

**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, 2019

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, 2019 and 2018, and the related statements of activities, cash flows for the years then ended and functional expenses for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2019 and 2018, 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 Matters

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 30, 2019 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 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 Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2019

SAINT MARY'S COLLEGE OF CALIFORNIA

Balance Sheets

As of June 30, 2019 and 2018

(Dollars in thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 2,513	\$ 2,959
Investments (note 3)	7,556	6,588
Student receivables, net	913	966
Contributions receivable, net (note 4)	2,181	1,398
Accounts receivable - other	2,024	2,244
Prepaid expenses, and other	<u>1,960</u>	<u>2,781</u>
Total current assets	<u>17,147</u>	<u>16,936</u>
Noncurrent assets:		
Investments (note 3)	195,794	190,227
Contributions receivable, net (note 4)	6,665	7,501
Notes receivable, net (note 5)	1,486	1,860
Other assets	390	376
Property, plant and equipment, net of accumulated depreciation (note 6)	<u>128,319</u>	<u>129,300</u>
Total noncurrent assets	<u>332,654</u>	<u>329,264</u>
Total assets	<u>\$ 349,801</u>	<u>\$ 346,200</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,649	\$ 10,323
Interest rate swap liability (note 9)	15,057	11,754
Current portion of long-term debt (note 8)	1,530	1,480
Deferred revenue	<u>5,839</u>	<u>5,984</u>
Total current liabilities	<u>31,075</u>	<u>29,541</u>
Noncurrent liabilities:		
Liabilities under trust agreements (note 2 (i))	2,113	2,025
Long-term debt, excluding current portion, net (note 8)	54,568	56,029
Post retirement benefits payable (note 10)	2,740	4,751
Asset retirement obligations (note 2(p))	2,586	2,690
Federal government grants refundable (note 5)	<u>1,676</u>	<u>1,641</u>
Total noncurrent liabilities	<u>63,683</u>	<u>67,136</u>
Total liabilities	<u>94,758</u>	<u>96,677</u>
Net assets:		
Without donor restrictions	97,955	97,255
With donor restrictions		
Time or purpose	17,015	12,509
Endowment returns subject to future appropriation	33,598	35,282
Perpetual	<u>106,475</u>	<u>104,477</u>
Total net assets	<u>255,043</u>	<u>249,523</u>
Total liabilities and net assets	<u>\$ 349,801</u>	<u>\$ 346,200</u>

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2019

With Comparative Totals for 2018

(Dollars in thousands)

	2019			2018 Totals
	Without donor restrictions	With donor restrictions	Totals	
Operating:				
Revenues and gains:				
Tuition and fees	\$ 149,210	\$	\$ 149,210	\$ 145,515
Less financial aid	(59,179)		(59,179)	(56,395)
Net tuition and fees	90,031		90,031	89,120
Sales and services of auxiliary enterprises	24,550		24,550	24,325
Grant and contract revenue	1,832		1,832	1,677
Contributions	2,267	3,427	5,694	5,776
Endowment income and realized gains distributed	8,366		8,366	8,315
Investment Income	158	14	172	127
Other	3,945	999	4,944	4,013
Total operating revenues and gains	131,149	4,440	135,589	133,353
Net assets released from restrictions	2,924	(2,924)		
Total operating revenue, gains, and other support	134,073	1,516	135,589	133,353
Expenses:				
Instruction	47,218		47,218	47,554
Academic support	10,337		10,337	10,066
Student services	23,394		23,394	21,932
Institutional support	23,269		23,269	24,443
Operations and maintenance of plant	8,633		8,633	7,485
Interest expense	2,641		2,641	2,686
Auxiliary enterprises	10,818		10,818	10,468
Total operating expenses excluding depreciation	126,310		126,310	124,634
Increase in net assets from operations before depreciation expense	7,763	1,516	9,279	8,719
Depreciation expense	7,071		7,071	7,344
Increase (decrease) in net assets from operations	692	1,516	2,208	1,375
Nonoperating:				
Contributions	164	7,022	7,186	5,899
Net (loss) gain and income on endowments, net of distributions	(4,614)	3,820	(794)	2,338
Net gain and income on other investments	50	144	194	63
Unrealized (loss) gain on interest rate swap	(3,303)		(3,303)	3,093
Actuarial adjustments		29	29	77
Net assets released from restrictions	7,711	(7,711)		
Increase from nonoperating activities	8	3,304	3,312	11,470
Change in net assets	700	4,820	5,520	12,845
Net assets, beginning of year	97,255	152,268	249,523	236,678
Net assets, end of year	\$ 97,955	\$ 157,088	\$ 255,043	\$ 249,523

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2018

(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Operating:			
Revenues and gains:			
Tuition and fees	\$ 145,515	\$	\$ 145,515
Less financial aid	(56,395)		(56,395)
Net tuition and fees	89,120		89,120
Sales and services of auxiliary enterprises	24,325		24,325
Grant and contract revenue	1,677		1,677
Contributions	2,914	2,862	5,776
Endowment income and realized gains distributed	8,315		8,315
Investment Income	116	11	127
Other	3,210	803	4,013
Total operating revenues and gains	129,677	3,676	133,353
Net assets released from restrictions	11,342	(11,342)	
Total operating revenue, gains, and other support	141,019	(7,666)	133,353
Expenses:			
Instruction	47,554		47,554
Academic support	10,066		10,066
Student services	21,932		21,932
Institutional support	24,443		24,443
Operations and maintenance of plant	7,485		7,485
Interest expense	2,686		2,686
Auxiliary enterprises	10,468		10,468
Total operating expenses excluding depreciation	124,634		124,634
Increase in net assets from operations before depreciation expense	16,385	(7,666)	8,719
Depreciation expense	7,344		7,344
Decrease in net assets from operations	9,041	(7,666)	1,375
Nonoperating:			
Contributions	1,040	4,859	5,899
Net gain (loss) and income on endowments, net of distributions	(3,825)	6,163	2,338
Net gain and income on other investments	18	45	63
Unrealized gain (loss) on interest rate swap	3,093		3,093
Actuarial adjustments	(1)	78	77
Net assets released from restrictions	8,519	(8,519)	
Increase (decrease) from nonoperating activities	8,844	2,626	11,470
Change in net assets	17,885	(5,040)	12,845
Net assets, beginning of year	79,370	157,308	236,678
Net assets, end of year	\$ 97,255	\$ 152,268	\$ 249,523

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018
(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 5,520	\$ 12,845
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,071	7,344
Amortization of issuance costs	68	68
Actuarial adjustment of annuities payable	29	(59)
Net gain on investments and other assets	(7,942)	(10,927)
Noncash gifts received (stock)	(4,730)	(5,379)
Loss (gain) from interest rate swap	3,303	(3,093)
(Gain) loss on sale of property, plant, and equipment, net	59	
Changes in operating assets and liabilities:		
Student receivables, net	53	(45)
Contributions receivable, net	(782)	(763)
Accounts receivable - other	220	(877)
Prepaid expenses, and other assets	806	97
Accounts payable and accrued liabilities	(447)	(3,400)
Post retirement liability	(2,184)	(1,055)
Deferred revenue	(145)	708
Liabilities under trust agreements	(28)	(249)
Contributions restricted for plant and long-term investment	(7,186)	(5,898)
Net cash flows from operating activities	(6,315)	(10,683)
Cash flows from investing activities:		
Capital expenditures	(7,320)	(3,857)
Proceeds from sale of property, plant and equipment	14	
Purchases of investments	(49,167)	(8,311)
Proceeds from sales of investments	55,430	11,094
Disbursement of loans to students		(485)
Repayments of loans from students	374	379
Net cash flows from investing activities	(669)	(1,180)
Cash flows from financing activities:		
Change in refundable government grants, net	35	(59)
Change in cash restricted for interest rate swap collateral		10,790
Payments on line of credit		(3,000)
Payments on long-term debt	(1,480)	(1,430)
Payments to annuitants	(138)	(132)
Increase in annuities payable from new gifts	99	29
Matured annuity		(18)
Contributions received for plant and long-term investment	8,022	7,868
Net cash flows from financing activities	6,538	14,048
Change in cash and cash equivalents	(446)	2,185
Beginning cash and cash equivalents	2,959	774
Ending cash and cash equivalents	\$ 2,513	\$ 2,959
Supplementary cash flow information:		
Cash paid for interest	\$ 2,595	\$ 2,629
Noncash investing and financing activities		
Construction in progress included in accounts payable	525	1,683

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
Statement of Functional Expenses
For the Year Ended June 30, 2019
(Dollars in thousands)

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

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
(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 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 2018 and 2017 totaled 3,196 and 3,210 full-time and 685 and 703 part-time students, respectively.

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

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

Net assets and changes therein are classified as follows:

- *With donor restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time or that are to be permanently maintained by the College. The College's net assets held in perpetuity are endowment funds invested to support scholarships and various academic programs.
- *Without donor restrictions* – Net assets not subject to donor-imposed restrictions that are available for use in general operations, board designated quasi endowments or invested in property, plant and equipment.

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is limited by explicit donor restriction or by law. Expiration of donor restrictions (i.e., the donor restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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, 2019 and 2018
(Dollars in thousands)

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

(a) Net Assets With Donor Restrictions

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

Contributions of property, plant, and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as donor restricted revenues. The restrictions are considered to be released when the asset is placed in service, unless stipulated otherwise by the donor, as the asset is constructed 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 investments without donor restrictions 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 as of June 30, 2019 and 2018, 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, 2019 and 2018
(Dollars in thousands)

(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 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.

(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, 2019 and 2018, 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 for the years ended June 30, 2019 and 2018.

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, 2019 and 2018, the liability under this plan was \$654 and \$590, respectively, and is included in the liabilities under trust agreements on the balance sheet.

(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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
(Dollars in thousands)

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

(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, 2019 and 2018. 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.

As of June 30, 2019 and 2018, the College had investments of \$87,803 and \$114,755, which were concentrated in three and five funds, respectively.

(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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
(Dollars in thousands)

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

(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 net assets without donor restrictions. 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) Expenses by Function

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

(r) New Accounting Pronouncements

The following Accounting Standards Updates (ASU) 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.
- ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* – ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 and is intended to be adopted concurrently with ASU 2014-09.
- ASU 2016-02, *Leases* – ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, 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.

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

The following Accounting Standards Update was adopted in the current year:

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The College adopted the provisions of this new standard during the year ended June 30, 2019. The primary changes include presenting two classes of net assets versus the three categories previously required and recognition of underwater endowment funds as a reduction to their respective net asset classification. The standard also provides for enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and availability of resources, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
(Dollars in thousands)

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

(s) Subsequent Events Review

The College has evaluated subsequent events through September 30, 2019, 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.

a) Assets

Level 1 - 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 - Level 2 assets include investments in fixed income securities, comprised of US Treasury notes and municipal and corporate bonds.

b) Liabilities

Level 2 - 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.

SAINT MARY'S COLLEGE OF CALIFORNIA
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(3) Fair Value of Financial Instruments (continued)

There have been no changes in the techniques and inputs used as of June 30, 2019 and 2018.

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.

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Short-term investments	\$ 11,848	\$ 11,848		\$
Fixed income securities	22,158	834	\$ 21,324	
U.S. equity securities	68,471	68,471		
Non-U.S. equity securities	33,514	33,514		
Mutual funds	9,308	9,308		
Real estate funds	<u>12,342</u>	<u>12,342</u>		
Subtotal assets by valuation hierarchy	<u>157,641</u>	<u>\$ 136,317</u>	<u>\$ 21,324</u>	<u>-</u>
Investments measured using NAV				
Non-U.S. equity securities	23,337			
Private equity	11,361			
Real estate funds	401			
Subtotal assets by NAV	<u>35,099</u>			
Total investments at fair value	192,740			
Total investments at cost	<u>10,610</u>			
Total investments	<u>\$ 203,350</u>			
LIABILITIES				
Interest rate SWAP	<u>\$ 15,057</u>	<u>\$ -</u>	<u>\$ 15,057</u>	<u>\$ -</u>

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(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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Short-term investments	\$ 11,445	\$ 11,445		\$
Fixed income securities	20,579	714	\$ 19,865	
U.S. equity securities	51,276	51,276		
Non-U.S. equity securities	43,483	43,483		
Mutual funds	16,844	16,844		
Real estate funds	<u>10,591</u>	<u>10,591</u>		
Subtotal assets by valuation hierarchy	<u>154,218</u>	<u>\$ 134,353</u>	<u>\$ 19,865</u>	<u>\$ -</u>
Investments measured using NAV				
Non-U.S. equity securities	24,018			
Private equity	10,431			
Real estate funds	<u>1,772</u>			
Subtotal assets by NAV	<u>36,221</u>			
Total investments at fair value	190,439			
Total investments at cost	<u>6,376</u>			
Total investments	<u>\$ 196,815</u>			
LIABILITIES				
Interest rate SWAP	<u>\$ 11,754</u>	<u>\$ -</u>	<u>\$ 11,754</u>	<u>\$ -</u>

Investment income and gains on the investments measured using NAV totaled \$524 and \$8,942 for the years ended June 30, 2019 and 2018, respectively.

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(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 non-U.S. equity securities and real estate investment trusts 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, 2018	\$10,431	\$1,772
Fair value, June 30, 2019	\$11,361	\$401
Significant investment strategy	Primarily buyout, Venture, and growth equity in US	US real estate
Remaining life	3 to 8 years	1 to 3 years
Dollar amount of unfunded commitments	\$2,551	N.A.
Timing to draw down commitments	1 to 5 years	N.A.
Redemption terms	N.A.	N.A.

SAINT MARY'S COLLEGE OF CALIFORNIA
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(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:

	2019	2018
Current, net of discount	\$ 2,181	\$ 1,398
Noncurrent		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	5,709	6,545
Endowment receivables, net of discount	956	956
Total noncurrent	6,665	7,501
	\$ 8,846	\$ 8,899
Gross amounts due in:		
Less than one year	\$ 4,766	
One to five years	5,129	
More than five years	35	
Total contributions receivable	9,930	
Less allowance for uncollectible accounts	(750)	
Less discount to present value	(334)	
	\$ 8,846	

Gross contributions receivable of \$5.4 million and \$3.0 million as of June 30, 2019 and 2018, respectively, were due from one donor.

(5) Notes Receivable, Net

Notes receivable, net as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Federal Perkins loan program	\$ 2,071	\$ 2,445
Less allowance for doubtful accounts	(585)	(585)
Student loans receivable, net	\$ 1,486	\$ 1,860

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, 2019 and 2018
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(5) Notes Receivable, Net (continued)

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. As of June 30, 2019, 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, 2019 and 2018, student loans represented approximately .5% of total assets.

Funds advanced by the Federal government of approximately \$1.7 million at June 30, 2019 and 2018 are ultimately refundable to the government and are classified as liabilities on the balance sheet.

At June 30, 2019 and 2018, the following amounts were past due under student loan programs:

June 30,	Amounts Past Due			
	1 - 60 days	60 - 90 days	90+ days	Total
2019	\$ 32	\$ 46	\$ 412	\$ 490
2018	86	141	325	552

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

Property, plant, and equipment, net as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Land	\$ 1,336	\$ 1,336
Land improvements	17,831	17,206
Buildings and building improvements	215,386	206,864
Furniture, fixtures and equipment	19,283	18,367
Vehicles	977	1,072
Construction in progress	1,962	7,320
	256,775	252,165
Less accumulated depreciation	(128,456)	(122,865)
	\$ 128,319	\$ 129,300

SAINT MARY'S COLLEGE OF CALIFORNIA
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(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 1.14%. This line of credit is available through December 31, 2019. As of June 30, 2019 and June 30, 2018, the College had not drawn on the line. At June 30, 2019 and 2018, the College had reserved \$730 as a Stand by Letter of Credit in support of the high deductible insurance program for the College's workers' compensation plan.

(8) Long-Term Debt, net

Long-term debt as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Note payable to bank - interest at the 360-day LIBOR plus 0.75% (3.77% as of June 30, 2019) due in annual payments of \$105 plus interest through February 1, 2020, secured by a \$105 contribution receivable.	\$ 105	\$ 210
California Educational Facilities Authority 2007 Revenue Bonds - interest reset monthly (2.44% at June 30, 2019), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043.	57,700	59,075
Principal outstanding on long-term debt	57,805	59,285
Bond issuance costs	(1,707)	(1,776)
Total long-term debt, net	56,098	57,509
Less current portion	(1,530)	\$ (1,480)
	\$ 54,568	\$ 56,029

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, 2019. The College is in the process of renewing the current agreement with similar terms, whereby the direct purchase agreement will expire five years from the anticipated closing date of September 30, 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 College's Moody's rating. The applicable spread as of June 30, 2019 was .80%. 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.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
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(8) Long-Term Debt, Net (continued)

Aggregate future long-term debt principal payments as of June 30, 2019 are as follows:

Year Ending June 30:		
2020	\$	1,530
2021		1,475
2022		1,525
2023		1,600
2024		1,650
Subsequent		<u>50,025</u>
	<u>\$</u>	<u>57,805</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, 2019.

(9) 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 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 loss of \$3,303 and a gain of \$3,093 as of June 30, 2019 and 2018, respectively. The liability related to the interest rate swap agreement was \$15,057 and \$11,754 at June 30, 2019 and 2018, 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. 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, 2019, and June 30, 2018, the value of the collateral posted was \$12,800 and \$9,390 respectively and is included in noncurrent investments on the balance sheet.

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

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(10) Retirement Plan and Post-Retirement Benefits

Retirement Plan - The College participates in the Teachers Insurance Annuity Association (TIAA) defined contribution retirement plans that cover substantially all full-time employees of the College. TIAA is a legal reserve life insurance and annuity company. Annual contributions, as determined by the Board of Trustees, were 6.25% of all eligible employees' wages and salaries for the years ended June 30, 2019 and 2018. Total College contributions were approximately \$3,774 and \$3,514 for the years ended June 30, 2019 and 2018, 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 \$509 and \$515 for the years ended June 30, 2019 and 2018, 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, 2018, the plan assets totaled \$10,897. These assets consisted of \$10,071 of mutual funds and \$826 of money market funds. As of December 31, 2017, the plan assets totaled \$11,391. These assets consisted of \$10,665 of mutual funds and \$726 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.

SAINT MARY'S COLLEGE OF CALIFORNIA
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(10) Retirement Plan and Post-Retirement Benefits (continued)

The following sets forth the status of the Post-Retirement Healthcare Plan and the accumulated post-retirement benefit obligation (APBO) as of June 30, 2019 and 2018:

	2019	2018
Change in projected APBO		
Benefit obligation at July 1	\$ 6,332	\$ 7,387
Service cost	81	162
Interest cost	185	295
Actuarial (gain) loss	(1,984)	(495)
Benefits paid	(466)	(1,017)
Total projected APBO at June 30	\$ 4,148	\$ 6,332
Amounts recognized in the Balance Sheet:		
Current liabilities - Accounts payable and accrued liabilities	\$ 1,408	\$ 1,581
Non current liabilities	2,740	4,751
Total projected APBO	\$ 4,148	\$ 6,332

The following sets forth the status of the plan as of June 30, 2019 and 2018:

	2019	2018
Accumulated post-retirement benefit of obligation (APBO)		
Retirees	\$ 79	\$ 143
Active employees	4,069	6,189
Total APBO	\$ 4,148	\$ 6,332

The components of net periodic post-retirement benefit cost (NPPBC) for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Interest cost	\$ 185	\$ 295
Service cost	81	162
Amortization of unrecognized loss (ALG)	1	245
Amortization of unrecognized prior service cost	80	80
Net periodic post-retirement benefit expense	\$ 347	\$ 782

The actuarial losses yet to be recognized in the net periodic post-retirement benefit cost as of June 30, 2019 and 2018 are \$831 and \$2,896 , respectively.

The assumed healthcare cost trend rates range from a high of 7.33% in fiscal year end 2019 to a low of 4.65% by fiscal year end 2023. 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, 2019 by approximately 21%, or \$1,104. 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, 2019 by approximately 23%, or \$(960). The assumed discount rate used in determining the net periodic post-retirement benefit cost, as well as the accumulated post-retirement benefit obligation is 3.7% for 2019 and 4.0% for 2018.

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Notes to Financial Statements

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(10) Retirement Plan and Post-Retirement Benefits (continued)

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

Year Ending June 30:		
2020	\$	1,408
2021		28
2022		5
Thereafter		<u>1,431</u>
	\$	<u>2,872</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, 2019 and 2018, \$478 and \$813, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

(12) 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.

(13) Endowments

General - The College's endowment consists of 332 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 \$181,307 and \$180,474 for the years ended June 30, 2019 and 2018, respectively. The total return on all investments held by the endowment funds, on a market basis, was 4.7%% and 6.0% for the years ended June 30, 2019 and 2018, respectively.

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(13) Endowments (continued)

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.

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(13) Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (cont.) - In the fiscal year ended June 30, 2018, the Board appropriated \$8,900 of accumulated earnings on various scholarship endowments to provide need-based scholarships. This resulted in a surplus from operations and the Board designated \$9,900 as an addition to Quasi Endowment Funds.

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. These differences resulted from unfavorable market fluctuations that may occur after the investment of new contributions to endowment funds and continued appropriation for certain programs that is deemed prudent by the Board of Trustees.

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

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(13) Endowments (continued)

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

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

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

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

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(13) Endowments (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions			Total June 30, 2018
		Original Gift	Accumulated Gains	Total	
Board-designated endowment fund	\$ 40,386				\$ 40,386
Donor-restricted endowment funds		\$ 104,391	\$ 35,182	\$ 139,573	\$ 139,573
Total endowment net assets	<u>\$ 40,386</u>	<u>\$ 104,391</u>	<u>\$ 35,182</u>	<u>\$ 139,573</u>	<u>\$ 179,959</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 31,526	\$ 145,355	\$ 176,881
Investment returns	4,490	6,163	10,653
Appropriation of endowment assets for expenditure:			
Operating	(3,940)	(4,375)	(8,315)
Nonoperating	(209)		(209)
Voluntary separation incentive program spending	(2,500)		(2,500)
Transfer of excess earnings	9,970		9,970
Financial Aid		(8,865)	(8,865)
Gifts	1,050	1,216	2,266
Actuarial adjustments on deferred gifts	(1)	79	78
Endowment net assets, end of year	<u>\$ 40,386</u>	<u>\$ 139,573</u>	<u>\$ 179,959</u>

SAINT MARY'S COLLEGE OF CALIFORNIA
Notes to Financial Statements

As of and for the Years Ended June 30, 2019 and 2018
(Dollars in thousands)

(14) Liquidity and Availability

The following reflects the College's financial assets as of the balance sheet 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.

	2019	2018
Financial assets, at year-end	\$ 221,092	\$ 216,524
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(153,000)	(148,286)
Subject to appropriation and satisfaction of donor restrictions		
Contributions, Notes, and accounts receivable collectible beyond one year	(9,758)	(9,781)
Investments held in required reserve for SWAP, included in quasi-endowment fund	(12,800)	(10,790)
Investments held in annuity trust	(2,970)	(2,798)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(28,497)	(29,596)
Subsequent year appropriation of endowment earnings	8,957	8,590
Financial assets available to meet cash needs for general expenditures within one year	\$ 23,024	\$ 23,863

The College seeks to maintain financial assets on hand to meet 60 - 90 days of normal operating expenses, which is approximately \$22,000 - \$33,000. 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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

Federal Grantor/ Program Title or Cluster	Federal CFDA Number	Pass- Through Entity	Pass-Through Entity Identification Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER				
U.S. Department of Education Federal Pell Grant Program	84.063			\$ 3,035,326
Federal Supplemental Educational Opportunity Grants Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.007			318,533
Federal Work-Study Program	84.379			12,144
Federal Perkins Loans	84.033			599,007
Federal Direct Student Loans	84.038			2,445,120
	84.268			36,756,891
Total Student Financial Assistance Cluster				<u>43,167,021</u>
TRIO PROGRAM CLUSTER				
U.S. Department of Education TRIO - Student Support Services	84.042			229,855
Total TRIO Program Cluster				<u>229,855</u>
RESEARCH AND DEVELOPMENT CLUSTER				
National Science Foundation Education and Human Resources	47.076			160,551
Total Research and Development Cluster				<u>160,551</u>
OTHER PROGRAMS				
U.S. Department of Education Higher Education Institutional Aid	84.031			503,839
Total U.S. Department of Education				<u>503,839</u>
The Corporation for National and Community Service AmeriCorps	94.006			70,177
Volunteers in Service to America	94.013			24,000
Total Corporation for National and Community Service				<u>94,177</u>
The National Endowment for the Humanities Promotion of the Humanities Challenge Grants	45.130			8,524
Total National Endowment for the Humanities				<u>8,524</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 44,163,967</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, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes federal award activity of Saint Mary's College of California under programs of the federal government for the year ended June 30, 2019. 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 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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

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

NOTE 4 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program 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 outstanding at June 30, 2019 totaled \$2,070,978.

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, 2019, and the related statements of activities, cash flows for the years then ended and functional expenses for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2019.

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 30, 2019

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, 2019. 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, 2019.

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 2019-001 and 2019-002. Our opinion on the major federal program is not modified with respect to these matters.

College's Responses to Findings

The College's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiency.

College's Response to Finding

The College's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
September 30, 2019

SAINT MARY'S COLLEGE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

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?	Yes
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?	Yes
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.

SAINT MARY'S COLLEGE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-001: Significant Deficiency - Return of Title IV Funds

Federal Program - Federal Direct Student Loans

Federal Agency - U.S. Department of Education

Pass-Through Entity - Not Applicable

CFDA Number - 84.268

Federal Award Number - P268K191186, P268K181186

Federal Award Year - June 30, 2019

Repeat of prior year finding 2018-001

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: The federal aid for 3 of 12 students was not returned within 45 days from the date of withdrawal. For 1 of 12 students the federal aid refund was not calculated correctly and resulted in the College refunding incorrect amounts to the Title IV program.

The sample was not a statistically valid sample.

Questioned Costs: A total of \$2,858 that was not properly refunded for one student tested. Additionally, amounts of \$27,216 were refunded late for three students tested.

Cause: Corrective action was put into place during 2019. However, given the timing of the notification of the prior year finding, the fiscal year was already underway. Therefore, corrective action was not implemented until mid-way through 2019. As such, the College's updated procedures for the return of Title IV funds were not followed consistently throughout the period.

Effect: The College was 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 thorough review process, to ensure the proper number of days in each term are used and mathematical errors are identified.

Management's Response: Management acknowledges the finding. As a result of the late implementation of improved procedures, the College performed a full review of the entire population of students who withdrew in the fall 2018 semester and made all necessary adjustments and remittances. Additional review procedures have been developed to ensure timely and accurate review of withdrawals and refund calculations.

SAINT MARY'S COLLEGE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONT.)

Finding 2019-002: Student Status Changes

Federal Program - Federal Direct Student Loans

Federal Agency - U.S. Department of Education

Pass-Through Entity - Not applicable

CFDA Number - 84.268

Federal Award Numbers - P268K191186, P268K181186

Award Year - June 30, 2019

Repeat of prior year finding 2018-002

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.

Condition: The change in student status for 2 of 25 students tested was not reported timely and/or accurately to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days.

The sample was not a statistically valid sample.

Questioned Costs: Not applicable.

Context: Not applicable.

Cause: Corrective action was put into place during 2019. However, given the timing of the notification of the prior year finding, the fiscal year was already underway. Therefore, corrective action was not implemented until mid-way through 2019. As such, the College failed to follow its updated procedures for reporting student status changes consistently throughout the period.

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.

Recommendation: It is recommended that policies and procedures are reviewed and adhered to with regards to ensuring student status changes are made in a timely manner.

Management's Response: Management acknowledges the finding. Policies and procedures have been modified to ensure issues with reporting to the clearinghouse are identified and corrected in a timely manner.

SAINT MARY'S COLLEGE OF CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2019

Finding 2018-001: Significant Deficiency - Return of Title IV Funds

The federal aid refunds for three of the students tested were not calculated correctly and resulted in the College refunding incorrect amounts to the Title IV programs.

Action Taken: In order to ensure that complete and accurate R2T4 (Return of Title IV) calculations are made, the Office of Financial Aid Services updated its institutional procedures for processing R2T4. The review of institutional records for students that have withdrawn has been added to the master calendar, and will be completed on a weekly basis. Additionally, to eliminate calculating R2T4 by hand, an electronic R2T4 form was developed that meets the Department of Education's requirements in calculating an R2T4. Moreover, a two-step review check process has been put in place to ensure accurate calculation of the refund. The first review is performed by the Assistant Dean of Financial Aid and the second review is performed by the Dean of Financial Aid Services.

Finding 2018-002: Student Status Changes

The change in student status for 24 of 25 students tested was not reported timely and/or accurately to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days.

Action Taken: The Registrar's office determined that there was an error in its degree verify export to the National Student Clearinghouse (NSC). With assistance from the NSC, the registrar's office was able to correct the export as well as modify their submission procedures to insure timely and accurate transmission of the graduation status change.