notwithstanding the foregoing, the College does maintain records of the sum of: (a) the original value of gifts donated to each endowment fund, (b) the original value of subsequent gifts to each endowment fund, and (c) accumulations to each such endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. These differences resulted from unfavorable market fluctuations that may occur after the investment of new contributions to endowment funds and continued appropriation for certain programs that is deemed prudent by the Board of Trustees.

The Board adopted a modification to its spending policy for donor restricted endowment funds with deficiencies. Spending from these funds will be limited to actual income earned when their current market values fall below 75 percent of original gift values.

Endowment Net Asset Composition by Type of Fund as of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions		Total	Total June 30, 2020
		Original Gift	Accumulated Gain (Losses)		
Board-designated endowment fund	\$ 41,015	\$	\$	\$	\$ 41,015
Donor-restricted endowment funds		107,888	25,259	133,147	133,147
Underwater funds		4,414	(184)	4,230	4,230
Total endowment net assets	<u>\$ 41,015</u>	<u>\$ 112,302</u>	<u>\$ 25,075</u>	<u>\$ 137,377</u>	<u>\$ 178,392</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	41,297	139,980	181,277
Investment returns	\$ 2,593	\$ 652	\$ 3,245
Appropriation of endowment assets for expenditure:			
Operating	(3,083)	(5,776)	(8,859)
Nonoperating	(141)		(141)
Other transfers			
Gifts	349	2,633	2,982
Actuarial adjustments on deferred gifts		(112)	(112)
Endowment net assets, end of year	<u>\$ 41,015</u>	<u>\$ 137,377</u>	<u>\$ 178,392</u>

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June 30, 2020 and 2019

(Dollars in Thousands)

Endowment Net Asset Composition by Type of Fund as of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions		Total	Total June 30, 2019
		Original Gift	Accumulated Gain (Losses)		
Board-designated endowment fund	\$ 41,297	\$	\$	\$	\$ 41,297
Donor-restricted endowment funds		93,687	30,591	124,278	124,278
Underwater funds		16,095	(393)	15,702	15,702
Total endowment net assets	<u>\$ 41,297</u>	<u>\$ 109,782</u>	<u>\$ 30,198</u>	<u>\$ 139,980</u>	<u>\$ 181,277</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 40,386	\$ 139,573	\$ 179,959
Investment returns	3,279	4,301	7,580
Appropriation of endowment assets for expenditure:			
Operating	(2,850)	(5,516)	(8,366)
Nonoperating	(131)		(131)
Other transfers	453	(453)	
Gifts	160	2,036	2,196
Actuarial adjustments on deferred gifts		39	39
Endowment net assets, end of year	<u>\$ 41,297</u>	<u>\$ 139,980</u>	<u>\$ 181,277</u>

Saint Mary's College of California

Notes to Financial Statements

June 30, 2020 and 2019

(Dollars in Thousands)

13. Liquidity and Availability

The following reflects the College's financial assets as of the balance sheets date, which are available for expenditure within the next fiscal year, reduced by amounts not available because of contractual or donor-imposed restrictions. Amounts not available include amounts set aside by the Board of Trustees for long-term investment as board-designated endowments. However, board action could allow the College to draw upon those funds.

	<u>2020</u>	<u>2019</u>
Financial assets, at year end	\$ 217,790	\$ 221,092
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(147,514)	(153,000)
Subject to appropriation and satisfaction of donor restrictions, contributions, notes and accounts receivable collectible beyond one year	(4,753)	(9,758)
Investments held in required reserve for SWAP, included in quasi-endowment fund	(19,130)	(12,800)
Investments held in annuity trust	(3,381)	(2,970)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(21,885)	(28,497)
Subsequent year appropriation of endowment earnings	<u>8,857</u>	<u>8,957</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 29,985</u>	<u>\$ 23,024</u>

The College seeks to maintain financial assets on hand to meet 60 - 90 days of normal operating expenses, which is approximately \$21,000 - \$31,000. Due to the majority of tuition dollars coming in the fall and spring, the liquidity reported above at June 30 is lower than at most other times during the year.

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