

Saint Mary's College of California

Financial Statements and
Federal Awards

June 30, 2022 and 2021

Saint Mary's College of California

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saint Mary's College of California (the College), which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of activities, cash flow and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* and financial responsibility supplemental schedule, as required by Title 34 CFR Section 668.172, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Minneapolis, Minnesota
November 14, 2022

Saint Mary's College of California

Balance Sheets
 June 30, 2022 and 2021
 (Dollars in Thousands)

Assets	2022	2021
Current Assets		
Cash and cash equivalents	\$ 10,364	\$ 5,423
Investments (Note 3)	3,568	11,028
Student receivables, net	1,731	2,223
Contributions receivable, net (Note 4)	11,854	2,705
Accounts receivable, other	2,179	1,797
Prepaid expenses and other	2,062	1,906
Total current assets	<u>31,758</u>	<u>25,082</u>
Noncurrent Assets		
Investments (Note 3)	197,976	229,695
Contributions receivable, net (Note 4)	2,861	4,726
Notes receivable, net (Note 5)	495	792
Other assets	410	410
Operating lease - right of use assets (Note 9)	185	246
Property, plant and equipment, net of accumulated depreciation (Note 6)	131,901	127,815
Total noncurrent assets	<u>333,828</u>	<u>363,684</u>
Total assets	<u>\$ 365,586</u>	<u>\$ 388,766</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 12,627	\$ 14,326
Interest rate swap liability (Note 8)	8,480	16,125
Current portion of long-term debt (Note 8)	1,600	1,525
Current portion of leases (Note 9)	592	566
Deferred revenue (Note 2)	4,992	5,297
Total current liabilities	<u>28,291</u>	<u>37,839</u>
Noncurrent Liabilities		
Liabilities under trust agreements (Note 2)	1,855	1,999
Long-term debt, excluding current portion, net (Note 8)	50,104	51,705
Long-term leases, excluding current portion, net (Note 9)	1,231	1,796
Post retirement benefits payable (Note 10)	779	883
Asset retirement obligations (Note 2)	2,586	2,586
Federal government grants refundable (Note 5)	622	871
Total noncurrent liabilities	<u>57,177</u>	<u>59,840</u>
Total liabilities	<u>85,468</u>	<u>97,679</u>
Net Assets		
Without donor restrictions	98,959	103,576
With donor restrictions		
Time or purpose	31,306	20,317
Endowment returns subject to future appropriation	34,245	54,524
Perpetual	115,608	112,670
Total net assets	<u>280,118</u>	<u>291,087</u>
Total liabilities and net assets	<u>\$ 365,586</u>	<u>\$ 388,766</u>

See notes to financial statements

Saint Mary's College of California

Statement of Activities

Year Ended June 30, 2022

With Comparative Totals for 2021

(Dollars in Thousands)

	2022			2021 Totals
	Without Donor Restrictions	With Donor Restrictions	Totals	
Operating				
Revenues and gains:				
Tuition and fees	\$ 69,970		\$ 69,970	\$ 81,519
Sales and services of auxiliary enterprises	19,779		19,779	8,723
Grant and contract revenue	7,726	\$ 1,595	9,321	6,209
Contributions	2,310	13,768	16,078	6,279
Endowment income and realized gains distributed	10,055		10,055	9,445
Accumulated endowment earnings appropriated for operations				4,000
Other	3,768	105	3,873	2,095
	<u>113,608</u>	<u>15,468</u>	<u>129,076</u>	<u>118,270</u>
Total operating revenues and gains				
	113,608	15,468	129,076	118,270
Net Assets Released From Restrictions	<u>4,713</u>	<u>(4,713)</u>		
Total operating revenue, gains and other support	<u>118,321</u>	<u>10,755</u>	<u>129,076</u>	<u>118,270</u>
Expenses				
Instruction	39,822		39,822	41,291
Academic support	11,036		11,036	9,440
Student services	26,275		26,275	20,571
Institutional support	22,508		22,508	23,842
Operations and maintenance of plant	7,776		7,776	6,100
Interest expense	2,241		2,241	2,488
Auxiliary enterprises	9,805		9,805	7,597
	<u>119,463</u>		<u>119,463</u>	<u>111,329</u>
Total operating expenses excluding depreciation				
	119,463		119,463	111,329
Change in net assets from operations before depreciation expense	(1,142)	10,755	9,613	6,941
Depreciation Expense	6,715		6,715	6,897
Change in net assets from operations	<u>(7,857)</u>	<u>10,755</u>	<u>2,898</u>	<u>44</u>
Nonoperating				
Contributions	101	5,753	5,854	5,754
Net (loss) gain and income on endowments, net of distributions	(9,719)	(13,068)	(22,787)	34,317
Net gain and income on other investments	2	(1)	1	41
Other non operating expense - VSIP	(4,123)		(4,123)	
Unrealized gain on interest rate swap	7,645		7,645	4,418
Actuarial adjustments		(457)	(457)	464
Net assets released from restrictions	9,334	(9,334)		
	<u>3,240</u>	<u>(17,107)</u>	<u>(13,867)</u>	<u>44,994</u>
Increase from nonoperating activities				
	3,240	(17,107)	(13,867)	44,994
Change in net assets	(4,617)	(6,352)	(10,969)	45,038
Net Assets, Beginning	<u>103,576</u>	<u>187,511</u>	<u>291,087</u>	<u>246,049</u>
Net Assets, Ending	<u>\$ 98,959</u>	<u>\$ 181,159</u>	<u>\$ 280,118</u>	<u>\$ 291,087</u>

See notes to financial statements

Saint Mary's College of California

Statement of Activities

Year Ended June 30, 2021

(Dollars in Thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
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
	<u>113,880</u>	<u>4,390</u>	<u>118,270</u>
Total operating revenues and gains	113,880	4,390	118,270
Net Assets Released From Restrictions	<u>3,288</u>	<u>(3,288)</u>	
Total operating revenue, gains and other support	<u>117,168</u>	<u>1,102</u>	<u>118,270</u>
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
	<u>111,329</u>		<u>111,329</u>
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	<u>6,897</u>		<u>6,897</u>
Increase (decrease) in net assets from operations	<u>(1,058)</u>	<u>1,102</u>	<u>44</u>
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
Unrealized loss on interest rate swap	4,418		4,418
Actuarial adjustments		464	464
Net assets released from restrictions	<u>8,213</u>	<u>(8,213)</u>	
Increase from nonoperating activities	<u>12,541</u>	<u>32,453</u>	<u>44,994</u>
Change in net assets	11,483	33,555	45,038
Net Assets, Beginning	<u>92,093</u>	<u>153,956</u>	<u>246,049</u>
Net Assets, Ending	<u>\$ 103,576</u>	<u>\$ 187,511</u>	<u>\$ 291,087</u>

See notes to financial statements

Saint Mary's College of California

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

(Dollars in Thousands)

	<u>2022</u>	<u>2021</u>
Cash flows From Operating Activities		
Change in net assets	\$ (10,969)	\$ 45,038
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,715	6,897
Amortization of issuance costs		68
Actuarial adjustment of annuities payable	683	(464)
Net gain on investments and other assets	12,229	(47,837)
Gain from interest rate swap	(7,645)	(4,418)
Loss on sale of property, plant, and equipment, net		176
Amortization of right to use assets	184	168
Operating lease payments	(61)	(86)
Changes in operating assets and liabilities:		
Student receivables, net	492	(952)
Contributions receivable, net	(9,149)	(1,069)
Accounts receivable, other	(382)	(704)
Prepaid expenses, and other assets	(156)	(217)
Accounts payable and accrued liabilities	(290)	3,626
Post retirement liability	(112)	(1,019)
Deferred revenue	(305)	(2,830)
Liabilities under trust agreements	44	44
Contributions restricted for plant and long-term investment	(5,854)	(5,754)
Net cash flows from operating activities	<u>(14,576)</u>	<u>(9,333)</u>
Cash Flows From Investing Activities		
Capital expenditures	(12,325)	(2,897)
Purchases of investments	(189,685)	(299,386)
Proceeds from sales of investments	215,894	307,881
Repayments of loans from students	297	276
Net cash flows from investing activities	<u>14,181</u>	<u>5,874</u>
Cash Flows From Financing Activities		
Change in refundable government grants, net	(249)	(382)
Payments on long-term debt	(1,526)	(1,475)
Financing lease payments	(478)	(352)
Payments to annuitants	(130)	(145)
Contributions received for plant and long-term investment	7,719	6,400
Net cash flows from financing activities	<u>5,336</u>	<u>4,046</u>
Change in cash and cash equivalents	4,941	587
Cash and Cash Equivalents, Beginning	<u>5,423</u>	<u>4,836</u>
Cash and Cash Equivalents, Ending	<u>\$ 10,364</u>	<u>\$ 5,423</u>
Supplementary Cash Flow Information		
Cash paid for interest	<u>\$ 2,241</u>	<u>\$ 2,425</u>
Noncash Investing and Financing Activities		
Construction in progress included in accounts payable	<u>\$ 106</u>	<u>\$ 1,507</u>

Saint Mary's College of California

Statement of Functional Expenses

Year Ended June 30, 2022

(Dollars in Thousands)

	Program Services				Supporting Services		Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Operations and	
						Maintenance of Plant	
Compensation	\$ 39,031	\$ 5,909	\$ 14,192	\$ 1,210	\$ 13,187	\$ 2,474	\$ 76,003
Academic and student program costs	740	2,027	2,032	75	491	15	5,380
Emergency grants to students			3,529				3,529
Information technology	16	988	205	46	2,871	169	4,295
Facility and equipment expense	104	162	687	3,594	793	1,868	7,208
Travel	172	29	4,726		207		5,134
Contracted services	369	155	573	4,260	1,953	3,168	10,478
Other expenses	803	217	1,748	652	1,635	140	5,195
Depreciation expense	2,029	452	902	2,117	930	285	6,715
Interest expense	627			1,076	448	90	2,241
Total expenses	\$ 43,891	\$ 9,939	\$ 28,594	\$ 13,030	\$ 22,515	\$ 8,209	\$ 126,178

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

Notes to Financial Statements

June 30, 2022 and 2021

(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 2021 and fall 2020 totaled 2,077 and 2,843 full-time and 684 and 596 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.

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

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

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, 2022 and 2021, 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, 2022 and 2021

(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, 2022 and 2021, 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 approximately \$1 million for the years ended June 30, 2022 and 2021.

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, 2022 and 2021, the liability under this plan was \$808 and \$624, 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.

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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

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, 2022 and 2021. 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.

At June 30, 2021, the College had investments of \$65,600, which were concentrated two funds.

During the year ended June 30, 2022, 46% of contribution revenue was from one donor.

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 \$58,687 and \$59,437 for the years ended June 30, 2022 and 2021, respectively.

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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 2022/2023 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, 2022, certain summer terms have not yet begun; thus, all revenue received relating to the 2022 summer and fall 2022 terms are included in deferred revenue. The following table notes the activity within the deferred revenue accounts relating to tuition and fees.

	<u>2022</u>	<u>2021</u>
Balance at beginning of the year	\$ 5,297	\$ 8,127
Revenue recognized during the year	(5,297)	(8,127)
Cash received in advance of performance	<u>4,992</u>	<u>5,297</u>
Balance at end of the year	<u>\$ 4,992</u>	<u>\$ 5,297</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 \$3,300 and \$2,900 for the years ended June 30, 2022 and 2021, respectively, are included in institutional support.

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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 \$3,281 and \$1,332 of the direct student award funds for the years ended June 30, 2022 and 2021, respectively. Additionally, the College applied \$4,163 and \$2,434 of the institutional and minority serving institution award allocations towards eligible COVID-related impacts for the years ended June 30, 2022 and 2021, 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 the College's receivables.

Accounting Pronouncement Adopted in the Current Year

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The College adopted ASU No. 2020-07 in fiscal year ending June 30, 2022, and retrospectively for fiscal year ended June 30, 2021, and determined that there was no impact on the financial statements.

New Accounting Pronouncements Not Yet Effective

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 (as amended) is effective for annual periods beginning after December 15, 2022 (fiscal 2024). College is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its financial statements.

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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 November 14, 2022, 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.

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, 2022 and 2021.

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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.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Short-term investments	\$ 4,187	\$ 4,187	\$	\$
Fixed income securities	32,431	18,814	13,617	
U.S. equity securities	47,948	47,948		
Non-U.S. equity securities	18,065	18,065		
Mutual funds				
Domestic fixed income	5,926	5,926		
Real estate funds	14,303	14,303		
Subtotal assets by valuation hierarchy	<u>\$ 122,860</u>	<u>\$ 109,243</u>	<u>\$ 13,617</u>	<u>\$ -</u>
Investments measured using NAV:				
Non-U.S. equity securities	17,017			
Private equity funds	23,725			
Risk parity composite fund	17,399			
Real estate fund	8,631			
Subtotal assets by NAV	<u>66,772</u>			
Total investments at fair value	189,632			
Total investments at cost	11,912			
Total investments	<u>\$ 201,544</u>			
Liabilities:				
Interest rate swap	<u>\$ 8,480</u>	<u>\$ -</u>	<u>\$ 8,480</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, 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 fund	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	16,415			
Risk parity composite fund	21,159			
Real estate funds	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>

Investment income and (losses) gains on the investments measured using NAV totaled (\$2,024) and \$15,143 for the years ended June 30, 2022 and 2021, 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, 2022	\$23,725	\$8,631	\$17,399
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	\$15,550	\$8,140	N/A
Timing to draw down commitments	1 to 5 years	N/A	N/A
Redemption terms	N/A	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:

	2022	2021
Current, net of discount	\$ 11,854	\$ 2,705
Noncurrent:		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	2,109	2,598
Endowment receivables, net of discount	752	2,128
Total noncurrent	2,861	4,726
Total contributions receivable	\$ 14,715	\$ 7,431
Gross amounts due in:		
Less than one year	\$ 4,707	
One to five years	10,520	
More than five years	650	
Total contributions receivable	15,877	
Less allowance for uncollectible accounts	(250)	
Less discount to present value	(912)	
	\$ 14,715	

Gross contributions receivable of \$11.3 million as of June 30, 2022 are due from one donor. Gross contributions receivable of \$4.6 million as of June 30, 2021 were due from two donors.

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5. Notes Receivable, Net

Notes receivable, net as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal Perkins loan program	\$ 1,080	\$ 1,377
Less allowance for doubtful accounts	<u>(585)</u>	<u>(585)</u>
Student loans receivable, net	<u>\$ 495</u>	<u>\$ 792</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, 2022, the College returned to the government \$262 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, 2022, 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, 2022 and 2021, student loans represented less than 1% percent of total assets.

Funds advanced by the Federal government of approximately \$622 and \$871 at June 30, 2022 and 2021, respectively are ultimately refundable to the government and are classified as liabilities on the balance sheets.

At June 30, 2022 and 2021, 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, 2022	\$ 80	\$ -	\$ 225	\$ 305
June 30, 2021	15	80	371	466

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

Property, plant and equipment, net as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,336	\$ 1,336
Land improvements	19,098	18,219
Buildings and building improvements	221,541	216,970
Furniture, fixtures and equipment	23,272	22,218
Vehicles	834	868
Construction in progress	10,018	5,715
	276,099	265,326
Less accumulated depreciation	(144,198)	(137,511)
	<u>\$ 131,901</u>	<u>\$ 127,815</u>

For the period ended June 30, 2022 and 2021, right of use assets from finance leases of \$2,263 and \$2,386, respectively, 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, 2022. As of June 30, 2022 and June 30, 2021, the College had not drawn on the line. During the years ended 30, 2022 and 2021, the College had reserved \$124 and \$289, respectively, 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, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
California Educational Facilities Authority 2007 Revenue Bonds, interest reset monthly (1.65% at June 30, 2022), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043.	\$ 53,275	\$ 54,800
Principal outstanding on long-term debt	53,275	54,800
Bond issuance costs	(1,571)	(1,570)
Total long-term debt, net	51,705	53,230
Less current portion	(1,600)	(1,525)
	<u>\$ 50,104</u>	<u>\$ 51,705</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, 2022 was 80 basis points. 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, 2022 are as follows:

Years ending June 30:	
2023	\$ 1,600
2024	1,650
2025	1,700
2026	1,775
2027	1,850
Subsequent	<u>44,700</u>
Total	<u>\$ 53,275</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, as determined by the bank, with all covenants as of June 30, 2022.

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 unrealized gains of \$7,645 and \$4,418 for the years ended June 30, 2022 and 2021, respectively. The liability related to the interest rate swap agreement was \$8,480 and \$16,125 as of June 30, 2022 and 2021, 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, 2022 and 2021, the value of the collateral posted was \$6,219 and \$13,810, 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, 2022:

Years ending June 30:	Operating	Finance
2023	\$ 107	\$ 531
2024	62	531
2025	23	531
2026	-	133
Total lease payments	192	1,726
Less present value discount	(7)	(88)
Present value of lease liabilities	185	1,638
Less current portion of leases	(102)	(490)
Total long term lease liabilities	\$ 83	\$ 1,148

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Weighted-average remaining lease term and discount rate for operating and finance leases as of June 30, 2022 were as follows:

Weighted Average Remaining Lease Term	
Operating Leases	2.58 years
Finance Leases	4.34 years
Weighted Average Discount Rate	
Operating Leases	1.64%
Finance Leases	3.93%

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 were 2.5 percent of all eligible employees' wages and salaries for the years ended June 30, 2022 and 2021. Total College contributions were \$2,127 and \$1,275 for the years ended June 30, 2022 and 2021, 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 did not make any contributions in the years ended June 30, 2022 and 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, 2021, the plan assets totaled \$15,044, consisting of \$13,924 of mutual funds and \$1,120 of money market funds. As of December 31, 2020, the plan assets totaled \$14,413, consisting of \$13,371 of mutual funds and \$1,042 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Change in projected APBO		
Benefit obligation at July 1	\$ 1,277	\$ 2,296
Service cost	20	27
Interest cost	54	48
Actuarial (gain) loss	269	(946)
Benefits paid	(455)	(148)
Total projected APBO at June 30	<u>\$ 1,165</u>	<u>\$ 1,277</u>
Amounts recognized in the balance sheets		
Current liabilities, accounts payable and accrued liabilities	\$ 386	\$ 394
Noncurrent liabilities	779	883
Total projected APBO	<u>\$ 1,165</u>	<u>\$ 1,277</u>

The following sets forth the status of the plan as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accumulated post-retirement benefit of obligation (APBO)		
Retirees	\$ -	\$ 5
Active employees	1,165	1,272
Total APBO	<u>\$ 1,165</u>	<u>\$ 1,277</u>

The components of net periodic post-retirement benefit cost (NPPBC) for the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest cost	\$ 54	\$ 47
Service cost	20	27
Amortization of unrecognized loss (ALG)		(5)
Amortization of unrecognized prior service cost	(91)	(92)
Net periodic post-retirement benefit expense	<u>\$ (17)</u>	<u>\$ (23)</u>

The actuarial losses yet to be recognized in the net periodic post-retirement benefit cost as of June 30, 2022 and 2021 are \$(1,094) and \$(1,454), respectively.

The assumed healthcare cost trend rates range from a high of 7.3 percent in fiscal year end 2022 to a low of 4.7 percent by fiscal year end 2026. 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, 2022 by approximately 12 percent, or \$135. 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, 2022 by approximately 9 percent, or \$(109). 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 4.2 percent for 2022. The net periodic post-retirement benefit cost, as well as accumulated post-retirement benefit obligation was 3.1 percent for 2021.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

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

Years ending June 30:		
2023	\$	386
2024		
2025		
2026		
2027		
Thereafter		<u>495</u>
Total	\$	<u>881</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, 2022 and 2021, \$109 and \$320, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College. As of June 30, 2022, there is a forgivable loan to an employee with an outstanding balance of \$350.

12. Commitments and Contingencies

Financial awards from federal and state agencies, including the U.S. 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 \$6 million at June 30, 2022.

13. Endowments

General

The College's endowment consists of 354 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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

Endowment investments are recorded at market value of \$185,112 and \$215,012 for the years ended June 30, 2022 and 2021, respectively. The total return on all investments held by the endowment funds, on a market basis, was -6.27 percent and 27.8 percent for the years ended June 30, 2022 and 2021, 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, 2022, the Board appropriated an additional \$11,158 from board designated endowment funds for capital improvements, the ERM project, the Voluntary Separation Incentive Program (VSIP) and Presidential initiatives.

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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

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.

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, 2022

	Without Donor Restrictions	With Donor Restrictions		Total	Total June 30, 2022
		Original Gift	Accumulated Gain (Losses)		
Board-designated endowment fund	\$ 35,108	\$	\$	\$	\$ 35,108
Donor-restricted endowment funds		30,822	118,935	149,757	149,757
Total endowment net assets	\$ 35,108	\$ 30,822	\$ 118,935	\$ 149,757	\$ 184,865

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 48,706	\$ 167,098	\$ 215,804
Investment returns	340	(13,068)	(12,729)
Appropriation of endowment assets for expenditure:			
Operating	(2,879)	(7,176)	(10,055)
Nonoperating - plant	(11,158)		(11,158)
Gifts	100	3,360	3,460
Actuarial adjustments on deferred gifts		(457)	(457)
Endowment net assets, end of year	\$ 35,108	\$ 149,757	\$ 184,865

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

Changes in Endowment Net Asset Composition by Type of Fund as of June 30, 2021

	Without Donor Restrictions	With Donor Restrictions		Total	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	167,098
Total endowment net assets	<u>\$ 48,706</u>	<u>\$ 115,998</u>	<u>\$ 51,100</u>	<u>\$ 167,098</u>	<u>\$ 215,804</u>

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)
Other transfers		(4,000)	(4,000)
Gifts	8	3,237	3,245
Actuarial adjustments on deferred gifts		458	458
Endowment net assets, end of year	<u>\$ 48,706</u>	<u>\$ 167,098</u>	<u>\$ 215,804</u>

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(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>2022</u>	<u>2021</u>
Financial assets, at year end	\$ 233,500	\$ 260,705
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(149,757)	(178,440)
Subject to appropriation and satisfaction of donor restrictions, contributions, notes and accounts receivable collectible beyond one year	(14,584)	(6,221)
Investments held in required reserve for SWAP, included in quasi-endowment fund	(6,219)	(13,810)
Investments held in annuity trust	(3,852)	(3,852)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(29,389)	(34,897)
Subsequent year appropriation of endowment earnings	9,500	9,100
	<u> </u>	<u> </u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 39,199</u>	<u>\$ 32,585</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.

Saint Mary's College of California

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in Thousands)

15. Department of Education Financial Responsibility Information

The Department of Education (ED) revised the regulations for financial responsibility which are required to be implemented for reports issued after July 1, 2020. The regulations require the College to provide additional disclosures, including a financial responsibility supplemental schedule, to assist ED in measuring financial responsibility through the composite score of financial ratios. The financial responsibility supplemental schedule must contain all the composite score of financial ratios, with a cross-reference to the financial statement line or note that contains the element.

Note 6 provides information on the College's property, plant, and equipment, net, but does not provide a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of property, plant, and equipment, net, at June 30, 2022 based on the July 1, 2019 implementation date.

Pre-implementation:		
Property, plant and equipment, net as of June 30, 2021	\$	112,328
Less depreciation expense		(6,092)
Less current year disposals		<u>(34)</u>
Total property, plant and equipment, net, pre-implementation as of June 30, 2022		<u>106,202</u>
Post-implementation:		
Property, plant and equipment, net without outstanding debt for original purchase as of June 30, 2021		7,386
Plus current year additions		1,430
Transfers		5,198
Less current year depreciation		<u>(596)</u>
Total property, plant and equipment, net without outstanding debt for original purchase as of June 30, 2022		<u>13,418</u>
Construction in progress as of June 30, 2021		5,715
Additions		9,501
Transfers		<u>(5,198)</u>
Total construction in progress as of June 30, 2022		10,018
Financing right-of-use assets		<u>2,263</u>
Total property, plant and equipment, net	\$	<u>131,901</u>
Total expenses without donor restrictions:		
Total operating expense excluding depreciation		119,463
Depreciation expense		6,715
Other non-operating expense - VSIP		<u>4,123</u>
Total expenses without donor restrictions	\$	<u>130,301</u>

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Saint Mary's College of California (the College), which comprise the College's balance sheet as of June 30, 2022, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-007, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

The College's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

The image shows a handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
November 14, 2022

**Report on Compliance
for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Saint Mary's College of California's (the College) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2022. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our on compliance for each major federal program. Our audit does not provide a legal determination of the College's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the College's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the College's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-006. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the College's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-006, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Baker Tilly US, LLP

Minneapolis, Minnesota
March 20, 2023

Saint Mary's College of California

Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2022

Federal Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Agency	Pass-through Agency Grant Number	Federal Expenditures
Student Financial Assistance Cluster				
U.S. Department of Education				
Federal Pell Grant Program	84.063			\$ 2,446,221
Federal Supplemental Educational Opportunity Grants	84.007			162,483
Federal Work-Study Program	84.033			319,640
Federal Perkins Loan Program	84.038			1,377,168
Federal Direct Student Loans	84.268			<u>26,033,596</u>
Total Student Financial Assistance - Cluster				<u>30,339,108</u>
Education Stabilization Fund				
COVID-19 - Education Stabilization Fund	84.425E			3,281,167
COVID-19 - Education Stabilization Fund	84.425F			3,451,750
COVID-19 - Education Stabilization Fund	84.425L			<u>711,111</u>
Total COVID-19 - Education Stabilization Func				<u>7,444,028</u>
TRIO Program - Cluster				
TRIO_Student Support Services	84.042A			<u>220,781</u>
Total TRIO Program - Cluster				<u>220,781</u>
Other programs				
Higher Education Institutional Aid	84.031C			223,488
Investing in innovation (I3) Fund	84.411B	Ohio State University	60073279	<u>117,090</u>
Total US Department of Education				<u>38,344,495</u>
Research and Development - Cluster				
National Science Foundation				
Education and Human Resources	47.076			218,771
National Science Foundation				
Biological Sciences	47.074			522,585
National Aeronautics and Space Administration				
Exploration	43.003	SUNY	80NSSC19M0215	15,456
National Institutes of Health				
Aging Research	93.866	UC Davis	RF1AG074709	<u>21,130</u>
Total Research and Development Cluste				<u>777,942</u>
Other Programs				
The Corporation for National and Community Service				
Americorps	94.006			108,360
Volunteers in Service to America	94.013			50,000
National Endowment for the Humanities				
Promotion of the Humanities - Challenge Grants	45.130			20,313
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	California Governor's Office of Emergency Services	FEMA-4482-DR- CA, Cal OES ID: 013-90001	<u>525,446</u>
Total Expenditures of Federal Awards				<u>\$ 39,826,556</u>

See notes to schedule of expenditures of federal awards

Saint Mary's College of California

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal (the Schedule) includes the federal award activity of Saint Mary's College of California under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position or cash flows of the College.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Saint Mary's College of California has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Federal Student Loan Programs

The Federal Perkins Loan Program (ALN 84.038) is administered directly by Saint Mary's College of California, and balances and transactions relating to this program are included in the College's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding at June 30, 2022 totaled \$1,080,402

Saint Mary's College of California

Financial Responsibility Supplemental Schedule

For the Year Ended June 30, 2022

(Dollars in Thousands)

Financial Statement and Line Name or Note Location

		Primary Reserve Ratio:	
		Expendable Net Assets:	
Balance Sheet	Net assets without donor restrictions	\$	98,959
Balance Sheet	Net assets with donor restrictions		181,159
Not applicable for 2022	Annuities with donor restrictions		-
Not applicable for 2022	Term endowments with donor restrictions		-
Not applicable for 2022	Life income with donor restrictions		-
Balance Sheet	Net assets with donor restrictions - restricted in perpetuity		115,608
Balance Sheet	Net assets with donor restrictions - time or purpose		65,551
Note 11	Unsecured related party receivable		459
Note 6 and Note 15	Property, plant and equipment - pre-implementation	\$	106,202
Note 6 and Note 15	Property, plant and equipment - post-implementation with outstanding debt for original purchase		-
Note 6 and Note 15	Property, plant and equipment - post-implementation without outstanding debt for original purchase		13,418
Note 6	Construction in progress		10,018
Note 6	Right of use asset - financing (included below)		2,263
Balance Sheet	Total property, plant and equipment, net (including CIP and right to use asset- financing)	\$	131,901
Balance Sheet, Note 6 and Note 14 - Financing, \$2,263 plus operating \$185	Lease right-of-use assets, net		2,448
Not applicable for 2022	Lease right-of-use assets - pre-implementation		-
Balance Sheet, Note 6 and Note 14 - Financing, \$2,263 plus operating \$185	Lease right-of-use assets - post-implementation		2,448
Not applicable for 2022	Intangible assets		-
Note 10	Post-employment and pension liabilities		1,165
Note 8	Long-term debt for long-term purposes - pre-implementation	\$	51,705
Not applicable for 2022	Long-term debt for long-term purposes - post implementation		-
Not applicable for 2022	Line of credit for construction in progress		-
Note 9	Lease right-of-use asset liability, net		1,823
Not applicable for 2022	Lease right-of-use asset liability - pre-implementation		-
Note 9	Lease right-of-use asset liability - post-implementation		1,823
Total Expenses and Losses Without Donor Restrictions			
Statement of Activities (total operating expenses excluding depreciation \$119,463 plus depreciation \$6,715 plus other non operating expense - VSIP \$7,645)	Total expenses without donor restrictions	\$	130,301
Not applicable for 2022	Non-Operating and Net Investment (loss)		9,719
Not applicable for 2022	Net Investment losses		-
Not applicable for 2022	Adjustment of actuarial liability		-
		Equity Ratio	
		Modified Net Assets	
Balance Sheet	Net assets without donor restrictions	\$	98,959
Balance Sheet	Net assets with donor restrictions		181,159
Not applicable for 2022	Intangible assets		-
Note 11	Unsecured related party receivables		459
		Modified Assets	
Balance Sheet	Total assets	\$	365,586
Not applicable for 2022	Lease right-of-use asset pre-implementation		-
Not applicable for 2022	Lease right-of-use asset liability pre-implementation		-
Not applicable for 2022	Intangible assets		-
Not applicable for 2022	Unsecured related party receivables		459
		Net Income Ratio	
Statement of Activities	Change in net assets without donor restrictions	\$	(4,617)
Total Revenues and Gains Without Donor Restrictions			
Statement of Activities	Total operating revenue and other additions (gains)	\$	118,321
Statement of Activities - Non-operating activity, excluding \$4,123 other non-operating expense - VSIP	Non-operating revenue and other gains		17,082

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditors' issued on whether the financial statements audited were in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? yes X no

Significant deficiency (ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Material weakness (es) identified? yes X no

Significant deficiency (ies) identified? X yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
84.425	COVID-19 - Education Stabilization Fund
Various	Research and Development

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2022-007: Significant Deficiency - Separation of Duties

Criteria: The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-007: Significant Deficiency – Lack of Segregation of Duties (Continued)

Condition: During the year, the College experienced significant turnover in key positions that resulted in a lack of proper segregation of duties during the year and throughout the year and the year-end financial reporting process. It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Cause: There was significant turnover in key positions that resulted in a lack of proper segregation of duties during the year and throughout the year and the year-end financial reporting process, including recording journal entries, reconciling accounts, and preparing financial statement report.

Effect: Errors in the accounting records did occur and were detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: The College should continue to perform certain review procedures which help mitigate risk associated with the lack of separation of duties. We suggest that management review the current control structure and implement controls to ensure manual journal entries are reviewed and approved by an appropriate individual.

Management's Response: Management concurs with the recommendation. Turnover caused several key positions to be vacant at the same time during the year. The structure of the department is being reviewed and processes mapped so that we can ensure there is a separation of duties. Anyone originating a manual journal entry will be required to have it reviewed by a supervisor.

Section III - Federal Awards Findings and Questioned Costs

Finding 2022-001: Significant Deficiency - Return of Title IV Funds

Program: Student Financial Assistance Cluster

Assistance Listing Number: Various

Federal Agency: U.S. Department of Education

Federal Award Identification Number: Various

Federal Award Year: June 30, 2022

Repeat of prior year finding 2021-001

Criteria: Title IV regulations (34 CFR 668.22) require the College to return the unearned portion of grants or loans to the Title IV program within 45 days after a student withdraws.

Condition/Context: During the audit it was noted that the College provided a list of students that withdrew during the fiscal year and this differed from data that was reported internally to the Audit Committee on the number of students that withdrew in Fall 2021 and Spring 2022 (through April). The number of students that withdrew, the number of student's that required an R2T4 calculation and the amount of the return all varied. The auditors discussed this with management who confirmed that the list provided to the auditors was complete and that the information reported to the Audit Committee was incorrect.

From the withdrawal population the College did provide, a sample of 9 students were selected for testing for return of Title IV funds, of which 5 students did not require Title IV refunds and 4 students did require Title IV refunds. For the population of students with Title IV refunds, the calculations and refunds for 3 students were performed late, and for 1 of those students the calculation was also incorrect (excluded SEOG funds from the calculation). For the 3 students with refunds that were late, 100% of their Title IV funds were returned and then later re-disbursed before the R2T4 calculation and return occurred.

The sample was not a statistically valid sample.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-001: Significant Deficiency - Return of Title IV Funds (Continued)

Questioned Costs: A total of \$375 in Federal Supplemental Educational Opportunity Grant assistance listing number 84.007.

Cause: The College experienced significant staffing issues/changes in key positions in the student financial aid office and changes to procedures for the return of Title IV funds were not completed until well into the 2021-22 year when the prior single audit with finding was completed.

Effect: The College returned incorrect amounts to students and/or the US Department of Education and they were in possession of funds belonging to the federal government longer than allowed.

Recommendation: The College should continue to review and adhere to its procedures for refunding awards and implement a more rigorous review process, to ensure withdrawal listings are complete, refunds are calculated correctly and timely and any returns are made within the required timeframe.

Management's Response: Management acknowledges the finding. Subsequent to the 2021-2022 single audit, the College had a Financial Aid Services consultant review all R2T4 cases and 1 additional error was identified requiring the return of an additional \$17.00. In the future, all R2T4 refund calculations will be performed by the Assistant Director/Systems Specialist who has received substantial training. In addition, the Assistant Director's refund calculations will be reviewed by the Executive Director of Financial Aid for accuracy.

System adjustments have also been made so that if funds are reversed, they are re-disbursed at the amount the student is eligible for after the R2T4 calculation is completed.

Finding 2022-002: Significant Deficiency – Direct Loan Reconciliation

Program: Student Financial Assistance Cluster

Assistance Listing Number: 84.268

Federal Agency: U.S. Department of Education

Federal Award Identification Number: P268K221186

Federal Award Year: June 30, 2022

Criteria: Title IV regulations note that Direct Loan reconciliation is a mandatory monthly process, as required under 34 CFR 685.300(b)(5). The U.S. Department of Education released an electronic announcement December 18, 2020 reminding institutions of this requirement. Each month, Common Origination and Disbursement (COD) provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the institution) Loan Detail records. The institution is required to reconcile these files to the institution's financial records. At a minimum, this reconciliation must be completed at least monthly to ensure that data is correct in all systems and that cash management and disbursement reporting timelines are being met. Since up to three Direct Loan program years may be open at any given time, institutions may receive three SAS data files each month.

Condition/Context: The College was not able to provide the three monthly reconciliations for November 2021, February 2022, or April 2022 when requested for the audit in the summer of 2022. The Institution noted that the reconciliations had not been performed timely, and subsequently the Institution had a consultant complete these reconciliations. The auditors were unable to obtain evidence of or confirmation from the Institution regarding review of the reconciliations by someone other than the preparer occurred. The sample was not a statistically valid sample.

Additionally, the College discovered that Direct Loan reconciliation hadn't been done correctly in the past due to staff turnover. A consultant was given the task of doing a complete 21-22 reconciliation in June 2022. This consultant discovered 16 students had been awarded \$177,816 in error. The cause of this was that rules had not been setup correctly in Colleague, and consistent reconciliation by correcting Colleague and COD errors wasn't completed in a timely manner. The auditors obtained the listing of students awarded incorrectly.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-002: Significant Deficiency – Direct Loan Reconciliation (Continued)

Cause: The College noted there was significant staffing issues/changes in key positions in the student financial aid office and business office and that resulted in the monthly reconciliations not being performed timely.

Effect: The information in the College's system or data reported to COD may be incorrect and not correctly timely if the monthly reconciliations are not occurring.

Questioned costs: \$177,816 of Federal Direct Loans assistance listing number 84.268.

Recommendation: It is recommended that the College review staffing and policies and procedures to ensure that the monthly direct loan reconciliation is completed in a timely manner to facilitate compliance with Title IV regulations.

Management's Response: Management acknowledges the finding. For the \$177,816 in direct loans incorrectly disbursed that was identified, the College returned the loans and replaced with institutional aid for the impacted students.

The Assistant Director/Systems Specialist reconciles direct loans every month. The Executive Director of Financial Aid and the VP of Enrollment Management review these reports at the end of each month.

In addition, a system adjustment has been set up for 2022-2023 to ensure reconciliation is done monthly. The Assistant Director/Systems Specialist utilizes Colleague variance reports that tracks Direct Loans disbursed year to date, the number that COD (Servicer for U.S. Department of Education) has approved, and the students that make up the variance, if any. In addition, COD and Colleague errors that occur during the import/export of Direct Loans to and from COD are corrected on a consistent basis. Reconciliation documentation is then forwarded to the Director for review.

Finding 2022-003: Significant Deficiency - Enrollment Reporting

Program: Student Financial Assistance Cluster

Assistance Listing Number: 84.063 and 84.268

Federal Agency: U.S. Department of Education

Federal Award Identification Number: P063P21186 and P268K221186

Federal Award Year: June 30, 2022

Repeat of prior year finding 2021-002

Criteria: Title IV regulations (34 CFR 685.309(b)) require that upon receipt of an enrollment report from the Secretary, institutions must update all information included in the report and return the report to the Secretary: (i) in the manner and format prescribed by the Secretary; and (ii) within the timeframe prescribed by the Secretary. Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, an institution must notify the Secretary within 30 days after the date the institution discovers that: (i) a loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the institution, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or (ii) a student who is enrolled at the institution and who received a loan under Title IV of the Act has changed his or her permanent address.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-003: Significant Deficiency - Enrollment Reporting (Continued)

Condition/Context: Of 25 students tested, the status date for one student selected was not reported accurately on the campus level reporting in National Student Loan Data System (NSLDS). The College used the degree conferral date of August 20, 2021 rather than the end of the term/last date of attendance of July 4, 2021 that was used for reporting program level information for this student, and consistent with how other students were reported. Additionally, for two students, reporting at the program level was late, not within 30 days or included in a response to a roster file or within 60 days. The students were reported as graduated effective August 20, 2021 with the earliest certification date of October 31, 2021 at the campus level and December 3, 2021 at the program level. The sample was not a statistically valid sample.

Cause: The College noted the reporting was completed timely to the servicer National Student Clearinghouse (NSC) however was not reflected in NSLDS.

Effect: The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by schools. If an Institution does not review, update, and verify student enrollment statuses, effective dates of the enrollment status, and the anticipated completion dates, then the Title IV student loan records will be inaccurate.

Questioned costs: Not applicable

Recommendation: It is recommended that the College review policies and procedures in place to resolve reporting issues in a timely manner to facilitate compliance with Title IV regulations.

Management's Response: Management acknowledges the finding. In order to ensure compliance in 2022-2023, the Office of the Registrar has increased degree reporting frequency to National Student Clearinghouse (NSC), so as to meet the 60-day file requirement in NSLDS. The office has also gained access to the National Student Loan Data System to monitor alignment with information submitted by the College to NSC.

Finding 2022-004: Significant Deficiency - Non-compliance with Reporting Requirements for Disbursements

Program: Student Financial Assistance Cluster
Assistance Listing Number: 84.268
Federal Agency: U.S. Department of Education
Federal Award Identification Number: P268K221186
Federal Award Year: June 30, 2022

Repeat of prior year finding 2021-003

Criteria: Title IV regulations, including the most recent Federal Register Notice, published in June 2021, specifies that a school must submit disbursement records no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported disbursement. Institutions submit Direct Loan, Pell Grant, TEACH Grant, and IASG origination records and disbursement records to the Common Origination and Disbursement (COD) system. The disbursement record reports the actual disbursement date and the amount of the disbursement. The US Department of Education processes origination and/or disbursement records and returns acknowledgments to the institution. At the time an institution makes a disbursement to a student, it must confirm that the student is eligible for the funds being disbursed (34 CFR 668.164(b)(3)). For students and/or parents receiving direct loans for the first time they are required to completed entrance counseling and sign the master promissory note.

Condition/Context: For 2 of 25 students selected for testing, the disbursement dates did not agree between the student's institutional account and the data reported to COD. The students had disbursements that were later refunded. It was noted that the students were disbursed without a valid MPN on file, resulting in students being disbursement that were not eligible at the time of disbursement. The College ultimately obtained the signed valid MPNs and then re-disbursed the funds, as a result the student account original disbursement date and the COD disbursement date differ. The sample was not a statistically valid sample.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-004: *Significant Deficiency - Non-compliance with Reporting Requirements for Disbursements (Continued)*

Cause: The College failed to follow its procedures for ensuring students were eligible prior to disbursing funds.

Effect: The College disbursed Title IV funds to students that were not eligible for aid at the time of disbursement.

Questioned costs: \$29,410 of Federal Direct Plus Loans assistance listing number 84.268.

Recommendation: It is recommended that the College update policies and procedures for ensuring students are eligible prior to disbursing funds to ensure compliance with Title IV regulations.

Management's Response: Management acknowledges the finding. To ensure that this problem does not recur for 2022-2023, disbursement rules have been instituted in Colleague that would prevent funds disbursing if a student hasn't completed an MPN. The frequency of exports from Colleague to COD has been increased. In addition, Direct Loan and Pell rejects are being corrected each week so that if funds are disbursed and a Colleague or COD error is received, the disbursement is corrected and re-exported before the 15-day time limit.

Finding 2022-005: *Significant Deficiency – Education Stabilization Fund – Higher Education Emergency Relief Fund - Reporting*

Program: Education Stabilization Fund

Assistance Listing Number: 84.425 E, F and L

Federal Agency: U.S. Department of Education

Federal Award Identification Number: P425E200371, P425F201133, and P425L200166

Federal Award Year: June 30, 2022

Criteria: The U.S. Department of Education (the Department) has issued guidance for the Education Stabilization Funds (ESF) Higher Education Emergency Relief Funds (HEERF) for quarterly reporting for all sections (a)(1), (a)(2), (a)(3) and (a)(4) that requires that institutions to prepare a report for each quarter for funds that are drawn down and disbursed/spent. The reports are to be posted on the institution's website within 10 days of the calendar quarter end.

Condition/Context: For three of the four quarterly reports selected for testing, two for the student portion, and one containing both institutional and student portion reporting, it was noted that some of the information reported did not agree to the support provided, two of those reports also did not agree to the drawdowns from G5, two of those reports had required information missing, and two of those reports were posted late.

- Student portion report - for quarter three of calendar year 2021 the amount of emergency grants to students of \$1,133,392 did not agree to the underlying support of \$1,078,437 or drawdowns from G5 of \$954,932. The number of eligible students and the number of students who received an emergency financial aid grant were missing from the report.
- Student portion report - for quarter four of calendar year 2021 the amount of emergency grants to students of \$1,745,664 did not agree to the underlying support of \$1,735,664 or drawdowns from G5 of \$1,902,140. The number of eligible students was missing from the report. The report was posted to the Institution's website on January 24, 2022 after the required deadline of January 10, 2022.
- Combined report - For quarter one of calendar year 2022 the amount of emergency grants to students of \$405,000 was reported for the institutional portion of HEERF but should have been for the student portion, the same amount was also reported for the institutional portion as covering student outstanding account balances and lost revenue. The report was posted to the Institution's website on July 8, 2022 after the required deadline of April 10, 2022.

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-005: Significant Deficiency – Education Stabilization Fund – Higher Education Emergency Relief Fund – Reporting (Continued)

The report for quarter two of calendar year 2022 report was not submitted timely and was in process during the audit and therefore, was not selected for testing.

The annual report had several items that did not agree to the underlying support. How many students received HEERF emergency financial aid grants, amount disbursed directly to students for emergency financial aid grants, amount of grants disbursed to students from all HEERF funds, total institutional funds used did not include amounts for room and board refunds that were reported in quarterly reporting during calendar 2021.

The sample of reports tested was not a statistically valid sample.

Cause: The College's control surrounding preparing, reviewing and posting the reports did not deter or prevent errors in the reporting or late posting of the quarterly reports to the University's website. The College noted there was significant staffing issues/changes in key positions in the student financial aid office and business office and that resulted in the incorrect and untimely HEERF reporting.

Effect: The College was not in compliance with the HEERF quarterly reporting requirements.

Questioned costs: Not applicable.

Recommendation: The College should ensure it keeps up to date on the Department's HEERF guidance and ensure that reporting is done accurately and timely.

Management's Response: Management acknowledges the finding. The staffing changes in the Business Office and the Financial Aid office resulted in learning curves for the new employees regarding how to report expenses for HEERF. The College reached out to the Department of Education and alerted them to the late filing of the reports and received acknowledgment of the late filings.

The College has completed all quarterly filings for HEERF funds as they have all been spent. The final annual HEERF report for calendar year 2022 will be filed accurately and on time.

Finding 2022-006: Significant Deficiency – Control Environment

Program: Student Financial Assistance Cluster and Higher Education Emergency Relief Funds

Assistance Listing Number: Various

Federal Agency: U.S. Department of Education

Federal Award Identification Number: Various

Federal Award Year: June 30, 2022

Criteria: Non-federal entities in receipt of federal funds must comply with the requirements of 2 CFR 200.303(a), which require an entity to establish and maintain effective internal control over the Federal award to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition/Context: It was noted during the audit, that there were gaps in the internal control structure of the College, that was no longer adequate to ensure compliance with federal regulations and compliance requirements.

Cause: During the audit, it was noted that there was significant turnover in key positions responsible for administering the federal awards programs.

Effect: The College had several compliance and controls findings reported for the year ended June 30, 2022.

Questioned costs: Not determinable

Saint Mary's College of California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-006: *Significant Deficiency – Control Environment (Continued)*

Recommendation: The College should review all process, policies and procedures around federal awards programs to ensure adequate staffing, staff experience and continuing education and a system of internal controls are in place in order to comply with federal regulations and compliance requirements.

Management's Response: The staffing changes in the Business Office and the Financial Aid office resulted in learning curves for the new employees. Both offices have started projects to document procedures so that when turnover occurs, there is a blueprint in place to assist the new employees. SMC will also review the internal controls in place for federal reporting to determine how they can be strengthened.

Saint Mary's College of California

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2022

Summary Schedule of Prior Year Audit Findings

Finding 2021-001: *Material Weakness - Return of Title IV Funds*

Condition/Context: During the audit it was noted that the College had difficulty providing a complete list of students that withdrew during the fiscal year. As a result the auditors were unable to verify completeness of the listing provided. Therefore, it is possible that students who withdrew during the year may not have been subject to sample selection.

From the withdrawal population the College did provide, a sample of 16 students were selected for testing for return of Title IV funds, of which 10 students did not require Title IV refunds and 6 students did require Title IV refunds. For the population of students with Title IV refunds, the calculations for all 6 students were incorrect. Additionally for the 6 students with refunds that were incorrect, for 4 students the refunds were not completed within 45 days, for 4 students 100% of their Title IV funds were returned and 2 of those students had subsequent disbursements of the earned aid and the other 2 students were owed funds as a result and 1 student was disbursed the earned aid that the College called a PWD, and the other student declined the earned aid. For the population of students without Title IV refunds, 1 student calculation was done late and was incorrect as the student should have had a Title IV refund, and 100% of their Title IV funds were returned and then later re-disbursed to the student. The sample was not a statistically valid sample.

The auditors noted the scheduled break days for the fall 2020 and spring 2021 terms were calculated incorrectly and therefore impacted calculations for all students. It is believed that the likelihood of errors extends to the untested population.

Action Taken: The Interim Director of Financial Aid has reviewed the Administrative Capability / Internal Control relative to the compliant processing of the Return of Title IV (R2T4) funds. Previous departures of key Financial Aid and Registrar Office staff and the lack of properly trained professionals in key roles in both offices left gaps in the ability of the institution to establish appropriate procedures for the accurate processing of R2T4. In addition, ineffective leadership in the Financial Aid and the Registrar's Offices resulted in a void in needed inter-office communication.

A review of R2T4 Policy and Procedures was conducted by the Interim Director and procedural updates and clarifications have been noted in the Policy and Procedures Manual. These include steps for tracking and creating a comprehensive and accurate list of all students who withdraw from the College.

Procedures were also established and codified among the FA, Registrar's, and Student Account Offices to insure that the FAO is provided timely and accurate notifications of student withdrawal and Last Date of Attendance. To meet the 45 day R2T4 requirement, student identification numbers are sent to the Business Office via email to expedite processing of student returns or refunds. FA staff have received R2T4 training. In order to insure that R2T4 processing is managed correctly while staff are being trained and to provide a second level of professional review for all possible cases, the College has contracted with a professional consulting firm (Financial Aid Services) to complete the initial processing of student R2T4 calculations. The Interim Director and internal staff will review and approve calculations provided by the firm and ensure the school's procedures are followed in a timely manner.

Finding 2021-002: *Significant Deficiency - Enrollment Reporting*

Condition/Context: The status and/or status date for 15 of the 25 students selected for testing were not reported accurately in National Student Loan Data System (NSLDS), at the summary and/or program level reporting. Additionally, for one tested, the student's status and date was reported late, not within 30 days or included in a response to a roster file within 60 days. After the errors were identified during the audit the College updated the students' records in National Student Clearinghouse (NSC), the third party that reports to NSLDS for the College, and we reviewed the corrections. The sample was not a statistically valid sample.

Saint Mary's College of California

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2022

Finding 2021-002: Significant Deficiency - Enrollment Reporting (Continued)

Action Taken: The Office of the Registrar has developed a report that will be run once per week to identify student status changes and report those changes to National Student Clearinghouse (NSC) to forward on to the National Student Loan Data System (NSLDS).

In addition to consistent timely enrollment reporting, the Office of the Registrar has documented and put in place an extra step in the Leave of Absence and Withdrawal processes, to keep the students' NSC reporting to NSLDS up to date and accurate. That extra step will be to check the most recent monthly NSC report to verify that any student taking a leave or withdrawing has an updated record with NSC.

The Office of the Registrar will continue to run an additional report at the end of each term, to ensure any changes or modifications in student statuses are correct and reported in a timely manner. Updates to these processes have been documented in the Office of the Registrar's electronic manual and staff will receive additional and regular training on these updates.

Finding 2021-003: Significant Deficiency - Non-compliance with Reporting Requirements for Disbursements

Condition/Context: For 3 of 25 students selected for testing, the disbursement dates did not agree between the student's institutional account and the data reported to COD. Additionally, for one of the students noted above, the amounts did not agree between the student's institutional account and the data reported to COD. The amounts differed for the student on two different dates, however in total netted to \$0 therefore there were no questioned costs. The sample was not a statistically valid sample.

Action Taken: The Interim Director of Financial Aid reviewed the policy and procedures in place at the time of this audit. Several critical steps in the COD reporting procedures were not being followed due to the lack of professionally competent leadership and appropriate staff training. As a result, Financial Aid Office staff members did not possess the necessary skill, knowledge, and expertise to conduct the process accurately. The procedures have since been updated to reflect the necessary corrections. At present, ISIRS are imported, reviewed and exported to COD on a daily basis. A Pell COD Reject report is generated weekly. A Direct Loan variance report is also produced each week and corrections are made as necessary.

Finding 2021-004: Significant Deficiency - Fiscal Operations Report and Application to Participate

Condition/Context: The auditors noted during testing of the June 30, 2020 FISAP, submitted during the fiscal year ended June 30, 2021, the College was unable to provide support for certain information reported in parts V and VI.

Action Taken: Accurate reports and supportive documentation were not available at the time of the audit due to previous leadership capability, turnover, and the lack of training available to Financial Aid Office staff members. Policies and Procedures relative to this requirement have been reviewed by the Interim Director of Financial Aid. Pertinent reports have now been developed and saved for current and future use for FISAP reporting requirements.