

SAINT MARTIN'S UNIVERSITY

Audited Financial Statements



June 30, 2020 and 2019

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Report of Independent Auditors

To the Board of Trustees
Saint Martin's University

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Martin's University (the University), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Martin's University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As of July 1, 2019, the University adopted Accounting Standards Update (ASU) 2014-09: *Revenue from Contracts with Customers* (Topic 606); and ASU 2018-08: *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2020, on our consideration of the University'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 University'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 University's internal control over financial reporting and compliance.

Moss Adams LLP
Yakima, Washington
October 6, 2020

Saint Martin's University
Statements of Financial Position

ASSETS

	June 30,	
	2020	2019
Cash and cash equivalents		
Operating cash	\$ 2,216,313	\$ 1,572,608
Restricted cash (see Note 15)	3,293,313	6,722,274
Investment cash	265,184	354,826
	<hr/>	<hr/>
Total cash and cash equivalents	5,774,810	8,649,708
Prepays	481,269	425,756
Student accounts receivable, net of allowance of \$510,553 in 2020 and \$323,240 in 2019	3,488,657	2,797,108
Gate loan receivable, net of allowance of \$450,791 in 2020 and \$441,272 in 2019	12,565	22,084
Student loans receivable - Perkins loan program, net of allowance of \$61,375 in 2020 and \$122,246 in 2019	227,461	312,772
Contributions receivable, net	1,501,921	2,420,917
Other receivables	120,290	200,853
Investments	24,405,180	22,867,093
Fixed assets, net	61,241,165	60,182,594
	<hr/>	<hr/>
Total assets	<u>\$ 97,253,318</u>	<u>\$ 97,878,885</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 3,605,701	\$ 3,725,692
Deferred revenues	2,718,302	2,397,767
Annuities payable	1,688,182	1,591,084
Related-party notes payable	286,624	339,795
Governmental grants refundable	485,879	654,590
Interest rate swap payable	5,802,871	5,362,489
Bonds payable	27,941,812	28,929,604
	<hr/>	<hr/>
Total liabilities	42,529,371	43,001,021
NET ASSETS		
Without donor restrictions	22,787,471	20,748,855
Without donor restrictions - board designated	8,869,223	8,887,231
	<hr/>	<hr/>
Total net assets without donor restrictions	31,656,694	29,636,086
With donor restrictions	23,067,253	25,241,778
	<hr/>	<hr/>
Total net assets	54,723,947	54,877,864
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Total liabilities and net assets	<u>\$ 97,253,318</u>	<u>\$ 97,878,885</u>

Saint Martin's University

Statement of Activities and Changes in Net Assets

	Year Ended June 30,		
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Tuition and fees	\$ 53,944,997	\$ -	\$ 53,944,997
Less scholarship allowance	(23,865,649)	-	(23,865,649)
	30,079,348	-	30,079,348
Government grants and contracts	1,481,520	-	1,481,520
Contributions	1,836,488	840,789	2,677,277
Contributions from related party	3,000	-	3,000
Auxiliary enterprises	6,375,233	-	6,375,233
Investment income and realized gains, net	320,657	672,435	993,092
Unrealized loss on investments	(72,065)	(232,636)	(304,701)
Other sources	1,389,481	-	1,389,481
Change in value of split-interest agreements	99,994	-	99,994
	41,513,656	1,280,588	42,794,244
Net assets released from restrictions	3,455,113	(3,455,113)	-
	44,968,769	(2,174,525)	42,794,244
EXPENSES			
Program expenses			
Instruction	13,443,235	-	13,443,235
Research	249,589	-	249,589
Student services	9,278,816	-	9,278,816
Auxiliary enterprises	6,061,616	-	6,061,616
Support expenses			
Academic	4,532,348	-	4,532,348
Institutional	8,942,175	-	8,942,175
	42,507,779	-	42,507,779
OTHER			
Unrealized loss on interest rate swap	(440,382)	-	(440,382)
CHANGE IN NET ASSETS	2,020,608	(2,174,525)	(153,917)
NET ASSETS, beginning of year	29,636,086	25,241,778	54,877,864
RECLASSIFICATION OF NET ASSETS	-	-	-
NET ASSETS, end of year	\$ 31,656,694	\$ 23,067,253	\$ 54,723,947

Saint Martin's University
Statement of Activities and Changes in Net Assets

	Year Ended June 30,		
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Tuition and fees	\$ 49,229,033	\$ -	\$ 49,229,033
Less scholarship allowance	(20,595,263)	-	(20,595,263)
	28,633,770	-	28,633,770
Government grants and contracts	283,822	-	283,822
Contributions	5,425,485	6,307,085	11,732,570
Contributions from related party	560,000	750,000	1,310,000
Auxiliary enterprises	6,123,636	-	6,123,636
Investment income and realized gains, net	322,213	602,677	924,890
Unrealized gain on investments	95,115	266,727	361,842
Other sources	1,089,959	6,572	1,096,531
Change in value of split-interest agreements	(120,503)	-	(120,503)
	42,413,497	7,933,061	50,346,558
Net assets released from restrictions	3,530,992	(3,530,992)	-
	45,944,489	4,402,069	50,346,558
EXPENSES			
Program expenses			
Instruction	13,020,088	-	13,020,088
Research	100,853	-	100,853
Student services	8,807,120	-	8,807,120
Auxiliary enterprises	6,062,335	-	6,062,335
Support expenses			
Academic	4,103,553	-	4,103,553
Institutional	7,604,337	-	7,604,337
	39,698,286	-	39,698,286
OTHER			
Unrealized loss on interest rate swap	(529,485)	-	(529,485)
CHANGE IN NET ASSETS	5,716,718	4,402,069	10,118,787
NET ASSETS, beginning of year	23,919,368	20,839,709	44,759,077
RECLASSIFICATION OF NET ASSETS	-	-	-
NET ASSETS, end of year	<u>\$ 29,636,086</u>	<u>\$ 25,241,778</u>	<u>\$ 54,877,864</u>

Saint Martin's University

Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (153,917)	\$ 10,118,787
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,292,334	3,126,374
Unrealized gain on investments, net	304,701	(361,842)
Change in value of split-interest agreements	(99,994)	120,503
Change in allowance and bad debt expense	419,923	239,668
Contributions restricted for long-term purposes	(373,116)	(3,931,114)
Change in cash surrender value of life insurance	(55)	(33)
Change in fair value of interest rate swap	440,382	529,485
Change in cash due to changes in assets and liabilities		
Student accounts receivable	(1,111,472)	(279,525)
Contributions receivable	918,996	(1,188,480)
Other receivables	90,082	(80,350)
Prepays	(55,513)	(57,523)
Accounts payable and accrued expenses	(119,991)	(8,459)
Deferred revenues	320,535	11,790
Net cash from operating activities	<u>3,872,895</u>	<u>8,239,281</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(4,335,697)	(8,861,649)
Purchase of investments	(19,255,027)	(9,990,440)
Sale of investments	17,412,294	9,210,695
Change in student loans receivable - Perkins loan program	85,311	137,509
Change in government grants refundable - Perkins loan program	(168,711)	(35,307)
Net cash from investing activities	<u>(6,261,830)</u>	<u>(9,539,192)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and related party notes payable	(1,056,171)	(1,058,258)
Proceeds from bonds payable	-	3,300,000
Contributions received restricted for long-term purposes	373,116	3,931,114
Change in value/payments in annuity agreements	197,092	(191,215)
Net cash from financing activities	<u>(485,963)</u>	<u>5,981,641</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(2,874,898)</u>	<u>4,681,730</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,649,708</u>	<u>3,967,978</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,774,810</u>	<u>\$ 8,649,708</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 1,801,900</u>	<u>\$ 1,876,678</u>

Note 1 – Organizational Background

Saint Martin's University (the University) is a nonprofit, charitable institution of higher learning, which operates in accordance with its Catholic and Benedictine heritage. The main campus is located on 300+ acres in Lacey, Washington. An extension campus is located at Joint Base Lewis-McChord (JBLM) base near Tacoma, Washington. The University was established in 1895 by the monks of the Saint Martin's Benedictine monastic community, who have continued to support the educational institution.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The University prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which involves the application of accrual accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Demand deposit accounts (checking accounts) held at June 30, 2020 and 2019, are classified as operating cash on the accompanying statements of financial position. Restricted cash consists of mutual funds and savings accounts that are unavailable for general operations during the fiscal year. These funds are held for a specific purpose (see Note 15). Invested cash consists of short-term, highly liquid investments that are readily convertible to known amounts of cash, including savings accounts, money market accounts, and short-term certificates of deposit with an original maturity of three months or less.

The University maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts to date.

Student loans receivable and student accounts receivable – Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Student accounts are less an estimate made for doubtful accounts based on a review of all outstanding amounts. The allowance for doubtful accounts represents the University's best estimate of the amount of probable credit losses in the University's existing accounts receivable. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible and student loans receivable may be assigned to the United States Department of Education (USDE). Recoveries of student accounts receivable previously written off are recorded when received. Interest is charged on all past-due accounts for students who are no longer enrolled in the University until the account is turned over to a collection agency. Late fees are charged on all student accounts receivable under a payment plan that are outstanding for more than 20 days after the due date.

Saint Martin's University

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

After a student is no longer enrolled in an institution of higher education, and after a grace period, interest is charged on student loans receivable and recognized as it is charged. Late fees are charged if payments are not made by the payment due date and recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance, or cancellation of their student loans receivable based on eligibility requirements defined by the USDE.

Fair value measurements – The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 5 for additional information.

Deferred revenue – Deferred revenue consists of prepaid tuition which will be earned in the following fiscal year and vendor incentive payments that will be recognized as a reduction of operating expenses on a straight line basis due in the terms of the agreement, which expires in 2032.

Interest rate swap – The University maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The University's specific goal is to lower (where possible) the cost of its borrowed funds. The University has an interest rate swap agreement to convert variable-rate debt to a fixed rate, as described in Note 9.

Deferred compensation – The President has an agreement which entitles him to an additional \$50,000 in deferred compensation, per year, in accordance with the 2016 Deferred Compensation Agreement with the University. Such amounts shall remain unvested until the earlier of June 30, 2022, or the termination of the President's employment under certain conditions specified within the contract. It is probable that the deferred compensation will vest and be paid in accordance with the agreement, and the deferred compensation is recorded as a liability on the statements of financial position.

As of June 30, 2020 and 2019, the amount accrued for the President's deferred compensation was \$200,000 and \$150,000, respectively.

Federal income taxes – No provision for income taxes has been made in the financial statements since the University is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Additionally, the University has done an assessment of any uncertain tax positions as required under FASB accounting standard on *Accounting for Uncertainty in Income Taxes* (ASC 740), and has determined it currently has no uncertain tax positions and therefore no liability at June 30, 2020 and 2019. In addition, the University has no material unrelated business income subject to tax at June 30, 2020 and 2019.

Note 2 – Summary of Significant Accounting Policies (continued)

Financial statement presentation – Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions. Certain funds included in these amounts have been designated by the Board of Trustees to be utilized for various programs.

- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purposes for which the resource was restricted has been fulfilled, or both. These are reported as reclassifications between the applicable classes of net assets.

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 or losses on donor-restricted endowment investments are reported as increases or decreases in net assets with donor restrictions until appropriated by the Board of Trustees. Gains and losses on non-endowment investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported on the statements of activities as net assets released from restriction.

Tuition and fees – The University recognizes revenue from student tuition and fees during the year in which the related services are provided to the students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, the students have an option to room and board on premises. The performance obligation of providing access to housing and meals is satisfied ratably over the academic period in which the student chooses to live on campus and purchase a weekly meal plan. Scholarships provided to students are recorded as a reduction from the posted tuition and room and board rates at the time revenue is recognized. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the USDE. Disbursements under each program are subject to disallowance by the USDE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the USDE.

Saint Martin's University

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions – The University recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received, there is a legal right to the contribution, and the actual amount has been determined. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Consequently, at June 30, 2020, no contributions remain unrecognized in the accompanying Statements of Financial Position, due to unmet barriers or conditions on which the contribution depends upon. Unconditional promises to give, due after one year, are reported at the present value of net realizable value, using appropriate interest rates applicable to the years in which the promises were received. Amortization of discounts is recorded as an additional contribution, if any. All contributions are available for use without donor restrictions unless specifically restricted by the donor.

It is the University's policy to treat net assets with donor restrictions received, whose restrictions expire within the current accounting period, as net assets without donor restrictions.

Contributed services and long-lived assets – The fair value of contributed services is recognized in the financial statements when the services received create or enhance nonfinancial assets, require specialized skills, which are provided by individuals possessing those skills, and would have been purchased if not donated. There were no significant contributed services received by the University for the years ended June 30, 2020 and 2019.

Contributions of long-lived assets are reported at fair value in the period received. It is the University's policy to record gifts of long-lived assets received without stipulation of how long the donated asset must be used as support without donor restrictions. There were no significant contributions of long-lived assets received by the University for the years ended June 30, 2020 and 2019.

Auxiliary enterprises – Auxiliary enterprises consist of revenues and expenses relating to the operation of the residence halls, food services, bookstore, and the rental of facilities. Revenues from auxiliary enterprises are recorded at the time the related services are provided.

Expense allocation – The costs of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. The analysis of functional expenses presents the natural classification detail of expense by function. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. The cost of operations and maintenance of the physical plant, including depreciation and interest cost related to plant, has been allocated to functional expense categories based on their use of the square footage of the University's fixed assets. Other costs are classified in each functional category based on the underlying purpose of each transaction.

Note 2 – Summary of Significant Accounting Policies (continued)

Fundraising costs – The University incurred fundraising costs of approximately \$540,000 and \$504,000 for the years ended June 30, 2020 and 2019, respectively, which are included in institutional support on the statements of activities.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are to be issued. See Note 18.

The University has evaluated subsequent events through October 6, 2020, which is the date the financial statements are to be issued.

Revenue recognition – As of July 1, 2019, the University adopted the provisions of FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. The disclosures of revenue have been enhanced in accordance with the standards.

ASU 2014-09 applies to exchange transactions with customers that are bound by contracts, and establishes a performance obligation approach to revenue recognition. There was no material impact to the financial statements as a result of the adoption of the ASU. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

ASU 2018-08 is intended to clarify and improve the accounting guidance for contributions. There was no impact to the University's revenue recognition practices or to the financial statements as a result of the adoption of the ASU, which has been applied prospectively.

Reclassification – Certain amounts reported in the June 30, 2019, financial statements have been reclassified to be in accordance with the June 30, 2020, financial statement presentation.

Saint Martin's University

Notes to Financial Statements

Note 3 – Student Loans and Student Accounts Receivable

Student loans receivable represents loans from the Federal Perkins loan fund that are generally payable with interest between 3.00% and 5.00% over approximately 11 years following University attendance. The University and the U.S. Government share principal payments, interest, and losses from non-employment cancellations in their proportion to funds provided. The program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). At June 30, 2020 and 2019, student loans outstanding through the Perkins loan program were \$227,461 and \$312,772, respectively. The Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind after June 30, 2018. The University has been notified that the federal government will begin collecting the Federal share of the University's Perkins Loan Revolving Funds annually from the University as loans are paid back by students. The University estimates the Federal share will be returned to the government over the next 10 years. For the years ended June 30, 2020 and 2019, the University had an allowance of \$61,375 and \$122,246, respectively, for amounts outstanding older than five years.

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

	<u>1-60 Days</u>	<u>60-90 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>
June 30, 2020	\$ 8,796	\$ 4,500	\$ 97,796	\$ 111,092
June 30, 2019	20,797	4,500	177,920	203,217

Student accounts receivable policy is that tuition and fees are due by the first day of the semester. Students and their families are offered monthly payment plans through Tuition Management Systems (TMS) and, in some cases, through the University itself. Amounts owed through either TMS or the University are recorded as student accounts receivable. A reserve for bad debts is calculated each year. The University analyzed the allowance for doubtful accounts based upon historical loss ratios by identifying troubled accounts and using historical experience applied to an aging of the accounts. Reserves were estimated at approximately 12% and 10% of outstanding student receivables at June 30, 2020 and 2019, respectively. Per the University's policy, an account with an established payment plan is defined as past due when any scheduled payment is more than two weeks late. At June 30, 2020 and 2019, the following amounts were past due under student receivables:

	<u>1-60 Days</u>	<u>60-90 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>
June 30, 2020	\$ 12,751	\$ -	\$ 829,671	\$ 842,422
June 30, 2019	20,888	8,965	493,738	523,591

Saint Martin's University Notes to Financial Statements

Note 4 – Investments

At June 30, 2020 and 2019, investments in equity securities that have readily determinable market values and all investments in debt securities are accounted for and reported at fair value. Investments received by gift are initially recorded at fair value at the date the gift is received. Cash surrender value of life insurance is recorded at surrender value.

Dividends, interest, and other investment income are reported in the period earned as increases in net assets without donor restrictions, unless donor-imposed restrictions limit the use of the assets, in which case they are reported as increases in net assets with donor restrictions. Gains and losses on donor-restricted endowment investments are reported as increases or decreases in net assets with donor restrictions until appropriated by the Board of Trustees. Gains and losses on other investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or law.

The aggregate carrying amount of investments by major type at June 30 is as follows:

	2020	2019
Invested cash		
Savings accounts	\$ 150,748	\$ 713
Money market funds	114,436	354,113
	265,184	354,826
Investments		
Mutual funds	14,138,949	16,131,974
Common stocks	10,253,163	4,892,918
Alternative investments	-	1,829,188
Cash surrender value of life insurance	13,068	13,013
	24,405,180	22,867,093
	\$ 24,670,364	\$ 23,221,919

The University invests in investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially impact the value of the investment securities held.

Included in alternative investments are:

	2020	2019
Hedge funds measured at net asset value practical expedient	\$ -	\$ 1,829,188

Investment income has been presented net of management fees. Management fees totaled \$50,680 and \$77,761 for the years ended June 30, 2020 and 2019, respectively.

Saint Martin's University

Notes to Financial Statements

Note 5 – Fair Value Measurements

Fair value is defined as the 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. Fair value also establishes a hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at June 30, 2020 and 2019.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. In certain cases, where Level 1 inputs are not available, investments are classified within Level 2 of the hierarchy. There were no Level 3 investments as of June 30, 2020 or 2019.

Common stock – Common stock is valued at the closing price reported on the active markets on which the individual securities are traded.

Mutual funds (Equity and Fixed Income) – Shares of mutual funds are valued at the net asset value (NAV) of shares held by the University and are valued at the closing price reported on the active market on which the individual securities are traded.

Alternative investments – These primarily consist of shares of hedge funds, which are valued using the NAV practical expedient of total assets of the fund, less all of its liabilities, including accrued fees and expenses. Total assets are reported as the total interests in underlying investment funds, as reported by the investment fund manager. In general, the fair value of the hedge fund's interest in an investment fund will represent the amount the hedge fund could reasonably expect to receive from an investment fund based on information reasonably available at the time valuation is made and the hedge fund believes to be reliable. At times, the hedge fund manager may conclude that the information provided by the investment fund does not represent the fair value of the hedge fund's investment in the investment fund and may adjust the value accordingly. The repurchase date is generally expected to be on a quarterly basis. The notice due date will be generally no sooner than 20 business days after the commencement of the repurchase offer. There were no unfunded cash commitments at June 30, 2020 or 2019.

Saint Martin's University Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

The University's Portfolio is a collection of different investments held for the University's financial benefit. The University's portfolio, which is the different funds the University invests in, seeks to achieve growth and income generation while still preserving the principal balance. The Portfolio also aims to maintain moderate to low exposure to risk of capital loss in pursuit of this return objective. Consistent with these objectives, this Portfolio expects to invest proportionately in assets that tend to have a history of lower capital returns and volatility such as fixed income, and those with a more volatile history and upside return potential such as equities and alternative assets.

Interest Rate Swap

The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable-rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

The following presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy for the years ended June 30.

	Fair Value Measurements as of June 30, 2020			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 10,253,163	\$ 10,253,163	\$ -	\$ -
Equity mutual funds				
Small cap funds	811,507	811,507	-	-
Mid cap funds	45,481	45,481	-	-
Large cap funds	1,118,977	1,118,977	-	-
Other	186,226	186,226	-	-
International funds	6,231,613	6,231,613	-	-
Fixed income mutual funds				
Debt funds	5,745,145	5,745,145	-	-
Total assets in fair value hierarchy	<u>\$ 24,392,112</u>	<u>\$ 24,392,112</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (5,802,871)</u>	<u>\$ -</u>	<u>\$ (5,802,871)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (5,802,871)</u>	<u>\$ -</u>	<u>\$ (5,802,871)</u>	<u>\$ -</u>
Alternative investment measured at NAV practical expedient	<u>\$ -</u>			

Saint Martin's University

Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

	Fair Value Measurements as of June 30, 2019			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 4,892,918	\$ 4,892,918	\$ -	\$ -
Equity mutual funds				
Small cap funds	89,562	89,562	-	-
Mid cap funds	73,648	73,648	-	-
Large cap funds	3,865,510	3,865,510	-	-
Other	193,589	193,589	-	-
International funds	4,241,739	4,241,739	-	-
Fixed income mutual funds				
Debt funds	7,667,926	7,667,926	-	-
Total assets in fair value hierarchy	<u>\$ 21,024,892</u>	<u>\$ 21,024,892</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (5,362,489)</u>	<u>\$ -</u>	<u>\$ (5,362,489)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (5,362,489)</u>	<u>\$ -</u>	<u>\$ (5,362,489)</u>	<u>\$ -</u>
Alternative investment measured at NAV practical expedient	<u>\$ 1,829,188</u>			

Cash surrender value of life insurance of \$13,068 and \$13,013 for the years ended June 30, 2020 and 2019, respectively, are not included above, as it is carried at cost.

Note 6 – Contributions Receivable

Contributions receivable, which are unconditional promises to give, are summarized as follows at June 30:

	2020	2019
Contributions to be collected		
In one year or less	\$ 497,485	\$ 1,293,350
Between one year and five years	964,192	1,092,774
More than five years	100,000	200,000
	<u>1,561,677</u>	<u>2,586,124</u>
Less discount	<u>59,756</u>	<u>165,207</u>
Net contributions receivable	<u>\$ 1,501,921</u>	<u>\$ 2,420,917</u>

Approximately 72% of the total outstanding contribution receivable balance is from four major donors as of June 30, 2020. Approximately 83% is from three major donors as of June 30, 2019. Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary. The discount rate applied to multi-year promises was 1.6% and 3.5% for the years ended June 30, 2020 and 2019, respectively.

Saint Martin's University Notes to Financial Statements

Note 7 – Fixed Assets

Land improvements, buildings, and equipment with a cost of \$2,500 or more and a useful life of one year are recorded at cost or, if donated, at fair value at the date of gift. Installation costs and any other costs related to acquiring the asset or preparing the asset for use are also capitalized such as costs for legal, engineering, architectural, landscaping, retaining walls, clearing, removal, and any other costs related to putting the asset into service. Depreciation is computed on the straight-line basis over the estimated useful lives. Equipment retirements are removed from the records at the time of disposal.

Asset type	Useful life
Buildings	15-50 years
Land Improvements	15-50 years
Equipment	3-15 years

Fixed assets comprise the following at June 30:

	2020	2019
Land improvements	\$ 3,524,987	\$ 3,524,987
Buildings	87,184,785	83,907,634
Equipment	20,360,382	19,169,382
Construction in progress	52,846	185,300
	111,123,000	106,787,303
Less accumulated depreciation	49,881,835	46,604,709
	\$ 61,241,165	\$ 60,182,594

Depreciation expense – At June 30, 2020 and 2019, depreciation expense for the University was \$3,277,126 and \$3,093,578, respectively.

Capitalized interest – The University follows the policy of capitalizing interest as a component of fixed assets for self-constructed projects. Interest incurred on funds used during construction, less interest earned on related interest-bearing investments, is capitalized as a cost of construction. No interest was capitalized for the years ended June 30, 2020 and 2019.

Construction in progress – In 2019, the University signed contracts for the construction of the new Nursing program. The University funded this construction through private grants and gifts. In 2020, construction for the new Nursing program was completed.

Additionally, the University previously entered into a contract to renovate the dining facility. The total construction cost was \$952,000, of which \$850,000 was paid as an incentive payment by the University's food service vendor. (See Note 2, deferred revenue.)

Saint Martin's University

Notes to Financial Statements

Note 8 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled \$3,163,853 and \$2,879,814 at June 30, 2020 and 2019, respectively. Of these amounts, \$723,048 and \$743,871 relate to charitable gift annuities at June 30, 2020 and 2019, respectively. The related liability is calculated based on the life expectancy of the beneficiary or the term of the agreement, discounted at the applicable federal rate per the IRS tables.

At June 30, 2020 and 2019, liabilities under the charitable trusts are reported as annuities payable, totaling \$1,688,182 and \$1,591,084, respectively. For the year ended June 30, 2020, \$377,013 relates to charitable gift annuities and \$377,013 relates to charitable remainder unitrusts. For the year ended June 30, 2019, \$388,064 relates to charitable gift annuities and \$1,203,020 relates to charitable remainder unitrusts.

The University's net assets without donor restrictions meet the minimum amount required to issue annuities in the state of Washington.

Note 9 – Bonds and Other Payables

Bonds and other payables consist of the following at June 30:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2020</u>	<u>2019</u>
Series 2014A Bonds	1.59% - 3.50%	February 1, 2037	\$ 24,750,000	\$ 25,585,000
Series 2014B Bonds	1.59% - 3.50%	February 1, 2037	3,435,000	3,603,000
Payable to St. Martin's Abbey (Note 13)	See Note 13	See Note 13	<u>286,624</u>	<u>339,795</u>
			28,471,624	29,527,795
Unamortized discount and issuance cost			<u>(243,188)</u>	<u>(258,396)</u>
			<u>\$ 28,228,436</u>	<u>\$ 29,269,399</u>

A summary of the approximate annual maturities of the bonds and other payables, assuming the debt is paid as agreed, for future years ending June 30 is as follows:

2021	\$ 997,000
2022	1,062,000
2023	1,127,000
2024	1,192,000
2025	1,203,000
Thereafter	<u>22,890,624</u>
	<u>\$ 28,471,624</u>

Note 9 – Bonds and Other Payables (continued)

2014A Refunding Revenue Bonds

On April 24, 2014, Washington Higher Education Facilities Authority (the Authority), pursuant to an Indenture of Trust dated April 1, 2014, between the Authority and U.S. Bank National Association, as trustee, issued \$29,535,000 of tax-exempt, refunding revenue bonds (Series 2014A) to provide funds to the University for the following purposes: 1) refund the Series 2007 Variable Rate Demand Revenue Bonds, and 2) pay the costs of issuing the Bonds. The variable interest rate as of June 30, 2020, was 1.598%.

Interest shall be paid monthly on the first business day of each month as long as the bond bears interest at the weekly or daily rate. Variable annual principal payments (\$810,000 in 2019 and \$835,000 in 2020) commenced February 1, 2015, and extend through final maturity of the bond on February 1, 2037, when a balloon payment of \$20,370,000 is due.

2014B Refunding Revenue Bonds

The Indenture of Trust also authorized tax-exempt revenue bonds (Series 2014B) of \$3,873,000 to be used for construction of new engineering labs and a science building. The University had to meet fundraising requirements to access the funds. Principal payments (\$135,000 in 2019 and \$165,000 in 2020) commenced during the year ended June 30, 2017, and extend through final maturity of the bond on February 1, 2037, when a balloon payment of \$2,635,000 is due. During the years ended June 30, 2020 and 2019, \$0 and \$3,300,000 of bond proceeds had been obtained, respectively. The variable interest rate as of June 30, 2020, was 1.598%.

Both the 2014A and 2014B Refunding Revenue Bonds are a direct placement by U.S. Bancorp. The University has pledged as collateral a security interest in a 1st Leasehold Deed of Trust and assignment of rents and leases on three buildings located on the campus, as well as in revenues without donor restrictions, gains, and other support. The direct placement expired April 24, 2019; however, the University and U.S. Bank renewed the bonds at substantially the same terms as the original agreement and added a new expiration date of June 30, 2025.

Issuance costs, aggregating \$243,188 (net), have been capitalized and are being amortized over the remaining 22-year life of the bonds. Accumulated amortization totaled \$89,052 and \$73,845 at June 30, 2020 and 2019, respectively.

The University's credit agreement, associated with the issuance of the bonds, contains several ratio and covenant requirements. Requirements include cash flow coverage and liquidity ratios.

The University entered into an interest swap agreement with U.S. Bank, with a fixed interest rate of 4.965% per annum. The interest rate swap agreement matures July 1, 2025. The fair value of the swap agreement was a liability of \$5,802,871 and \$5,362,489 at June 30, 2020 and 2019, respectively.

Saint Martin's University

Notes to Financial Statements

Note 9 – Bonds and Other Payables (continued)

As discussed previously, the University has entered into an interest rate swap agreement to hedge the University's exposure to interest rate risk related to its variable-rate bonds. The University's specific goal is to lower (where possible) the cost of its borrowed funds over the borrowing term. The swap is recorded on the statements of financial position as an interest rate swap at its fair market value, with changes in fair value recognized in current period change in net assets without donor restrictions. The following amounts have been included on the statement of activities for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest expense	\$ 1,909,085	\$ 1,920,410
Unrealized loss on interest rate swap	<u>440,382</u>	<u>529,485</u>
	<u>\$ 2,349,467</u>	<u>\$ 2,449,895</u>

As of June 30, 2020 and 2019, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was \$26,595,000 and \$27,595,000, respectively. The original notional amount was \$34,405,000.

Line of credit

The University has a \$2,500,000 line of credit in the form of a demand note with US Bank. This agreement provides for interest at the bank's monthly reset of LIBOR rate plus an applicable margin of 1.5%. This line of credit, which may be renewed annually, has not been drawn on as of June 30, 2020, but is available to assist the University with liquidity needs during times of low liquidity and cash flow. Collateral is required to be held in the Endowment per the agreement at all times to secure the line of credit (see Note 15). The current agreement matures on April 7, 2021.

Note 10 – Government Grants Refundable

Government grants refundable represent refundable advances made by the federal government under the University's Perkins Federal Loan Program. The federal government has ceased funding the program, and as such there were no new advances under the program during the years ended June 30, 2020 and 2019.

Outstanding loans cancelled under the program and cash repayments to the federal government resulted in a decrease in the liability to the government. Net grants refundable are \$485,879 and \$654,590 at June 30, 2020 and 2019, respectively.

Saint Martin's University Notes to Financial Statements

Note 11 – Net Assets Including Board-Designated Funds

The University's Net Asset balance includes both donor restricted funds and funds designated by the governing board. Board designated funds are designated through a formal action by the Board of Trustees. Board designated funds are established for a variety of purposes including long-term investment and scholarships. During the year ended June 30, 2004, the Board designated net assets without donor restrictions to fund a new dormitory, Spangler Hall. This required a reclassification of \$4,500,000 Board designated funds from the "scholarships" to "maintenance of plant." The Board intends to restore the amount reclassified from endowment/scholarships over the next 25 years. The University repaid \$104,866, of which \$86,241 went to principal, and \$18,625 went towards interest to make the total loan balance as of June 30, 2020, \$3,904,900. There were no repayments in the year ended June 30, 2019.

As of June 30, 2020 and 2019, net assets, with, and without donor restrictions were:

	<i>Net Assets with and Without Donor Restriction</i>					
	Without Donor Restrictions		With Donor Restrictions		2020 Total	2019 Total
	2020	2019	2020	2019		
Without donor or board designations	\$ 22,787,471	\$ 20,748,855	\$ -	\$ -	\$ 22,787,471	\$ 20,748,855
<i>Board designated funds</i>						
Funds held for long-term						
Investments and scholarships	8,869,223	8,887,231	-	-	8,869,223	8,887,231
<i>Donor restricted funds</i>						
Endowments (a)	-	-	15,321,870	15,321,870	15,321,870	15,321,870
Endowments and scholarships (b)	-	-	6,259,478	5,487,644	6,259,478	5,487,644
Investment in plant	-	-	-	3,132,504	-	3,132,504
Split interest agreements	-	-	1,472,837	1,286,747	1,472,837	1,286,747
Other	-	-	13,068	13,013	13,068	13,013
Total net assets	<u>\$ 31,656,694</u>	<u>\$ 29,636,086</u>	<u>\$ 23,067,253</u>	<u>\$ 25,241,778</u>	<u>\$ 54,723,947</u>	<u>\$ 54,877,864</u>

- a) Endowments held in perpetuity
- b) Endowments and scholarships held for time or purpose

Note 12 – Endowment Fund and Net Asset Classification

The University's endowments consist of approximately 130 individual funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Saint Martin's University

Notes to Financial Statements

Note 12 – Endowment Fund and Net Asset Classification (continued)

Interpretation of relevant law – The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the endowment with donor restrictions, (b) the original value of subsequent gifts to the endowment with donor restrictions, and (c) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in as net assets with donor restrictions (to be held in perpetuity) is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the state of Washington in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University 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 University; and (7) the investment policies of the University.

Endowment net asset composition by type of fund as of June 30:

	Without Donor Restrictions	With Donor Restrictions*	Total
2020			
Donor-restricted endowment funds	\$ -	\$ 21,668,925	\$ 21,668,925
Board-designated endowment\scholarship funds	4,964,242	-	4,964,242
Total funds	<u>\$ 4,964,242</u>	<u>\$ 21,668,925</u>	<u>\$ 26,633,167</u>
	Without Donor Restrictions	With Donor Restrictions*	Total
2019			
Donor-restricted endowment funds	\$ -	\$ 21,364,767	\$ 21,364,767
Board-designated endowment\scholarship funds	4,896,008	-	4,896,008
Total funds	<u>\$ 4,896,008</u>	<u>\$ 21,364,767</u>	<u>\$ 26,260,775</u>

* These funds include accumulated earnings available to fund future scholarships.

Saint Martin's University
Notes to Financial Statements

Note 12 – Endowment Fund and Net Asset Classification (continued)

Changes in endowment net assets for the fiscal years ended June 30:

	Without Donor Restrictions	With Donor Restrictions	Total
2020			
Endowment net assets, beginning of year	\$ 4,896,008	\$ 21,364,767	\$ 26,260,775
Investment return			
Investment income	93,558	352,978	446,536
Net appreciation (depreciation), realized and unrealized	32,497	86,764	119,261
	<u>126,055</u>	<u>439,742</u>	<u>565,797</u>
Interest on Quasi-endowment loan payment	218,679	-	218,679
	<u>218,679</u>	<u>-</u>	<u>218,679</u>
Transfer	-	-	-
Contributions	-	373,116	373,116
Expenditures appropriated	(276,500)	(508,700)	(785,200)
Endowment net assets, end of year	<u>\$ 4,964,242</u>	<u>\$ 21,668,925</u>	<u>\$ 26,633,167</u>
	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Endowment net assets, beginning of year	\$ 4,704,239	\$ 17,092,035	\$ 21,796,274
Investment return			
Investment income	73,789	257,402	331,191
Net appreciation (depreciation), realized and unrealized	168,472	611,316	779,788
	<u>242,261</u>	<u>868,718</u>	<u>1,110,979</u>
Interest on Quasi-endowment loan payment	223,508	-	223,508
	<u>223,508</u>	<u>-</u>	<u>223,508</u>
Transfer	-	-	-
Contributions	-	3,931,114	3,931,114
Expenditures appropriated	(274,000)	(527,100)	(801,100)
Endowment net assets, end of year	<u>\$ 4,896,008</u>	<u>\$ 21,364,767</u>	<u>\$ 26,260,775</u>

Saint Martin's University

Notes to Financial Statements

Note 12 – Endowment Fund and Net Asset Classification (continued)

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies, should they occur, could be due to the result of unfavorable market fluctuations, or the Board of Trustees' policy which allows them to continue appropriations from funds with deficiencies. At June 30, 2020 and 2019, the University had no such deficiencies to be reported in net assets with donor restrictions.

Return objectives and risk parameters – The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce appropriate results while assuming a moderate level of investment risk.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the University 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 University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year a portion of its endowment fund's average fair value over the prior 16 quarters through the two fiscal year-ends preceding the fiscal year in which the distribution is planned. For the years ended June 30, 2020 and 2019, this amount was 3.5% and 3.75%, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 13 – Related-Party Transactions

Related-party leases

St. Martin's Abbey (the Abbey) holds title to and is landlord for all real estate associated with the University's campus. It has been the policy and practice of the Abbey to allow the University to utilize the real estate for purposes of operating an institution of higher education.

At various times, the Abbey has entered into lease agreements with the University for the use of the premises under and surrounding certain buildings located on the University's campus. The lease agreements are generally long term in nature and provide for renewal options at the conclusion of the original lease term. Additionally, by specific provision of the lease documents, an annual rent for the lease period is not required to be paid by the University. Management has determined that the fair value of the contribution and expense related to the use of that real estate and buildings to the University, at the date of the underlying leases, was not material to the financial statements and, as such, has not recorded the leases as a donation.

Payables to St. Martin's Abbey

During the years 1993 through 1996, the Abbey, as owner of the property known as Saint Martin's Campus, developed and constructed new potable and storm water, and sanitary and irrigation systems necessary to meet the needs of the Abbey and the University. This construction was done in three phases: Phase I – domestic water; Phase II – sanitary sewer and wastewater; and Phase III – irrigation.

The University's allocated share of costs under the three phases represents the infrastructure costs from the Abbey.

Notes payable due to the Abbey for the University's share of infrastructure costs at June 30 are as follows:

	2020	2019
Note payable, dated October 19, 1994, for Phase I and Phase II costs, with monthly payments of \$5,220, including interest at 7.5% per annum, due June 1, 2024, unsecured.	\$ 215,923	\$ 260,544
Note payable, dated October 22, 1996, for Phase III costs, with monthly payments of \$1,184, including interest at 7.5% per annum, due September 1, 2026, unsecured.	70,701	79,251
	\$ 286,624	\$ 339,795

Saint Martin's University

Notes to Financial Statements

Note 13 – Related-Party Transactions (continued)

Related-party – other

For the years ended June 30, 2020 and 2019, the University received various gifts from the Abbey totaling approximately \$3,000 and \$1,300,000, respectively. For the years ended June 30, 2020 and 2019, \$0 and \$750,000, respectively, of the related party gifts received are with donor restrictions. As of June 30, 2020 and 2019, the University had accounts receivable from the Abbey of \$35,529 and \$57,589, respectively.

Members of the University's Board of Trustees and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws.

Note 14 – Pension Plan

The University has a defined contribution pension plan under Internal Revenue Code Section 403(b). The plan covers all regular employees, working at least 1,000 hours per year, who have completed one year of service with the University and reached 21 years of age. The University contribution rate was 8% as of June 30, 2020 and 2019, resulting in total contributions of \$1,453,626 for 2020 and \$1,116,864 for 2019.

Saint Martin's University Notes to Financial Statements

Note 15 – Liquidity and Availability

An analysis of asset accounts at fiscal year-end June 30, 2020 and 2019, occurred to determine which are liquid and which are illiquid. Assets held for a specific purpose, such as board designations, donor restrictions, or special arrangements can influence the readiness and availability of our asset account balances.

The following table provides a summary of the University's financial assets, reduced by those unavailable for general expenditure within one year, to determine the amount of financial asset available to meet cash needs for general expenditure within one year.

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents		
Operating cash	\$ 2,216,313	\$ 1,572,608
Restricted cash	3,293,313	6,722,274
Invested cash	265,184	354,826
Prepaid expenses	481,269	425,756
Student receivable - net	3,488,657	2,797,108
Gate loan receivable - net	12,565	22,084
Student loans receivable - Perkins loan program - net	227,461	312,772
Contributions receivable net	1,501,921	2,420,917
Other receivables	120,290	200,853
Investments	<u>24,405,180</u>	<u>22,867,093</u>
Financial assets, at year end	<u>36,012,153</u>	<u>37,696,291</u>
Less those unavailable for general expenditure within one year		
Funds with donor restrictions for Nursing program	-	2,800,000
Funds from the Abbey for the Nursing construction	-	750,000
Funds from Marylhurst with donor restrictions	-	3,172,274
Funds held for Endowment custodial purpose	3,293,313	-
Student receivable - net	829,671	493,738
Gate loan receivable	8,894	11,218
Perkins loan receivable - collectible beyond one year	154,805	212,531
Contributions receivable - collectible beyond one year	1,012,262	1,141,835
Other receivables - collectible beyond one year	120,290	200,853
Long term investments	<u>24,405,180</u>	<u>22,867,093</u>
	<u>29,824,415</u>	<u>31,649,542</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,187,738</u>	<u>\$ 6,046,749</u>

Amounts included in restricted cash of June 30, 2020, represent those required to be set aside by a contractual agreement with US Bank for the collateral on the line of credit agreement. Amounts restricted as of June 30, 2019, were specific to donor restrictions for nursing program construction and scholarships.

Saint Martin's University

Notes to Financial Statements

Note 15 – Liquidity and Availability (continued)

As of June 30, 2020 and 2019, the University has liquid assets on hand to cover 53 and 56 days, respectively, of operating expenses. The University manages its liquid resources to ensure enough is available to meet cash needs for one and a half months. The University is required by bond covenants to have enough liquid resources to cover at least 1.5 months. Liquidity risk and availability of resources are both monitored on a quarterly basis.

Note 16 – Functional Expenses

The following table presents the University's expenses by program or supporting function and natural classification for the years ended June 30, 2020 and 2019:

	June 30, 2020						
	Program Expenses				Support Expenses		Total Expenses
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	
Salaries & payroll taxes	\$ 10,019,986	\$ 88,593	\$ 4,044,862	\$ 989,748	\$ 2,371,033	\$ 3,145,916	\$ 20,660,138
Benefits	1,685,504	2,763	825,931	224,635	452,274	582,538	3,773,645
Goods and services	619,603	121,669	3,385,152	2,779,746	661,129	3,917,439	11,484,738
Facilities & maintenance	367,334	14,164	264,456	527,821	99,460	114,604	1,387,839
Interest	524,612	21,686	349,993	726,385	122,761	163,648	1,909,085
Depreciation & amortization	226,196	714	408,422	813,281	825,691	1,018,030	3,292,334
	<u>\$ 13,443,235</u>	<u>\$ 249,589</u>	<u>\$ 9,278,816</u>	<u>\$ 6,061,616</u>	<u>\$ 4,532,348</u>	<u>\$ 8,942,175</u>	<u>\$ 42,507,779</u>
	June 30, 2019						
	Program Expenses				Support Expenses		Total Expenses
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	
Salaries & payroll taxes	\$ 9,600,775	\$ 47,389	\$ 3,902,096	\$ 975,614	\$ 2,211,013	\$ 2,926,439	\$ 19,663,326
Benefits	1,524,759	2,375	748,748	200,036	391,630	473,243	3,340,791
Goods and services	848,339	14,481	3,124,901	2,866,746	595,967	2,927,977	10,378,411
Facilities & maintenance	377,926	13,635	245,232	485,967	82,172	141,800	1,346,732
Interest	526,517	21,766	351,264	729,024	123,207	90,874	1,842,652
Depreciation & amortization	141,772	1,207	434,879	804,948	699,564	1,044,004	3,126,374
	<u>\$ 13,020,088</u>	<u>\$ 100,853</u>	<u>\$ 8,807,120</u>	<u>\$ 6,062,335</u>	<u>\$ 4,103,553</u>	<u>\$ 7,604,337</u>	<u>\$ 39,698,286</u>

Note 17 – Commitments and Contingencies

Regulation and litigation – The University receives funding or reimbursement from governmental agencies for various activities, which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

The University is subject to legal proceedings arising in the normal course of its various activities. The eventuality of legal action, or further, the liability from any such potential action, is subject to a great degree of uncertainty. Management currently believes the resolution of all such matters would not have a material effect on these financial statements.

Note 18 – Financial Impact of COVID-19

The spread of the novel coronavirus (COVID-19) around the globe has affected the University both directly and indirectly. On February 29, 2020, the Governor issued proclamation 20-05, declaring a State of Emergency for all counties throughout the state of Washington as a result of COVID-19. Due to the continued worldwide spread of the virus, on March 13, 2020, the Governor exercised emergency powers under RCW 43.06.220, which prohibited all public and private universities, colleges, and technical schools from conducting in-person classroom instruction and lecturers. Due to the state of emergency, the University closed residence halls and issued housing refunds.

To help with the State of Emergency, the federal government provided all Colleges and Universities an allocation of federal funds. The University received a federal allocation of \$1,252,197 from the Coronavirus Aid, Relief, and Economic Security (CARES Act) relief funds. Of the allocation amount, the University provided \$606,186 directly to the students through June 30, 2020. This helped the students meet many pressing financial needs caused by the pandemic. Additionally, the University also received an institutional allocation. The University spent \$601,586 through June 30, 2020, primarily on housing refunds to students and meal plan payments to Bon Appetit that were required even with the students not eating on campus.

Beyond the federal CARES Act funding, the University invested in needed technology infrastructure costs to go online, and also experienced indirect impacts of the novel coronavirus such as an unrealized loss on investments.

Moving into the next fiscal year, the University anticipates the need to increase the amount of financial aid provided to students due to the economic hardship sparked by COVID-19. To help with this additional need, on July 29, 2020, the University received a gift of \$3,500,000 from the Abbey for additional scholarships to students.

Report of Independent Auditors 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*

The Board of Trustees
Saint Martin's University

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 Martin's University (the University) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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.

Moss Adams LLP
Yakima, Washington
October 6, 2020