

Saint Mary's College of California

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June 30, 2021 and 2020

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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, 2021 and 2020, and the related statements of activities, cash flows and functional expenses for the years ended June 30, 2021 and 2020, 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 audit 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, 2021 and 2020, 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

Minneapolis, Minnesota
September 29, 2021

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Saint Mary's College of California

Balance Sheets
June 30, 2021 and 2020
(Dollars in Thousands)

Assets	2021	2020
Current Assets		
Cash and cash equivalents	\$ 5,423	\$ 4,836
Investments (Note 3)	11,028	9,521
Student receivables, net	2,223	1,271
Contributions receivable, net (Note 4)	2,705	1,636
Accounts receivable, other	1,797	1,093
Prepaid expenses, and other	1,906	1,707
Total current assets	<u>25,082</u>	<u>20,064</u>
Noncurrent Assets		
Investments (Note 3)	229,695	191,287
Contributions receivable, net (Note 4)	4,726	5,372
Notes receivable, net (Note 5)	792	1,068
Other assets	410	392
Operating lease - right of use assets (Note 9)	246	
Property, plant and equipment, net of accumulated depreciation (Note 6)	<u>127,815</u>	<u>128,236</u>
Total noncurrent assets	<u>363,684</u>	<u>326,355</u>
Total assets	<u><u>\$ 388,766</u></u>	<u><u>\$ 346,419</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 14,326	\$ 9,992
Interest rate swap liability (Note 8)	16,125	20,543
Current portion of long-term debt (Note 8)	1,525	1,475
Current portion of leases (Note 9)	566	
Deferred revenue (Note 2)	5,297	8,127
Total current liabilities	<u>37,839</u>	<u>40,137</u>
Noncurrent Liabilities		
Liabilities under trust agreements (Note 2)	1,999	1,992
Long-term debt, excluding current portion, net (Note 8)	51,705	53,161
Long-term leases, excluding current portion, net (Note 9)	1,796	
Post retirement benefits payable (Note 10)	883	1,241
Asset retirement obligations (Note 2)	2,586	2,586
Federal government grants refundable (Note 5)	<u>871</u>	<u>1,253</u>
Total noncurrent liabilities	<u>59,840</u>	<u>60,233</u>
Total liabilities	<u>97,679</u>	<u>100,370</u>
Net Assets		
Without donor restrictions	103,576	92,093
With donor restrictions		
Time or purpose	20,317	16,489
Endowment returns subject to future appropriation	54,524	28,469
Perpetual	<u>112,670</u>	<u>108,998</u>
Total net assets	<u>291,087</u>	<u>246,049</u>
Total liabilities and net assets	<u><u>\$ 388,766</u></u>	<u><u>\$ 346,419</u></u>

See notes to financial statements

Saint Mary's College of California

Statement of Activities

Year Ended June 30, 2021

With Comparative Totals for 2020

(Dollars in Thousands)

	2021		2020 Totals
	Without Donor Restrictions	With Donor Restrictions	
Operating			
Revenues and gains:			
Tuition and fees	\$ 81,519		\$ 81,519
Sales and services of auxiliary enterprises	8,723		8,723
Grant and contract revenue	6,209		6,209
Contributions	2,052	\$ 4,227	6,279
Endowment income and realized gains distributed	9,445		9,445
Accumulated endowment earnings appropriated for operations	4,000		4,000
Other	1,932	163	2,095
Total operating revenues and gains	113,880	4,390	118,270
Net Assets Released From Restrictions	3,288	(3,288)	
Total operating revenue, gains and other support	117,168	1,102	118,270
Expenses			
Instruction	41,291		41,291
Academic support	9,440		9,440
Student services	20,571		20,571
Institutional support	23,842		23,842
Operations and maintenance of plant	6,100		6,100
Interest expense	2,488		2,488
Auxiliary enterprises	7,597		7,597
Total operating expenses excluding depreciation	111,329		111,329
Increase in net assets from operations before depreciation expense	5,839	1,102	6,941
Depreciation Expense	6,897		6,897
Increase (decrease) in net assets from operations	(1,058)	1,102	44
Nonoperating			
Contributions	10	5,744	5,754
Net (loss) gain and income on endowments, net of distributions	(98)	34,415	34,317
Net gain and income on other investments	(2)	43	41
Other non operating expense			(1,700)
Unrealized gain (loss) on interest rate swap	4,418		4,418
Actuarial adjustments		464	464
Net assets released from restrictions	8,213	(8,213)	
Increase from nonoperating activities	12,541	32,453	44,994
Change in net assets	11,483	33,555	45,038
Net Assets, Beginning	92,093	153,956	246,049
Net Assets, Ending	\$ 103,576	\$ 187,511	\$ 246,049

See notes to financial statements

Saint Mary's College of California

Statement of Activities

Year Ended June 30, 2020

(Dollars in Thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Operating			
Revenues and gains:			
Tuition and fees	\$ 88,474		\$ 88,474
Sales and services of auxiliary enterprises	17,555		17,555
Grant and contract revenue	4,662		4,662
Contributions	1,827	\$ 3,260	5,087
Endowment income and realized gains distributed	8,859		8,859
Other	4,375	135	4,510
	<u>125,752</u>	<u>3,395</u>	<u>129,147</u>
Total operating revenues and gains			
	125,752	3,395	129,147
Net Assets Released From Restrictions	<u>2,731</u>	<u>(2,731)</u>	
Total operating revenue, gains and other support	<u>128,483</u>	<u>664</u>	<u>129,147</u>
Expenses			
Instruction	46,269		46,269
Academic support	10,474		10,474
Student services	23,523		23,523
Institutional support	23,215		23,215
Operations and maintenance of plant	7,208		7,208
Interest expense	2,667		2,667
Auxiliary enterprises	9,608		9,608
	<u>122,964</u>		<u>122,964</u>
Total operating expenses excluding depreciation			
	122,964		122,964
Increase in net assets from operations before depreciation expense	5,519	664	6,183
Depreciation Expense	<u>7,647</u>		<u>7,647</u>
Increase (decrease) in net assets from operations	<u>(2,128)</u>	<u>664</u>	<u>(1,464)</u>
Nonoperating			
Contributions	352	4,959	5,311
Net (loss) gain and income on endowments, net of distributions	(6,266)	652	(5,614)
Net gain and income on other investments	1	73	74
Other non operating expense	(1,700)		(1,700)
Unrealized loss on interest rate swap	(5,486)		(5,486)
Actuarial adjustments		(115)	(115)
Net assets released from restrictions	<u>9,365</u>	<u>(9,365)</u>	
Increase from nonoperating activities	<u>(3,734)</u>	<u>(3,796)</u>	<u>(7,530)</u>
Change in net assets	(5,862)	(3,132)	(8,994)
Net Assets, Beginning	<u>97,955</u>	<u>157,088</u>	<u>255,043</u>
Net Assets, Ending	<u>\$ 92,093</u>	<u>\$ 153,956</u>	<u>\$ 246,049</u>

See notes to financial statements

Saint Mary's College of California

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

(Dollars in Thousands)

	<u>2021</u>	<u>2020</u>
Cash flows From Operating Activities		
Change in net assets	\$ 45,038	\$ (8,994)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,897	7,647
Amortization of issuance costs	68	68
Actuarial adjustment of annuities payable	(464)	115
Net gain on investments and other assets	(47,837)	(3,615)
Noncash gifts received (stock)		
(Gain) loss from interest rate swap	(4,418)	5,486
Loss on sale of property, plant, and equipment, net	176	
Amortization of right to use assets	168	
Operating lease payments	(86)	
Changes in operating assets and liabilities:		
Student receivables, net	(952)	(358)
Contributions receivable, net	(1,069)	545
Accounts receivable, other	(704)	929
Prepaid expenses, and other assets	(217)	253
Accounts payable and accrued liabilities	3,626	2,084
Post retirement liability	(1,019)	(1,852)
Deferred revenue	(2,830)	2,288
Liabilities under trust agreements	44	6
Contributions restricted for plant and long-term investment	(5,754)	(5,311)
Net cash flows from operating activities	<u>(9,333)</u>	<u>(709)</u>
Cash Flows From Investing Activities		
Capital expenditures	(2,897)	(7,952)
Purchases of investments	(299,386)	(60,122)
Proceeds from sales of investments	307,881	66,182
Repayments of loans from students	276	418
Net cash flows from investing activities	<u>5,874</u>	<u>(1,474)</u>
Cash Flows From Financing Activities		
Change in refundable government grants, net	(382)	(423)
Payments on long-term debt	(1,475)	(1,530)
Financing lease payments	(352)	
Payments to annuitants	(145)	(145)
Contributions received for plant and long-term investment	6,400	6,604
Net cash flows from financing activities	<u>4,046</u>	<u>4,506</u>
Change in cash and cash equivalents	587	2,323
Cash and Cash Equivalents, Beginning	<u>4,836</u>	<u>2,513</u>
Cash and Cash Equivalents, Ending	<u>\$ 5,423</u>	<u>\$ 4,836</u>
Supplementary Cash Flow Information		
Cash paid for interest	<u>\$ 2,425</u>	<u>\$ 2,605</u>
Noncash Investing and Financing Activities		
Construction in progress included in accounts payable	<u>\$ 1,507</u>	<u>\$ 137</u>

See notes to financial statements

Saint Mary's College of California

Statement of Functional Expenses

Year Ended June 30, 2021

(Dollars in Thousands)

	Program Services				Supporting Services		Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Operations and Maintenance of Plant	
Compensation	\$ 41,348	\$ 6,039	\$ 14,126	\$ 1,125	\$ 12,735	\$ 2,449	\$ 77,822
Academic and student program costs	422	1,768	837	36	213	14	3,290
Emergency grants to students			1,295				1,295
Information technology	13	1,408	190	27	1,813	138	3,589
Facility and equipment expense	123	151	736	4,186	1,490	3,069	9,755
Travel	30	24	3,187		67		3,308
Contracted services	332	110	1,194	2,246	767	2,079	6,728
Other expenses	857	204	536	28	1,306	123	3,054
Depreciation expense	2,084	464	926	2,174	955	294	6,897
Interest expense	678			1,162	505	143	2,488
Total expenses	\$ 45,887	\$ 10,168	\$ 23,027	\$ 10,984	\$ 19,851	\$ 8,309	\$ 118,226

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

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in Thousands)

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 master's 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 2020 and fall 2019 totaled 2,843 and 3,076 full-time and 596 and 616 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 endowments or invested in property, plant and equipment.

The Board of Trustees has established policies to designate a portion of bequests absent of donor restrictions, received by the College as 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 in more than 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, 2021 and 2020

(Dollars in Thousands)

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 revenues with donor restrictions. 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 (including right to use 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 as noncurrent.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. For purposes of the statements 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), board designated 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, 2021 and 2020, 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, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020, the liability under this plan was \$624 and \$581, 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, 2021 and 2020

(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, 2021 and 2020. 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, 2021 and 2020, the College had investments of \$65,600 and \$61,636, which were concentrated in two and one 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 \$59,437 and \$57,198 for the years ended June 30, 2021 and 2020, respectively.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2021 and 2020

(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 2020/2021 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, 2021, certain summer terms have not yet begun; thus, all revenue received relating to the 2021 summer and fall 2021 terms are included in deferred revenue. The following table notes the activity within the deferred revenue accounts relating to tuition and fees.

	<u>2021</u>	<u>2020</u>
Balance at beginning of the year	\$ 8,127	\$ 5,839
Revenue recognized during the year	(8,127)	(5,839)
Cash received in advance of performance	<u>5,297</u>	<u>8,127</u>
Balance at end of the year	<u>\$ 5,297</u>	<u>\$ 8,127</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 \$2,900 and \$4,000 for the years ended June 30, 2021 and 2020, respectively, are included in institutional support.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in Thousands)

Coronavirus COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the College's operations.

The Coronavirus Aid, Relief, and Economic Securities (CARES) Act was signed into law. Among other things, the CARES Act allocated \$14 billion to higher education through the creation of the Education Stabilization Fund. This fund was further supplemented by additional allocations contained in the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan Act of 2021 (ARP).

To date, the College has been awarded a total of \$13,942 in emergency funding under this program with \$5,876 earmarked to go directly to students in the form of emergency financial aid grants to cover expenses related to the disruption of campus operations due to COVID-19, and \$8,066 provided to the College to offset costs associated with significant changes to the delivery of instruction due to COVID-19. The College distributed \$1,332 and \$1,263 of the direct student award funds for the years ended June 30, 2021 and 2020, respectively. Additionally, the College applied \$2,434 and \$1,469 of the institutional and minority serving institution award allocations towards eligible COVID-related impacts for the years ended June 30, 2021 and 2020, respectively.

Administration has been closely monitoring the impact of COVID-19 on the College's operations, including the impact on our students and employees. The duration and intensity of the pandemic remains uncertain but may influence student enrollment and housing decisions, donor decisions, investment performance, and may also negatively impact collections of College receivables.

New Accounting Pronouncement adopted in the Current Year

Effective July 1, 2020, the College adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires a lessee to recognize a right of use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The effects of adopting this guidance resulted in the inclusion of the present value of operating lease payments in the Balance Sheets as "Operating leases - right of use assets" of \$246 and operating lease liabilities of \$246 upon adoption. The College elected the use of the practical expedients, which allows the College to forego reassessing: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The College elected the short-term lease exemption policy as well as the practical expedient that allows lessees to treat the lease and non-lease components as a single lease component. In addition, the College elected to use hindsight to reassess lease terms or impairment at the adoption date. The effects of adopting this amendment are addressed in Note 9.

Reclassifications

Certain amounts appearing in the 2020 financial statements have been reclassified to conform with the 2021 presentation.

Subsequent Events Review

The College has evaluated subsequent events through September 29, 2021, which is the date that the financial statements were approved and available to be issued.

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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.

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, 2021 and 2020.

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.

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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.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Short-term investments	\$ 13,738	\$ 13,738	\$	\$
Fixed income securities	38,591	17,838	20,753	
U.S. equity securities	43,047	43,047		
Non-U.S. equity securities	41,764	41,764		
Mutual funds				
Domestic fixed income	7,706	7,706		
Real estate funds	20,493	20,493		
	<u>20,493</u>	<u>20,493</u>		
Subtotal assets by valuation hierarchy	<u>\$ 165,339</u>	<u>\$ 144,586</u>	<u>\$ 20,753</u>	<u>\$ -</u>
Investments measured using NAV:				
Non-U.S. equity securities	21,980			
Private equity funds	16,415			
Risk parity composite fund	21,159			
Real estate fund	4,895			
	<u>4,895</u>			
Subtotal assets by NAV	<u>64,449</u>			
Total investments at fair value	229,787			
Total investments at cost	<u>10,936</u>			
Total investments	<u>\$ 240,723</u>			
Liabilities:				
Interest rate swap	<u>\$ 16,125</u>	<u>\$ -</u>	<u>\$ 16,125</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, 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 fund	12,430	12,430		
	<u>149,423</u>	<u>126,444</u>	<u>22,979</u>	<u>-</u>
Subtotal assets by valuation hierarchy	\$ 149,423	\$ 126,444	\$ 22,979	\$ -
Investments measured using NAV:				
Non-U.S. equity securities	17,706			
Private equity	23,785			
Real estate funds	98			
	<u>41,589</u>			
Subtotal assets by NAV	41,589			
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>

Investment income and (losses) gains on the investments measured using NAV totaled \$15,143 and \$(1,678) for the years ended June 30, 2021 and 2020, 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:

	Private Equity	Real Estate Fund	Risk Parity Composite Fund
Fair Value, June 30, 2020	\$23,785	\$98	\$-
Fair Value, June 30, 2021	\$16,415	\$4,895	\$21,159
Significant investment strategy	Primarily buyout, Venture and growth equity in US	US real estate	Globally diversified, balances equity, fixed income, and commodity markets
Remaining life	3 to 8 years	1 to 3 years	N/A
Dollar amount of unfunded commitments	\$10,720	\$8,340	N/A
Timing to draw down commitments	1 to 5 years N/A	N/A	N/A
Redemption terms		N/A	Can liquidate within 30 days

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:

	2021	2020
Current, net of discount	\$ 2,705	\$ 1,636
Noncurrent:		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	2,598	3,685
Endowment receivables, net of discount	2,128	1,688
Total noncurrent	4,726	5,372
	\$ 7,431	\$ 7,008
Gross amounts due in:		
Less than one year	\$ 3,204	
One to five years	4,566	
More than five years	300	
Total contributions receivable	8,070	
Less allowance for uncollectible accounts	(250)	
Less discount to present value	(389)	
	\$ 7,431	

Gross contributions receivable of \$4.6 million as of June 30, 2021 are due from two donors. Gross contributions receivable of \$3.8 million as of June 30, 2020 were due from one donor.

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5. Notes Receivable, Net

Notes receivable, net as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal Perkins loan program	\$ 1,377	\$ 1,653
Less allowance for doubtful accounts	<u>(585)</u>	<u>(585)</u>
Student loans receivable, net	<u>\$ 792</u>	<u>\$ 1,068</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, 2021, the College returned to the government \$405 in excess cash and recognized \$1 in reimbursement for cancellations, which equally reduced the receivable for Perkins cancellations and the government grants refundable. As of June 30, 2021, 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, 2021 and 2020, student loans represented approximately .3 percent of total assets.

Funds advanced by the Federal government of approximately \$871 thousand and \$1.3 million at June 30, 2021 and 2020, respectively are ultimately refundable to the government and are classified as liabilities on the balance sheets.

At June 30, 2021 and 2020, 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, 2021	\$ 15	\$ 80	\$ 371	\$ 466
June 30, 2020	62	37	287	386

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

Property, plant and equipment, net as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,336	\$ 1,336
Land improvements	18,219	18,183
Buildings and building improvements	216,970	219,341
Furniture, fixtures and equipment	22,218	19,662
Vehicles	868	893
Construction in progress	5,715	4,417
	<u>265,326</u>	<u>263,832</u>
Less accumulated depreciation	<u>(137,511)</u>	<u>(135,596)</u>
	<u>\$ 127,815</u>	<u>\$ 128,236</u>

For the period ended June 30, 2021, right of use assets from finance leases of \$2,386 are included in property, plant and equipment, net. For more information on the related lease liability, see Note 9.

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 1.25 percent. This line of credit is available through December 31, 2021. As of June 30, 2021 and June 30, 2020, the College had not drawn on the line. As of June 30, 2021 and 2020, the College had reserved \$289 as a standby 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, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
California Educational Facilities Authority 2007 Revenue Bonds, interest reset monthly (.874% at June 30, 2021), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043.	\$ 54,800	\$ 56,275
Principal outstanding on long-term debt	54,800	56,275
Bond issuance costs	<u>(1,570)</u>	<u>(1,639)</u>
Total long-term debt, net	53,230	54,636
Less current portion	<u>(1,525)</u>	<u>(1,475)</u>
	<u>\$ 51,705</u>	<u>\$ 53,161</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, 2021 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, 2021 are as follows:

Years ending June 30:	
2022	\$ 1,525
2023	1,600
2024	1,650
2025	1,700
2026	1,775
Subsequent	<u>46,550</u>
Total	<u>\$ 54,800</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, 2021.

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 gain of \$4,418 and a loss of \$5,486 for the years ended June 30, 2021 and 2020, respectively. The liability related to the interest rate swap agreement was \$16,125 and \$20,543 as of June 30, 2021 and 2020, 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, 2021 and 2020, the value of the collateral posted was \$13,810 and \$19,130, respectively and is included in noncurrent investments on the balance sheets.

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9. Lease Commitments

The College is the lessee of copier equipment, vehicles, and modular building space under operating leases, and the lessee of a standby power generator under a finance lease. The College determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The College categorizes leases with contractual terms longer than twelve months as either operating or finance. The College's leases generally have terms that range from two to five years for copier equipment and vehicles, and two years for modular building space, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement. The standby power generator finance lease is a five-year lease with a one-dollar purchase option.

Right of use assets and lease liabilities for operating leases are included in operating leases—right of use assets and current portion and long-term lease liabilities”, respectively, in the balance sheets. Finance lease right of use assets and finance lease liabilities are included in property, plant and equipment, net and current portion and long-term lease liabilities”, respectively, in the balance sheets. Lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease right of use assets and associated lease liabilities are recognized based on the net present value of future minimum lease payments to be made over the expected lease term. To determine the net present value of future payments for operating leases, the College used the Risk Free US Treasury Rate at the commencement date of the adoption of ASU No. 2016-02, *Leases*. Finance lease right of use assets and associated lease liabilities are recognized based on the net present value of future minimum lease payments to be made over the expected lease term. To determine the present value of future payments for the finance lease, the College used the borrowing rate set forth in the agreement with the lessor at the commencement date of the finance lease.

The College records short-term leases (those 12 months or less in duration) as operating expenditures in the periods in which the lease obligations are incurred.

Maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities at June 30, 2021:

Years ending June 30:	Operating	Finance
2022	\$ 95	\$ 531
2023	81	531
2024	61	531
2025	23	531
2026		133
Total lease payments	260	2,257
Less present value discount	(14)	(141)
Present value of lease liabilities	246	2,116
Less current portion of leases	(88)	(478)
Total long term lease liabilities	\$ 158	\$ 1,638

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Weighted-average remaining lease term and discount rate for operating and finance leases as of June 30, 2021 were as follows:

Weighted Average Remaining Lease Term	
Operating Leases	2.72 years
Finance Leases	4.34 years
Weighted Average Discount Rate	
Operating Leases	4.60%
Finance Leases	6.26%

10. 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 2.5 percent of all eligible employees' wages and salaries for the year ended June 30, 2021, 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 \$1,275 and \$3,802 for the years ended June 30, 2021 and 2020, 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 contributed 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 for the year ended June 30, 2020. The College did not make any contributions in the year ended June 30, 2021. 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, 2020, the plan assets totaled \$14,413. These assets consisted of \$13,371 of mutual funds and \$1,042 of money market funds. 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.

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Change in projected APBO		
Benefit obligation at July 1	\$ 2,296	\$ 4,148
Service cost	27	45
Interest cost	48	113
Plan amendments		(1,713)
Actuarial (gain) loss	(946)	237
Benefits paid	(148)	(534)
Total projected APBO at June 30	<u>\$ 1,277</u>	<u>\$ 2,296</u>
Amounts recognized in the balance sheets		
Current liabilities, accounts payable and accrued liabilities	\$ 394	\$ 1,055
Noncurrent liabilities	883	1,241
Total projected APBO	<u>\$ 1,277</u>	<u>\$ 2,296</u>

The following sets forth the status of the plan as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Accumulated post-retirement benefit of obligation (APBO)		
Retirees	\$ 5	\$ 30
Active employees	1,272	2,266
Total APBO	<u>\$ 1,277</u>	<u>\$ 2,296</u>

The components of net periodic post-retirement benefit cost (NPPBC) for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Interest cost	\$ 47	\$ 112
Service cost	27	45
Amortization of unrecognized loss (ALG)	(5)	52
Amortization of unrecognized prior service cost	(92)	(91)
Net periodic post-retirement benefit expense	<u>\$ (21)</u>	<u>\$ 118</u>

The actuarial losses yet to be recognized in the net periodic post-retirement benefit cost as of June 30, 2021 and 2020 are \$(1,454) and \$(605), respectively.

The assumed healthcare cost trend rates range from a high of 7.33 percent in fiscal year end 2021 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, 2021 by approximately 15 percent, or \$183. 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, 2021 by approximately 11 percent, or \$(131). The assumed discount rate used in determining the net periodic post-retirement benefit cost is 3.1 percent and the accumulated post-retirement benefit obligation is 3.1 percent for 2021 and the net periodic post-retirement benefit cost, as well as accumulated post-retirement benefit obligation was 2.8 percent for 2020.

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

Years ending June 30:		
2022	\$	394
2023		
2024		
Thereafter		<u>275</u>
Total	\$	<u>669</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.

11. Related-Party Transactions

As of June 30, 2021 and 2020, \$320 and \$295, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

12. Commitments and Contingencies

Financial awards from federal and state agencies, including the Department of Education, in the form of grants are subject to audit by the agencies. Such audits could result in claims against the College for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

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.

Outstanding commitments on construction contracts amounted to approximately \$5.9 million at June 30, 2021.

13. 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.

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Endowment investments are recorded at market value of \$215,012 and \$178,002 for the years ended June 30, 2021 and 2020, respectively. The total return on all investments held by the endowment funds, on a market basis, was 27.8 percent and 1.5 percent for the years ended June 30, 2021 and 2020, 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.

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. In the fiscal year ended June 30, 2021, the Board appropriated an additional \$4,000 of accumulated earnings on various endowment funds for scholarships and academic support. The Board also appropriated \$500 from board designated endowment funds for capital improvements.

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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(Dollars in Thousands)

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. Deficiencies may result from unfavorable market fluctuations that 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, 2021

	Without Donor Restrictions	With Donor Restrictions		Total June 30, 2021
		Original Gift	Accumulated Gain (Losses)	
Board-designated endowment fund	\$ 48,706	\$	\$	\$ 48,706
Donor-restricted endowment funds		115,998	51,100	167,098
Total endowment net assets	\$ 48,706	\$ 115,998	\$ 51,100	\$ 167,098
				\$ 215,804

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 41,015	\$ 137,377	\$ 178,392
Investment returns	13,346	34,432	47,778
Appropriation of endowment assets for expenditure:			
Operating	(5,163)	(4,282)	(9,445)
Nonoperating	(500)	(124)	(624)
Additional operational support		(4,000)	(4,000)
Gifts	8	3,237	3,245
Actuarial adjustments on deferred gifts		458	458
Endowment net assets, end of year	\$ 48,706	\$ 167,098	\$ 215,804

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June 30, 2021 and 2020

(Dollars in Thousands)

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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(Dollars in Thousands)

14. 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>2021</u>	<u>2020</u>
Financial assets, at year end	\$ 260,705	\$ 217,790
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(178,440)	(147,514)
Subject to appropriation and satisfaction of donor restrictions, contributions, notes and accounts receivable collectible beyond one year	(6,221)	(4,753)
Investments held in required reserve for SWAP, included in quasi-endowment fund	(13,810)	(19,130)
Investments held in annuity trust	(3,852)	(3,381)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(34,897)	(21,885)
Subsequent year appropriation of endowment earnings	9,100	8,857
	<u> </u>	<u> </u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 32,585</u>	<u>\$ 29,985</u>

The College seeks to maintain financial assets on hand to meet 60 - 90 days of normal operating expenses, which is approximately \$19,000 - \$29,000. 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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