

**SAINT MARY'S COLLEGE
OF CALIFORNIA**

Moraga, California

Audit Report on Financial Statements
And Federal Awards

As of and for the Year Ended June 30, 2017

SAINT MARY'S COLLEGE OF CALIFORNIA

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Mary's College of California (the "College"), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary's College of California as of June 30, 2017 and 2016, 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.

Other Matter

Report on 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. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 September 28, 2017 on our consideration of Saint Mary's College of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Veitchau Krause, LLP

Minneapolis, Minnesota
September 28, 2017

SAINT MARY'S COLLEGE OF CALIFORNIA

Balance Sheets

As of June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 774,446	\$ 106
Investments (note 3)		106
Student receivables, net	920,703	784,484
Contributions receivable, net (note 5)	635,271	674,871
Accounts receivable - other	1,366,690	902,218
Prepaid expenses, and other	<u>2,885,475</u>	<u>2,526,182</u>
Total current assets	<u>6,582,585</u>	<u>4,887,861</u>
Noncurrent assets:		
Cash restricted for interest rate swap collateral (note 10)	10,790,000	15,040,000
Investments (note 3)	183,102,351	167,118,149
Contributions receivable, net (note 5)	9,470,699	9,330,568
Notes receivable, net (note 6)	1,753,898	1,887,152
Other assets	367,280	358,960
Property, plant and equipment, net of accumulated depreciation (note 7)	<u>131,366,932</u>	<u>136,400,678</u>
Total noncurrent assets	<u>336,851,160</u>	<u>330,135,507</u>
Total assets	<u>\$ 343,433,745</u>	<u>\$ 335,023,368</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,336,256	\$ 8,066,064
Line of credit (note 8)	3,000,000	5,000,000
Interest rate swap liability (note 10)	14,847,163	20,627,858
Current portion of long-term debt (note 9)	1,430,000	1,538,653
Deferred revenue	<u>5,274,901</u>	<u>5,955,497</u>
Total current liabilities	<u>36,888,320</u>	<u>41,188,072</u>
Noncurrent liabilities:		
Liabilities under trust agreements (note 2 (i))	2,264,989	1,897,188
Long-term debt, excluding current portion (note 9)	57,440,962	58,802,665
Post retirement benefits payable (note 11)	5,705,539	5,357,200
Asset retirement obligations (note 2(p))	2,755,695	2,755,695
Federal government grants refundable (note 6)	<u>1,699,850</u>	<u>1,720,228</u>
Total noncurrent liabilities	<u>69,867,035</u>	<u>70,532,976</u>
Total liabilities	<u>106,755,355</u>	<u>111,721,048</u>
Net assets:		
Unrestricted	79,370,172	83,819,588
Temporarily restricted	54,124,619	39,422,815
Permanently restricted	<u>103,183,599</u>	<u>100,059,917</u>
Total net assets	<u>236,678,390</u>	<u>223,302,320</u>
Total liabilities and net assets	<u>\$ 343,433,745</u>	<u>\$ 335,023,368</u>

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2017

With Comparative Totals for 2016

	2017			2016	
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Totals
Operating:					
Revenues and gains:					
Tuition and fees	\$ 141,254,361	\$	\$	\$ 141,254,361	\$ 143,153,992
Less financial aid	(50,662,886)			(50,662,886)	(49,254,902)
Net tuition and fees	90,591,475			90,591,475	93,899,090
Sales and services of auxiliary enterprises	22,277,323			22,277,323	21,840,787
Grant and contract revenue	700,016	584,303		1,284,319	943,445
Contributions	2,358,673	1,709,083		4,067,756	4,034,119
Endowment income and realized gains distributed	7,525,537			7,525,537	7,413,807
Other	3,117,974	721,742		3,839,716	3,171,724
Total operating revenues and gains	126,570,998	3,015,128		129,586,126	131,302,972
Net assets released from restrictions	3,132,210	(3,132,210)			
Total operating revenue, gains, and other support	129,703,208	(117,082)		129,586,126	131,302,972
Expenses:					
Instruction	49,590,412			49,590,412	49,161,262
Academic support	10,820,351			10,820,351	11,343,981
Student services	21,451,581			21,451,581	20,924,011
Institutional support	27,076,651			27,076,651	26,826,301
Operations and maintenance of plant	7,841,736			7,841,736	9,104,805
Interest expense	2,755,510			2,755,510	2,799,438
Auxiliary enterprises	10,102,167			10,102,167	9,949,169
Total operating expenses excluding depreciation	129,638,408			129,638,408	130,108,967
Increase in net assets from operations before depreciation expense	64,800	(117,082)		(52,282)	1,194,005
Depreciation expense	7,401,111			7,401,111	7,334,237
Decrease in net assets from operations	(7,336,311)	(117,082)		(7,453,393)	(6,140,232)
Nonoperating:					
Contributions	126,740	5,297,095	2,905,973	8,329,808	2,451,712
Net gain (loss) and income on endowments, net of distributions	(893,353)	14,987,217		14,093,864	(6,758,375)
Net gain and income on other investments	2,343	27,632		29,975	27,064
Unrealized gain (loss) on interest rate swap	5,780,695			5,780,695	(5,459,366)
Write off construction in progress/loss on disposal of assets	(70,494)			(70,494)	(192,583)
Adjustment to post retirement benefits	(1,346,132)			(1,346,132)	
Voluntary separation program costs	(6,208,052)			(6,208,052)	
Actuarial adjustments		2,090	217,709	219,799	(185,753)
Net assets released from restrictions	5,495,148	(5,495,148)			
Increase (decrease) from nonoperating activities	2,886,895	14,818,886	3,123,682	20,829,463	(10,117,301)
Change in net assets	(4,449,416)	14,701,804	3,123,682	13,376,070	(16,257,533)
Net assets, beginning of year	83,819,588	39,422,815	100,059,917	223,302,320	239,559,853
Net assets, end of year	\$ 79,370,172	\$ 54,124,619	\$ 103,183,599	\$ 236,678,390	\$ 223,302,320

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Operating:				
Revenues and gains:				
Tuition and fees	\$ 143,153,992	\$	\$	\$ 143,153,992
Less financial aid	<u>(49,254,902)</u>			<u>(49,254,902)</u>
Net tuition and fees	93,899,090			93,899,090
Sales and services of auxiliary enterprises	21,840,787			21,840,787
Grant and contract revenue	664,667	278,778		943,445
Contributions	2,301,026	1,733,093		4,034,119
Endowment income and realized gains distributed	7,413,807			7,413,807
Other	<u>2,732,381</u>	<u>439,343</u>		<u>3,171,724</u>
Total operating revenues and gains	128,851,758	2,451,214		131,302,972
Net assets released from restrictions	<u>2,302,108</u>	<u>(2,302,108)</u>		
Total operating revenue, gains, and other support	<u>131,153,866</u>	<u>149,106</u>		<u>131,302,972</u>
Expenses:				
Instruction	49,161,262			49,161,262
Academic support	11,343,981			11,343,981
Student services	20,924,011			20,924,011
Institutional support	26,826,301			26,826,301
Operations and maintenance of plant	9,104,805			9,104,805
Interest expense	2,799,438			2,799,438
Auxiliary enterprises	<u>9,949,169</u>			<u>9,949,169</u>
Total operating expenses excluding depreciation	<u>130,108,967</u>			<u>130,108,967</u>
Increase in net assets from operations before depreciation expense	1,044,899	149,106		1,194,005
Depreciation expense	<u>7,334,237</u>			<u>7,334,237</u>
Increase (decrease) in net assets from operations	<u>(6,289,338)</u>	<u>149,106</u>		<u>(6,140,232)</u>
Nonoperating:				
Contributions	742,023	886,843	822,846	2,451,712
Net loss and income on endowments, net of distributions	(880,486)	(5,877,889)		(6,758,375)
Net loss and income on other investments	23,853	3,211		27,064
Unrealized loss on interest rate swap	(5,459,366)			(5,459,366)
Write off construction in progress/loss on disposal of assets	(192,583)			(192,583)
Actuarial adjustments		(2,803)	(182,950)	(185,753)
Net assets released from restrictions	<u>948,349</u>	<u>(948,349)</u>		
Increase (decrease) from nonoperating activities	<u>(4,818,210)</u>	<u>(5,938,987)</u>	<u>639,896</u>	<u>(10,117,301)</u>
Change in net assets	(11,107,548)	(5,789,881)	639,896	(16,257,533)
Net assets, beginning of year	<u>94,927,136</u>	<u>45,212,696</u>	<u>99,420,021</u>	<u>239,559,853</u>
Net assets, end of year	<u>\$ 83,819,588</u>	<u>\$ 39,422,815</u>	<u>\$ 100,059,917</u>	<u>\$ 223,302,320</u>

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
 Statements of Cash Flows
 As of and for the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 13,376,070	\$ (16,257,533)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,401,111	7,334,237
Amortization of issuance costs	68,297	71,595
Actuarial adjustment of annuities payable	(219,799)	185,753
Net gain on investments and other assets	(21,903,628)	(803,880)
Noncash gifts received (stock)	(3,432,388)	(400,171)
(Gain) loss from interest rate swap	(5,780,695)	5,459,366
Changes in operating assets and liabilities:		
Student receivables, net	(136,219)	304,979
Contributions receivable	39,600	139,574
Accounts receivable - other	(464,472)	476,783
Prepaid expenses, and other assets	(367,613)	(584,018)
Accounts payable and accrued liabilities	3,089,051	410,924
Post retirement liability	1,700,339	1,118,352
Deferred revenue	(680,596)	(618,373)
Liabilities under trust agreements	491,111	15,167
Contributions restricted for plant and long-term investment	(8,329,808)	(2,451,712)
Net cash flows from operating activities	(15,149,639)	(5,598,957)
Cash flows from investing activities:		
Capital expenditures	(2,608,717)	(5,121,181)
Purchases of investments	(1,813,619)	(2,571,894)
Proceeds from sales of investments	11,502,591	7,772,272
Disbursement of loans to students	(244,337)	(365,623)
Repayments of loans from students	377,591	402,186
Net cash flows from investing activities	7,213,509	115,760
Cash flows from financing activities:		
Change in refundable government grants, net	(20,378)	11,375
Change in cash restricted for interest rate swap collateral	4,250,000	(4,930,000)
Borrowings on line of credit, net	(2,000,000)	5,000,000
Payments on long-term debt	(1,538,653)	(1,645,324)
Payments to annuitants	(137,456)	(133,187)
Increase in annuities payable from new gifts	20,015	144,245
Matured annuity	(52,629)	
Contributions received for plant and long-term investment	8,189,677	4,163,908
Net cash flows from financing activities	8,710,576	2,611,017
Change in cash and cash equivalents	774,446	(2,872,180)
Beginning cash and cash equivalents	-	2,872,180
Ending cash and cash equivalents	\$ 774,446	\$ -
Supplementary cash flow information:		
Cash paid for interest	\$ 2,675,189	\$ 2,726,069
Noncash investing and financing activities		
Construction in progress included in accounts payable	261,758	432,617

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(1) Nature of Organization

Saint Mary's College of California (the "College") is an independent Liberal Arts, Catholic, and Lasallian institution of higher education that is operated by the Brothers of the Christian Schools (Christian Brothers), the oldest religious order in the Catholic Church devoted exclusively to teaching. Chartered by the State of California in 1872 and operated continuously since that date, the College is among the oldest colleges in the West. The College grants associate, baccalaureate, and masters degrees in liberal arts, science, business administration, and education, including a doctorate in education. The College is classified as a Masters I (comprehensive) institution by the Carnegie Commission on Higher Education. Student headcount enrollment in fall 2016 and 2015 totaled 3,155 and 3,300 full-time and 753 and 730 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:

- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. The College's permanently restricted net assets are endowment funds invested to support scholarships and various academic programs.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that may or will be met by actions of the College and/or the passage of time. As of June 30, 2017 and 2016, \$46,807,282 and \$36,940,099 was restricted to operating activities and \$7,317,337 and \$2,482,716 was restricted to the acquisition of long-lived assets, respectively.
- *Unrestricted net assets* – Net assets not subject to donor-imposed restrictions.

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

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

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

(a) Temporarily Restricted Net Assets

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

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

(b) Asset Classification

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

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

(c) Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. For purposes of the statement of cash flows, the College considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) 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.

(e) Investments

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

Expendable investments, including designated unrestricted have been classified as current in the accompanying balance sheet.

(f) Student Receivables, Net

Student receivables are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts was \$171,000 as of June 30, 2017 and 2016, 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

As of and for the Years Ended June 30, 2017 and 2016

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

(g) *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 \$10,000 to \$50,000, 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.

(h) *Deferred Revenue*

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

(i) *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 from 4.0% - 7.1% 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, 2017 and 2016, the College's investment of the annuity reserve accounts is in compliance with these regulations. In addition, total assets recorded on the balance sheet related to these agreements totaled \$1 million and \$970 thousand for the years ended June 30, 2017 and 2016, respectively.

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 Postretirement Healthcare Plan. The College has delegated much of the plan administration to Emeriti Retirement Health Solutions. As of June 30, 2017, the liability under this plan was \$528,000 and is included in the liabilities under trust agreements on the balance sheet.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

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

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

Contributions of works of art, historical treasures, and similar assets held as part of a collection, for education, research, or public exhibition rather than for sale, are not recognized or capitalized. 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.

(k) 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.

(l) Federal and State Income Tax

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is exempt from federal and state income taxation on related sources of income. 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, 2017 and 2016. The College's tax returns are subject to review and examination by federal and state authorities.

(m) 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.

(n) 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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

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

(o) Tuition and Fees and Auxiliary Revenues

Tuition 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. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

(p) 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 unrestricted net assets. The asset retirement obligation is recorded as a noncurrent liability on the balance sheet. The estimated asset retirement obligation is determined annually at June 30 to reflect remediation efforts as well as to reflect updated costs for abatement.

(q) Voluntary Separation Incentive Program

The College, in 2017, offered a one-time voluntary separation incentive program to those individuals meeting certain age and years of service requirements. The cost of the program was \$6,208,052.

(r) New Accounting Pronouncements (continued)

The following Accounting Standards Updates have been issued, but are not, yet, effective:

- ASU 2014-09, *Revenue from Contracts with Customers* - ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early application permitted for fiscal years beginning after December 15, 2016.
- ASU 2016-02, *Leases* - ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted.
- ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* - ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.
- ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* - ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted.

The College is assessing the impact these standards will have on its financial statements.

(s) Subsequent Events Review

The College has evaluated subsequent events through September 28, 2017 which is the date that the financial statements were approved and available to be issued.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(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.

a) Assets

- Level 1 - Level 1 assets include investments in cash and short term equivalents, comprised primarily of money market funds; fixed income securities, comprised of US Treasury notes, mortgage backed securities, municipal and corporate bonds; U.S. and non-U.S equity securities that are actively traded, real estate funds and mutual funds.

b) Liabilities

- Level 2 - Level 2 liabilities include interest rate swap agreements 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, 2017 and 2016.

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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(3) Fair Value of Financial Instruments (continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Cash and short term equivalents	\$ 2,032,433	\$ 2,032,433	\$	\$
Fixed income securities	27,490,047	27,490,047		
U.S. equity securities	22,795,543	22,795,543		
Mutual funds	2,116,464	2,116,464		
Real estate funds	<u>12,864</u>	<u>12,864</u>		
Subtotal assets by valuation hierarchy	<u>54,447,351</u>	<u>\$ 54,447,351</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured using NAV				
Fixed income securities	17,815,281			
U.S. equity securities	32,898,025			
Non-U.S. equity securities	49,943,059			
Real estate investment trust	7,854,005			
Private equity	10,227,853			
Real estate funds	<u>9,916,777</u>			
Subtotal assets by NAV	<u>128,655,000</u>			
Total assets at fair value	<u>\$ 183,102,351</u>			
LIABILITIES				
Interest rate SWAP	<u>\$ 14,847,163</u>	<u>\$ -</u>	<u>\$ 14,847,163</u>	<u>\$ -</u>

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(3) Fair Value of Financial Instruments (continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Cash and short term equivalents	\$ 286,788	\$ 286,788	\$	\$
Fixed income securities	26,677,605	26,677,605		
U.S. equity securities	23,827,323	23,827,323		
Mutual funds	1,835,342	1,835,342		
Real estate funds	<u>12,015</u>	<u>12,015</u>		
Subtotal assets by valuation hierarchy	<u>52,639,073</u>	<u>\$ 52,639,073</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured using NAV				
Fixed income securities	16,115,911			
U.S. equity securities	27,502,308			
Non-U.S. equity securities	41,603,526			
Real estate investment trust	7,883,180			
Private equity	11,295,290			
Real estate funds	<u>10,078,967</u>			
Subtotal assets by NAV	<u>114,479,182</u>			
Total assets at fair value	<u>\$ 167,118,255</u>			
LIABILITIES				
Interest rate SWAP	<u>\$ 20,627,858</u>	<u>\$ -</u>	<u>\$ 20,627,858</u>	<u>\$ -</u>

Investment income and gains (losses) on the alternative investments totaled \$884,919 and \$(587,498) for the years ended June 30, 2017 and 2016, respectively.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(3) Fair Value of Financial Instruments (continued)

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.

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

	<u>Private Equity</u>	<u>Real Estate</u>
Fair value, June 30, 2016	\$11,295,290	\$10,078,967
Fair value, June 30, 2017	\$10,227,853	\$9,916,777
Significant investment strategy	Primarily buyout, Venture, and growth equity in US	US real estate
Remaining life	3 to 10 years	1 to 10 years
Dollar amount of unfunded commitments	\$3,802,304	\$132,645
Timing to draw down commitments	1 to 5 years	1 to 5 years
Redemption terms	N.A.	N.A.

(4) Investment Income

The following schedule summarizes the investment return during 2017 and 2016 and its classification on the statement of activities:

	<u>2017</u>	<u>2016</u>
Investment income, net of investment expenses of \$747,258 and \$743,658, respectively	\$ 3,065,832	\$ 2,754,513
Net gains (losses) on investments and other assets	<u>18,583,544</u>	<u>(2,072,017)</u>
Total return on investments	<u>\$ 21,649,376</u>	<u>\$ 682,496</u>
Operating		
Endowment income and realized gains distributed	\$ 7,525,537	\$ 7,413,807
Nonoperating		
Net gains (losses) and income on endowments, net of distributions	14,093,864	(6,758,375)
Net gains and income on other investments	<u>29,975</u>	<u>27,064</u>
Total return on investments	<u>\$ 21,649,376</u>	<u>\$ 682,496</u>

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(5) 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 are due to be collected as follows:

	2017	2016
Current, net of discount	\$ 635,271	\$ 674,871
Noncurrent		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	8,743,961	8,557,625
Endowment receivables, net of discount	726,738	772,943
Total noncurrent	9,470,699	9,330,568
	\$ 10,105,970	\$ 10,005,439
Gross amounts due in:		
Less than one year	\$ 4,632,890	
One to five years	5,732,295	
More than five years	154,785	
Total contributions receivable	10,519,970	
Less discount to present value	(414,000)	
	\$ 10,105,970	

Gross contributions receivable of \$5.9 million and \$7.1 million as of June 30, 2017 and 2016, respectively, were due from three and four donors respectively.

(6) Notes Receivable, Net

Notes receivable, net as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
Federal Perkins loan program	\$ 2,338,898	\$ 2,472,152
Less allowance for doubtful accounts	(585,000)	(585,000)
Student loans receivable, net	\$ 1,753,898	\$ 1,887,152

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 sheet for the net assets of this program refundable to the federal government. The Federal Perkins Loan Program notes which bear interest at 3% to 5% are payable over approximately 11 years.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(6) Notes Receivable, Net (continued)

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, 2017 and 2016, student loans represented approximately 0.5% of total assets.

Funds advanced by the Federal government of approximately \$1.7 million at June 30, 2017 and 2016 are ultimately refundable to the government and are classified as liabilities on the balance sheet.

At June 30, 2017 and 2016, the following amounts were past due under student loan programs:

June 30,	Amounts Past Due			
	1 - 60 days	60 - 90 days	90+ days	Total
2017	\$ 36,573	\$ 88,736	\$ 295,293	\$ 420,602
2016	71,255	95,180	282,951	449,386

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

Property, plant, and equipment, net as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
Land	\$ 1,336,000	\$ 1,336,000
Land improvements	17,170,846	17,170,846
Buildings and building improvements	206,656,637	203,295,876
Furniture, fixtures and equipment	20,354,915	20,065,287
Vehicles	1,200,734	1,259,037
Construction in progress	3,571,685	5,043,850
	250,290,817	248,170,896
Less accumulated depreciation	(118,923,885)	(111,770,218)
	\$ 131,366,932	\$ 136,400,678

(8) Note Payable to Bank

The College has two revolving lines of credit with Bank of America. One is in the amount of \$10 million for operating cash flow purposes and advances bear interest at the BBA LIBOR daily rate plus 1.14%. This line of credit is available through December 31, 2017. As of June 30, 2017 and 2016, the College had drawn \$3 million and \$5 million, respectively, on this line and had reserved \$730,000 as a Stand by Letter of Credit in support of the high deductible insurance program for the College's workers' compensation plan.

The second line of credit is in the amount of \$2 million for interest rate swap collateral purposes. Advances bear interest at the BBA LIBOR daily floating rate plus 1.14%. This line of credit is available through October 3, 2017. As of June 30, 2017 and 2016, the College had not drawn on this line.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(9) Long-Term Debt

Long-term debt as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
Note payable to bank - interest at the 360-day LIBOR plus 0.75% (2.475% as of June 30, 2017) due in annual payments of \$105,000 plus interest through February 1, 2020, secured by \$315 thousand contribution receivable	\$ 315,000	\$ 420,000
California Educational Facilities Authority 2007 Revenue Bonds - interest reset monthly (1.61% at June 30, 2017), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043	60,400,000	61,675,000
California Educational Facilities Authority 2007 Master Lease with option to purchase agreement - 3.94%, secured by underlying equipment, due through 2017		158,653
Principal outstanding on long-term debt	60,715,000	62,253,653
Bond issuance costs	(1,844,038)	(1,912,335)
Total long-term debt	58,870,962	60,341,318
Less current portion	(1,430,000)	(1,538,653)
	\$ 57,440,962	\$ 58,802,665

The College has a direct purchase agreement with Bank of America Public Capital Corporation for the CEFA 2007 bonds that have a maturity date of October 2, 2019. 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 calculation of debt service coverage ratio. The applicable spread as of June 30, 2017 was 0.90%, but is expected to decrease to 0.80% at the next adjustment date. The Bonds are secured by an unrestricted gross revenue pledge of the College. On or prior to the expiration of the current agreement, the College anticipates it would enter into a new direct purchase agreement, convert the bonds into another mode under the bond documents, or redeem the bonds with refunding debt.

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

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(9) Long-Term Debt (continued)

Aggregate future long-term debt principal payments as of June 30, 2017 are as follows:

Year Ending June 30:	
2018	\$ 1,430,000
2019	1,480,000
2020	1,530,000
2021	1,475,000
2022	1,525,000
Subsequent	<u>53,275,000</u>
	<u>\$ 60,715,000</u>

The CEFA Series 2007 bond agreements contain various covenants, which include maintenance of certain financial ratios, as defined in the agreements. The College was in compliance with all covenants as of June 30, 2017.

(10) 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, 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% on the then \$70,275,000 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 statement of activities. The valuations of the swap resulted in an unrealized gain of \$5,780,695 as of June 30, 2017 and an unrealized loss of \$5,459,366 as of June 30, 2016. The liability related to the interest rate swap agreement was \$14,847,163 and \$20,627,858 at June 30, 2017 and 2016, respectively, is reported on the balance sheet 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. The College is also required to post collateral if the swap agreement valuation exceeds a liability of \$5,000,000. At June 30, 2017 and 2016, the value of the collateral posted was \$10,790,000 and \$15,040,000, respectively.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(11) Retirement Plan and Postretirement Benefits

Retirement Plan - The College participates in the Teachers Insurance Annuity Association (TIAA) defined contribution retirement plans that cover substantially all full-time employees of the College. TIAA is a legal reserve life insurance and annuity company. Annual contributions, as determined by the Board of Trustees, were 8.25% of all eligible employees' wages and salaries for the years ended June 30, 2017 and 2016. Total College contributions were approximately \$4,926,000 and \$4,703,000 for the years ended June 30, 2017 and 2016, respectively.

Voluntary Employees Benefit Association Plan - Effective July 2007, the College joined Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under the IRC 501(c)(9). The Emeriti program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses. All benefit eligible faculty and staff, hired after June 30, 2007 over the age of 40 participate in the plan. Benefit eligible employees hired before July 1, 2007, had the opportunity to enroll in the Emeriti plan in lieu of the College's existing retirement health programs. The College contributes a monthly fixed amount to an employer VEBA investment account with TIAA for all plan participants and the total annual contribution to EMERITI was \$550,651 and \$548,921 for the years ended June 30, 2017 and 2016, respectively. Employees age 21 and above can also make post-tax contributions of any amount to an employee VEBA account. Employee contributions are immediately vested and contributions by the College are vested after five (5) years of continuous service. As of December 31, 2016, the plan assets totaled \$8,993,917. These assets consisted of \$8,593,779 of mutual funds and \$400,138 of money market funds. As of December 31, 2015, the plan assets totaled \$7,796,172. These assets consisted of \$7,562,742 of mutual funds and \$233,430 of money market funds.

Postretirement 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 postretirement 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.

During the year ended June 30, 2017, the percent of those participants in the Emeriti plan who are assumed to receive a lump sum payment was increased to 90% for all participants. This was partially offset by changing the graded retirement assumption to assuming 100% of all active retirees will retire at age 68. The effect on the ARBO related to the change in assumptions is reflected as a nonoperating loss in the statement of activities.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(11) Retirement Plan and Postretirement Benefits (continued)

The following sets forth the status of the Postretirement Healthcare Plan and the accumulated postretirement benefit of obligation (APBO) as of June 30, 2017 and 2016:

	2017	2016
Change in projected APBO		
Benefit obligation at July 1	\$ 5,686,200	\$ 4,567,848
Service cost	187,789	191,648
Interest cost	260,446	256,111
Actuarial loss	1,826,819	1,110,129
Prior service cost	797,522	
Benefits paid	(1,372,237)	(439,536)
 Total projected APBO at June 30	 \$ 7,386,539	 \$ 5,686,200
 Amounts recognized in the Balance Sheet:		
Current liabilities - Accounts payable and accrued liabilities	\$ 1,681,000	\$ 329,000
Non current liabilities	5,705,539	5,357,200
 Total projected APBO	 \$ 7,386,539	 \$ 5,686,200

The following sets forth the status of the plan as of June 30, 2017 and 2016:

	2017	2016
Accumulated postretirement benefit of obligation (APBO)		
Retirees	\$ 206,121	\$ 70,432
Active employees	7,180,418	5,615,768
 Total APBO	 \$ 7,386,539	 \$ 5,686,200

The components of net periodic postretirement benefit cost (NPPBC) for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Interest cost	\$ 260,446	\$ 256,111
Service cost	187,789	191,648
Amortization of unrecognized loss (ALG)	202,286	121,898
 Net periodic postretirement benefit expense	 \$ 650,521	 \$ 569,657

The actuarial loss yet to be recognized in the net periodic postretirement benefit cost as of June 30, 2017 and 2016 are \$3,715,040 and \$1,292,985, respectively.

The assumed healthcare cost trend rates range from a high of 7.33% in fiscal year end 2017 to a low of 4.65% by fiscal year end 2021. A one percentage point increase in the assumed healthcare cost trend rate for each year would increase the accumulated postretirement benefit obligation as of June 30, 2017 by approximately 19%, or \$1,406,163. A one percentage point decrease in the assumed healthcare cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of June 30, 2017 by approximately 17%, or \$1,229,712. The assumed discount rate used in determining the net periodic postretirement benefit cost, as well as the accumulated postretirement benefit obligation is 3.85% for 2017 and 4.45% for 2016.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(11) Retirement Plan and Postretirement Benefits (continued)

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

Year Ending June 30:		
2018	\$	1,681,000
2019		62,000
2020		56,000
2021		30,000
2022		5,000
2023 - 2027		<u>2,625,000</u>
	<u>\$</u>	<u>4,459,000</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.

(12) Expenses by Function

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

	<u>2017</u>	<u>2016</u>
Instruction	\$ 55,538,611	\$ 55,044,082
Academic support	11,987,464	12,584,049
Student services	23,642,260	23,825,894
Institutional support	26,022,762	26,172,868
Auxiliary enterprise	14,411,113	14,461,710
Fundraising	<u>5,437,309</u>	<u>5,354,601</u>
Expenses by function	<u>\$ 137,039,519</u>	<u>\$ 137,443,204</u>

(13) Related Party Transactions

As of June 30, 2017 and 2016, \$1,131,515 and \$1,050,000, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

(14) Commitments and Contingencies

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

SAINT MARY'S COLLEGE OF CALIFORNIA
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As of and for the Years Ended June 30, 2017 and 2016

(15) Endowments

General - The College's endowment consists of approximately 326 individual funds established for a variety of purposes. Its endowment includes true endowment funds, funds functioning as endowments, and board reserves. True endowment funds are subject to the donor restrictions on gift instruments. These restrictions require that the principal be invested in perpetuity and that only the income and gains may be utilized. Funds functioning as endowment have been established by the Board of Trustees to address the same requirements of endowment funds. Board reserves have been established by the Board of Trustees as long-term reserves for operations. Funds functioning as endowment and board reserves differ from true endowment funds because any portion of these funds may be expended. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments or board reserves, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment investments are recorded at market value of \$177,831,000 and \$164,222,000 for the years ended June 30, 2017 and 2016, respectively. The total return on all investments held by the endowment funds, on a market basis, was 13.53% and 0.42% for the years ended June 30, 2017 and 2016, 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% 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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(15) Endowments (continued)

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 1 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. The amounts by which certain individual endowment funds have fallen below such recorded values were \$65,145 and \$396,657 as of June 30, 2017 and 2016, respectively. These differences resulted from unfavorable market fluctuations that occurred after the investment of new contributions to endowment funds and continued appropriation for certain programs that was 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% of original gift values.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(15) Endowments (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ (65,145)	\$ 42,259,108	\$ 103,096,253	\$ 145,290,216
Board-designated funds	<u>31,590,903</u>	<u> </u>	<u> </u>	<u>31,590,903</u>
Total funds	<u>\$ 31,525,758</u>	<u>\$ 42,259,108</u>	<u>\$ 103,096,253</u>	<u>\$ 176,881,119</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 29,801,132	\$ 32,480,927	\$ 99,977,996	\$ 162,260,055
Investment return:				
Investment income	1,431,226	1,604,632		3,035,858
Net appreciation (realized and unrealized)	<u>5,200,959</u>	<u>13,382,585</u>	<u> </u>	<u>18,583,544</u>
Total investment return	<u>6,632,185</u>	<u>14,987,217</u>	<u> </u>	<u>21,619,402</u>
Appropriation of endowment assets for expenditure:				
Operating	(2,316,501)	(5,209,036)		(7,525,537)
Nonoperating	(217,149)			(217,149)
Voluntary separation incentive program spending	(2,500,000)			(2,500,000)
Gifts	126,091		2,905,973	3,032,064
Actuarial adjustments on deferred gifts	<u> </u>	<u> </u>	<u>212,284</u>	<u>212,284</u>
Endowment net assets, end of year	<u>\$ 31,525,758</u>	<u>\$ 42,259,108</u>	<u>\$ 103,096,253</u>	<u>\$ 176,881,119</u>

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2017 and 2016

(15) Endowments (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ (396,657)	\$ 32,480,927	\$ 99,977,996	\$ 132,062,267
Board-designated funds	<u>30,197,789</u>	<u> </u>	<u> </u>	<u>30,197,789</u>
Total funds	<u>\$ 29,801,132</u>	<u>\$ 32,480,927</u>	<u>\$ 99,977,996</u>	<u>\$ 162,260,055</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 29,940,605	\$ 38,539,167	\$ 99,324,935	\$ 167,804,707
Investment return:				
Investment income	1,274,497	1,430,688		2,705,185
Net appreciation (depreciation) (realized and unrealized)	<u>439,823</u>	<u>(2,489,576)</u>	<u> </u>	<u>(2,049,753)</u>
Total investment return	<u>1,714,320</u>	<u>(1,058,888)</u>	<u> </u>	<u>655,432</u>
Appropriation of endowment assets for expenditure:				
Operating	(2,414,455)	(4,999,352)		(7,413,807)
Nonoperating	(180,351)			(180,351)
Gifts	741,013		822,846	1,563,859
Actuarial adjustments on deferred gifts	<u> </u>	<u> </u>	<u>(169,785)</u>	<u>(169,785)</u>
Endowment net assets, end of year	<u>\$ 29,801,132</u>	<u>\$ 32,480,927</u>	<u>\$ 99,977,996</u>	<u>\$ 162,260,055</u>

SAINT MARY'S COLLEGE OF CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER		
U.S. Department of Education		
Federal Pell Grant Program	84.063	\$ 2,910,916
Federal Supplemental Educational Opportunity Grants	84.007	233,049
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	37,426
Federal Work-Study Program	84.033	466,967
Federal Perkins Loans	84.038	2,769,424
Federal Direct Student Loans	84.268	<u>39,163,496</u>
Total Student Financial Assistance Cluster		<u>45,581,278</u>
TRIO PROGRAM CLUSTER		
U.S. Department of Education		
TRIO - Student Support Services	84.042	<u>238,400</u>
Total TRIO Program Cluster		<u>238,400</u>
RESEARCH AND DEVELOPMENT CLUSTER		
National Science Foundation		
Education and Human Resources	47.076	<u>130,250</u>
Total Research and Development Cluster		<u>130,250</u>
OTHER PROGRAMS		
U.S. Department of Education		
Higher Education - Institutional Aid	84.031	<u>231,491</u>
Total U.S. Department of Education		<u>231,491</u>
Corporation for National and Community Service		
AmeriCorps	94.006	67,793
Volunteers in Service to America	94.013	<u>24,000</u>
Total Corporation for National and Community Service		<u>91,793</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 46,273,212</u>

See accompanying notes to the schedule of expenditures of federal awards.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (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, 2017. 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 Saint Mary's College of California, it is not intended to and does not present the financial position, changes in net assets or cash flows of Saint Mary's College of California.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Budget and Management Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

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

NOTE 4 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by Saint Mary's College of California, and balances and transactions relating to this program are included in Saint Mary's College of California'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 made during the year ended June 30, 2017 totaled \$244,337. Federal Perkins loans outstanding at June 30, 2017 totaled \$2,338,898.

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
Saint Mary's College of California
Moraga, 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, the financial statements of Saint Mary's College of California (the "College"), which comprise the balance sheet as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2017.

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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 28, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for the Major Federal Program

We have audited Saint Mary's College of California's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2017. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on the Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 Virchow Krause, LLP

Minneapolis, Minnesota
February 15, 2018

SAINT MARY'S COLLEGE OF CALIFORNIA
 Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	No
Identification of major programs:	
CFDA	
<u>Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SAINT MARY'S COLLEGE OF CALIFORNIA
Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

The previous audit of the Federal Award Programs was for the year ended June 30, 2016. There were no findings or questioned costs noted during that audit.