

SAINT MARTIN'S UNIVERSITY

Audited Financial Statements



June 30, 2021 and 2020

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Report of Independent Auditors

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, which comprise the statements of financial position as of June 30, 2021 and 2020, 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 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 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility ratios are presented for purposes of additional analysis and are 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 14, 2021, on our consideration of Saint Martin's 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 Saint Martin's 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 Saint Martin's University's internal control over financial reporting and compliance.

Moss Adams LLP

Yakima, Washington
September 14, 2021

Saint Martin's University Statements of Financial Position

ASSETS

	June 30,	
	2021	2020
Cash and cash equivalents		
Operating cash	\$ 4,855,984	\$ 2,216,313
Restricted cash (see Note 15)	1,432,164	3,293,313
Investment cash	457,804	265,184
Total cash and cash equivalents	6,745,952	5,774,810
Prepays	1,067,854	481,269
Student accounts receivable, net of allowance of \$537,048 in 2021 and \$510,553 in 2020	3,137,115	3,488,657
Student loans receivable - Perkins loan program, net of allowance of \$32,224 in 2021 and \$61,375 in 2020	167,820	227,461
Contributions receivable, net	1,335,586	1,501,921
Other receivables, net	1,766,108	132,855
Investments	35,117,224	24,405,180
Fixed assets, net	58,406,827	61,241,165
Total assets	\$ 107,744,486	\$ 97,253,318

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 4,391,054	\$ 3,605,701
Deferred revenues	2,358,268	2,718,302
Annuities payable	1,839,732	1,688,182
Related-party notes payable	229,324	286,624
Governmental grants refundable	2,149,076	485,879
Interest rate swap payable	4,220,108	5,802,871
Bonds payable	27,017,019	27,941,812
Total liabilities	42,204,581	42,529,371

NET ASSETS

Without donor restrictions	24,907,355	22,787,471
Without donor restrictions - board designated	10,456,464	8,869,223
Total net assets without donor restrictions	35,363,819	31,656,694
With donor restrictions	30,176,086	23,067,253
Total net assets	65,539,905	54,723,947
Total liabilities and net assets	\$ 107,744,486	\$ 97,253,318

Saint Martin's University

Statement of Activities and Changes in Net Assets

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Tuition and fees	\$ 57,038,273	\$ -	\$ 57,038,273
Less scholarship allowance	(28,027,265)	-	(28,027,265)
	29,011,008	-	29,011,008
Government grants and contracts	2,479,588	44,399	2,523,987
Contributions	2,763,809	753,559	3,517,368
Contributions from related party	2,067,836	1,432,164	3,500,000
Auxiliary enterprises	5,512,722	-	5,512,722
Investment income and realized gains, net	906,116	2,583,985	3,490,101
Unrealized gain on investments	1,273,462	2,537,165	3,810,627
Other sources	380,184	-	380,184
Change in value of split-interest agreements	(351,801)	-	(351,801)
	44,042,924	7,351,272	51,394,196
Net assets released from restrictions	242,439	(242,439)	-
	44,285,363	7,108,833	51,394,196
EXPENSES			
Program expenses			
Instruction	13,260,743	-	13,260,743
Research	357,353	-	357,353
Student services	8,973,656	-	8,973,656
Auxiliary enterprises	5,823,004	-	5,823,004
Support expenses			
Academic	5,182,895	-	5,182,895
Institutional	8,563,350	-	8,563,350
	42,161,001	-	42,161,001
OTHER			
Unrealized gain on interest rate swap	1,582,763	-	1,582,763
CHANGE IN NET ASSETS	3,707,125	7,108,833	10,815,958
NET ASSETS, beginning of year	31,656,694	23,067,253	54,723,947
NET ASSETS, end of year	\$ 35,363,819	\$ 30,176,086	\$ 65,539,905

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)
	<u>30,079,348</u>	<u>-</u>	<u>30,079,348</u>
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
	<u>41,513,656</u>	<u>1,280,588</u>	<u>42,794,244</u>
Net assets released from restrictions	3,455,113	(3,455,113)	-
	<u>44,968,769</u>	<u>(2,174,525)</u>	<u>42,794,244</u>
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
	<u>42,507,779</u>	<u>-</u>	<u>42,507,779</u>
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	<u>29,636,086</u>	<u>25,241,778</u>	<u>54,877,864</u>
NET ASSETS, end of year	<u>\$ 31,656,694</u>	<u>\$ 23,067,253</u>	<u>\$ 54,723,947</u>

Saint Martin's University

Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,815,958	\$ (153,917)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,386,222	3,292,334
Unrealized (gain) loss on investments, net	(3,810,627)	304,701
Change in value of split-interest agreements	351,801	(99,994)
Change in allowance and bad debt expense	257,078	419,923
Contributions restricted for long-term purposes	(373,634)	(373,116)
Change in cash surrender value of life insurance	(43)	(55)
Change in fair value of interest rate swap	(1,582,763)	440,382
Change in cash due to changes in assets and liabilities		
Student accounts receivable	94,464	(1,111,472)
Contributions receivable	166,335	918,996
Other receivables	(1,633,253)	90,082
Prepays	(586,585)	(55,513)
Accounts payable and accrued expenses	785,353	(119,991)
Deferred revenues	(360,034)	320,535
Net cash from operating activities	<u>7,510,272</u>	<u>3,872,895</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(536,677)	(4,335,697)
Purchase of investments	(12,958,637)	(19,255,027)
Sale of investments	6,057,263	17,412,294
Change in student loans receivable - Perkins loan program	59,641	85,311
Change in government grants refundable - Perkins loan program	1,663,197	(168,711)
Net cash from investing activities	<u>(5,715,213)</u>	<u>(6,261,830)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and related party notes payable	(997,300)	(1,056,171)
Contributions received restricted for long-term purposes	373,634	373,116
Change in value/payments in annuity agreements	(200,251)	197,092
Net cash from financing activities	<u>(823,917)</u>	<u>(485,963)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	971,142	(2,874,898)
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, Beginning of year	<u>5,774,810</u>	<u>8,649,708</u>
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, End of year	<u>\$ 6,745,952</u>	<u>\$ 5,774,810</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,630,942	\$ 1,801,900
Government grants refundable in other receivables, net	1,765,749	-

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, 2021 and 2020, 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 accounts receivable and student loans 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 following 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, 2021 and 2020, the amount accrued for the President's deferred compensation was \$250,000 and \$200,000, 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, 2021 and 2020. In addition, the University has no material unrelated business income subject to tax at June 30, 2021 and 2020.

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 are designated by the Board of Trustees to be utilized for various programs. Additionally, it is the University's policy to treat net assets with donor restrictions, whose restrictions expire within the current accounting period, as net assets without donor restrictions. This policy is followed consistently for all contributions whose restrictions have been met during the current accounting period.
- *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.

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 contribution revenue, if any. All contributions are available for use without donor restrictions unless specifically restricted by the donor.

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, 2021 and 2020.

Contributions of long-lived assets are reported at fair value in the period received. The University records gifts of long-lived assets based on the existence or absence of donor-imposed restrictions. There were no significant contributions of long-lived assets received by the University for the years ended June 30, 2021 and 2020.

Contributed nonfinancial assets (gifts in kind) – Contributed nonfinancial assets are recognized as revenues in the statement of activities and changes in net assets as contributions. For the years ended June 30, 2021 and 2020, contributed nonfinancial assets were approximately \$284,000 and \$92,000, respectively.

The University did not monetize any contributed nonfinancial assets. Contributed nonfinancial assets did not have donor restrictions and the fair value was determined based on cost as of the date the asset was contributed.

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 \$303,000 and \$540,000 for the years ended June 30, 2021 and 2020, 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 September 14, 2021, which is the date the financial statements are available to be issued.

Reclassification – Certain amounts reported in the June 30, 2020, financial statements have been reclassified to be in accordance with the June 30, 2021, financial statement presentation. The reclassifications have no effect on the change in net assets or total net assets as previously reported.

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 provided for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). At June 30, 2021 and 2020, student loans outstanding through the Perkins loan program were \$167,820 and \$227,461, respectively. The Federal Perkins Extension Act of 2015 expired and no longer permitted disbursements to students of any kind after June 30, 2018. The University was notified that the federal government would 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, 2021 and 2020, the University had allowances for amounts outstanding older than five years.

Saint Martin's University

Notes to Financial Statements

Note 3 – Student Loans and Student Accounts Receivable (continued)

At June 30, 2021 and 2020, 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, 2021	\$ 10,663	\$ 9,798	\$ 75,078	\$ 95,539
June 30, 2020	\$ 8,796	\$ 4,500	\$ 97,796	111,092

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 15% and 12% of outstanding student receivables at June 30, 2021 and 2020, 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, 2021 and 2020, 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, 2021	\$ 885	\$ -	\$ 826,092	\$ 826,977
June 30, 2020	\$ 12,751	\$ -	\$ 829,671	842,422

Note 4 – Investments

At June 30, 2021 and 2020, 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.

Note 4 – Investments (continued)

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

	<u>2021</u>	<u>2020</u>
Invested cash		
Savings accounts	\$ 200,904	\$ 150,748
Money market funds	<u>256,900</u>	<u>114,436</u>
	<u>457,804</u>	<u>265,184</u>
Investments		
Mutual funds	6,335,633	14,138,949
Common stocks	17,568	10,253,163
Investments measured at NAV practical expedient	28,750,912	-
Cash surrender value of life insurance	<u>13,111</u>	<u>13,068</u>
	<u>35,117,224</u>	<u>24,405,180</u>
	<u>\$ 35,575,028</u>	<u>\$ 24,670,364</u>

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.

Investment income has been presented net of management fees. Management fees totaled \$108,532 and \$50,680 for the years ended June 30, 2021 and 2020, respectively.

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.

Saint Martin's University

Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

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, 2021 and 2020.

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 2 or 3 investments as of June 30, 2021 or 2020.

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.

Collective Trusts – Units held in collective trusts (CTs) are valued using the NAV practical expedient of the CTs as reported by the CT managers. The NAV practical expedient is based on the fair value of the underlying assets owned by the CTs, minus its liabilities, and then divided by the number of units outstanding. The CT can be redeemed daily and has no redemption restrictions or notice requirements.

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.

Saint Martin's University
Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

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, 2021			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 17,568	\$ 17,568	\$ -	\$ -
Equity mutual funds				
Small cap funds	143,924	143,924	-	-
Mid cap funds	65,058	65,058	-	-
Large cap funds	1,381,930	1,381,930	-	-
Other	307,751	307,751	-	-
International funds	631,821	631,821	-	-
Fixed income mutual funds				
Debt funds	3,805,149	3,805,149	-	-
Total assets in fair value hierarchy	<u>\$ 6,353,201</u>	<u>\$ 6,353,201</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (4,220,108)</u>	<u>\$ -</u>	<u>\$ (4,220,108)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (4,220,108)</u>	<u>\$ -</u>	<u>\$ (4,220,108)</u>	<u>\$ -</u>
Investments measured at NAV practical expedient	<u>\$ 28,750,912</u>			

	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>

Cash surrender value of life insurance of \$13,111 and \$13,068 for the years ended June 30, 2021 and 2020, respectively, are not included above, as it is carried at cost.

Saint Martin's University

Notes to Financial Statements

Note 6 – Contributions Receivable

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

	<u>2021</u>	<u>2020</u>
Contributions to be collected		
In one year or less	\$ 574,832	\$ 497,485
Between one year and five years	784,372	964,192
More than five years	-	100,000
	<u>1,359,204</u>	<u>1,561,677</u>
Less discount	<u>23,618</u>	<u>59,756</u>
Net contributions receivable	<u><u>\$ 1,335,586</u></u>	<u><u>\$ 1,501,921</u></u>

Approximately 62% of the total outstanding contribution receivable balance is from three major donors as of June 30, 2021. Approximately 72% is from four major donors as of June 30, 2020. Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary. The discount rate applied to multi-year promises was 1.5% and 1.6% for the years ended June 30, 2021 and 2020, respectively.

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.

<u>Asset type</u>	<u>Useful life</u>
Buildings	40 years
Land Improvements	5–20 years
Equipment	3–20 years

Saint Martin's University
Notes to Financial Statements

Note 7 – Fixed Assets (continued)

Fixed assets comprise the following at June 30:

	<u>2021</u>	<u>2020</u>
Land improvements	\$ 3,524,987	\$ 3,524,987
Buildings	87,221,889	87,184,785
Equipment	20,825,503	20,360,382
Construction in progress	<u>52,844</u>	<u>52,846</u>
	111,625,223	111,123,000
Less accumulated depreciation	<u>53,218,396</u>	<u>49,881,835</u>
	<u><u>\$ 58,406,827</u></u>	<u><u>\$ 61,241,165</u></u>

Depreciation expense – At June 30, 2021 and 2020, depreciation expense for the University was \$3,371,015 and \$3,277,126, 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, 2021 and 2020.

Note 8 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled \$3,715,047 and \$3,163,853 at June 30, 2021 and 2020, respectively. Of these amounts, \$858,160 and \$723,048 relate to charitable gift annuities at June 30, 2021 and 2020, 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, 2021 and 2020, liabilities under the charitable trusts are reported as annuities payable, totaling \$1,839,732 and \$1,688,182, respectively. For the year ended June 30, 2021, \$366,075 relates to charitable gift annuities and \$1,473,657 relates to charitable remainder unitrusts. For the year ended June 30, 2020, \$377,013 relates to charitable gift annuities and \$1,311,169 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.

Saint Martin's University

Notes to Financial Statements

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>2021</u>	<u>2020</u>
Series 2014A Bonds	1.53% - 1.59%	February 1, 2037	\$ 23,980,000	\$ 24,750,000
Series 2014B Bonds	1.53% - 1.59%	February 1, 2037	3,265,000	3,435,000
Payable to St. Martin's Abbey (Note 13)	See Note 13	See Note 13	<u>229,324</u>	<u>286,624</u>
			27,474,324	28,471,624
Unamortized discount and issuance cost			<u>(227,981)</u>	<u>(243,188)</u>
			<u>\$ 27,246,343</u>	<u>\$ 28,228,436</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:

2022	\$ 1,062,000
2023	1,127,000
2024	1,192,000
2025	1,203,000
2026	1,273,000
Thereafter	<u>21,617,324</u>
	<u>\$ 27,474,324</u>

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, 2021, was 1.53%.

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 (\$835,000 in 2020 and \$770,000 in 2021) 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 (\$165,000 in 2020 and \$170,000 in 2021) 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. The variable interest rate as of June 30, 2021, was 1.53%.

Note 9 – Bonds and Other Payables (continued)

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 revenues without donor restrictions. The direct placement expires June 30, 2025.

Issuance costs, aggregating \$227,981 and \$243,188 (net) at June 30, 2021 and 2020, have been capitalized and are being amortized over the remaining 22-year life of the bonds. Accumulated amortization totaled \$104,259 and \$89,052 at June 30, 2021 and 2020, 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 \$4,220,108 and \$5,802,871 at June 30, 2021 and 2020, respectively.

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:

	2021	2020
Interest expense	\$ 1,735,810	\$ 1,909,085
Unrealized (gain) loss on interest rate swap	(1,582,763)	440,382
	\$ 153,047	\$ 2,349,467

As of June 30, 2021 and 2020, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was \$25,655,000 and \$26,595,000, 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, 2021, 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 – Investment funds held for collateral purposes). The current agreement matures on April 30, 2022.

Saint Martin's University

Notes to Financial Statements

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 ceased funding the program, and as such there were no new advances under the program during the years ended June 30, 2021 and 2020. For the year ended June 30, 2021, there is approximately \$1,700,000 included in government grants refundable related to the Higher Education Emergency Relief Funds. See Note 18 for further discussion of this amount.

Outstanding loans cancelled under the program and cash repayments to the federal government resulted in a decrease in the liability to the government.

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 from Board endowed investments and scholarships. The Board intends to restore this amount over the next 25–30 years. For the years ended June 30, 2021 and 2020, the University repaid \$0 and \$104,866, of which \$86,241 went to principal, and \$18,625 went towards interest. The total loan balance outstanding as of June 30, 2021 and 2020, was \$3,904,900.

As of June 30, 2021 and 2020, net assets, with, and without donor restrictions were:

	<i>Net Assets With and Without Donor Restriction</i>					
	Without Donor Restrictions		With Donor Restrictions		2021 Total	2020 Total
	2021	2020	2021	2020		
Without donor or board designations	\$ 24,907,355	\$ 22,787,471	\$ -	\$ -	\$ 24,907,355	\$ 22,787,471
<i>Board designated funds</i>						
Funds held for long-term						
Investments and scholarships	10,456,464	8,869,223	-	-	10,456,464	8,869,223
<i>Donor restricted funds</i>						
Endowments (a)	-	-	15,380,493	15,321,870	15,380,493	15,321,870
Endowments and scholarships (b)	-	-	12,910,852	6,259,478	12,910,852	6,259,478
Split interest agreements	-	-	1,871,630	1,472,837	1,871,630	1,472,837
Other	-	-	13,111	13,068	13,111	13,068
Total net assets	<u>\$ 35,363,819</u>	<u>\$ 31,656,694</u>	<u>\$ 30,176,086</u>	<u>\$ 23,067,253</u>	<u>\$ 65,539,905</u>	<u>\$ 54,723,947</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 190 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, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 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:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions*</u>	<u>Total</u>
2021			
Donor-restricted endowment funds	\$ -	\$ 26,628,109	\$ 26,628,109
Board-designated endowment\scholarship funds	<u>6,551,481</u>	<u>-</u>	<u>6,551,481</u>
Total funds	<u>\$ 6,551,481</u>	<u>\$ 26,628,109</u>	<u>\$ 33,179,590</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions*</u>	<u>Total</u>
2020			
Donor-restricted endowment funds	\$ -	\$ 21,668,925	\$ 21,668,925
Board-designated endowment\scholarship funds	<u>4,964,242</u>	<u>-</u>	<u>4,964,242</u>
Total funds	<u>\$ 4,964,242</u>	<u>\$ 21,668,925</u>	<u>\$ 26,633,167</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
2021			
Endowment net assets, beginning of year	\$ 4,964,242	\$ 21,668,925	\$ 26,633,167
Investment return			
Investment income, net	43,765	193,917	237,682
Net appreciation, realized and unrealized	1,375,379	4,927,233	6,302,612
	<u>1,419,144</u>	<u>5,121,150</u>	<u>6,540,294</u>
Interest on Quasi-endowment loan payment	218,679	-	218,679
	<u>218,679</u>	<u>-</u>	<u>218,679</u>
Contributions	188,116	373,634	561,750
Expenditures appropriated	(238,700)	(535,600)	(774,300)
Endowment net assets, end of year	<u>\$ 6,551,481</u>	<u>\$ 26,628,109</u>	<u>\$ 33,179,590</u>
	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, net	93,558	352,978	446,536
Net appreciation, 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>
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>

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, 2021 and 2020, 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, 2021 and 2020, this amount was 3.25% and 3.50%, 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.

Saint Martin's University

Notes to Financial Statements

Note 13 – Related-Party Transactions

Related-party leases

St. Martin's Abbey (the Abbey) holds title to and is landlord for all related 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.

The Abbey purchased the campus property in the late 1890's and subsequently leased the property to the University. By specific provision of the lease documents, an annual rent for the lease period is not required to be paid by the University. Management determined, at the date of the underlying lease, that the fair value of the contribution and expense related to the use of that real estate to the University, was not significant to the financial statements and, as such, did not record 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:

	<u>2021</u>	<u>2020</u>
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.	\$ 167,836	\$ 215,923
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.	<u>61,488</u>	<u>70,701</u>
	<u>\$ 229,324</u>	<u>\$ 286,624</u>

Note 13 – Related-Party Transactions (continued)

Related-party – other

For the years ended June 30, 2021 and 2020, the University received various gifts from the Abbey totaling approximately \$3,500,000 and \$3,000, respectively. For the years ended June 30, 2021 and 2020, \$3,500,000 and \$0, respectively, of the related party gifts received are with donor restrictions. As of June 30, 2021 and 2020, the University had accounts receivable from the Abbey of \$57,554 and \$35,529, respectively.

As stated in Note 2, it is the University's policy to treat net assets with donor restrictions whose restrictions expire within the current accounting period, as net assets without donor restrictions. For the year ended June 30, 2021, \$2,067,836 was reported as contributions from related party - without restrictions on the Statement of Activities and Changes in Net Assets, while \$1,432,164 remains reported as contributions from related party - with donor restrictions as the scholarship distribution for these funds has not occurred.

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, 2021 and 2020, resulting in total contributions of \$1,453,626 for 2020.

As of June 30, 2021, the University's board of trustees approved varying contribution rates. Due to uncertain economic factors associated with the coronavirus pandemic, the board approved contributions to the 403(b) plan once final tuition amounts and enrollment were known after spring semester of fiscal year 2021. A total of \$1,613,873 was contributed for the year ended June 30, 2021.

Saint Martin's University

Notes to Financial Statements

Note 15 – Liquidity and Availability

An analysis of asset accounts at fiscal year-end June 30, 2021 and 2020, 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 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>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents		
Operating cash	\$ 4,855,984	\$ 2,216,313
Restricted cash	1,432,164	3,293,313
Invested cash	457,804	265,184
Prepaid expenses	1,067,854	481,269
Student receivable - net	3,137,115	3,488,657
Student loans receivable - Perkins loan program - net	167,820	227,461
Contributions receivable - net	1,335,586	1,501,921
Other receivables - net	1,766,108	132,855
Investments	<u>35,117,224</u>	<u>24,405,180</u>
Financial assets, at year end	<u>49,337,659</u>	<u>36,012,153</u>
Less those unavailable for general expenditure within one year		
Funds unused from the Abbot Neal Roth Scholarship	1,432,164	-
Restricted cash funds held for custodial purposes	-	3,293,313
Cash held for President's deferred compensation (Note 2)	250,000	200,000
Student receivable - net	826,092	829,671
Gate loan receivable	9,534	8,894
Perkins loan receivable - collectible beyond one year	113,045	154,805
Contributions receivable - collectible beyond one year	760,754	1,012,262
Other receivables - collectible beyond one year	1,766,108	132,855
Long term investments (includes \$3,784,995 held for custodial purposes)	<u>35,117,224</u>	<u>24,405,180</u>
	<u>40,274,921</u>	<u>30,036,980</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,062,738</u>	<u>\$ 5,975,173</u>

Saint Martin's University Notes to Financial Statements

Note 15 – Liquidity and Availability (continued)

Amounts included in the restricted cash balance as of June 30, 2021, are restricted by the Saint Martin's Abbey for use of the Abbot Neal Roth Emergency Scholarship. Additional cash and investments deemed unavailable for general expenditure are held for the required contractual agreement with US Bank for the line of credit collateral. Additional cash is set aside for payment of the President's deferred compensation agreement (Note 2). Amounts restricted in other receivables include receivables restricted by federal grants for the Higher Education Emergency Relief Fund (HEERF III) funds (Note 18).

As of June 30, 2021 and 2020, the University has liquid assets on hand to cover 79 and 51 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, 2021 and 2020:

	June 30, 2021						Total Expenses
	Program Expenses				Support Expenses		
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	
Salaries & payroll taxes	\$ 10,083,444	\$ 143,249	\$ 4,204,289	\$ 895,430	\$ 2,905,965	\$ 3,565,018	\$ 21,797,395
Benefits	1,688,325	8,799	913,179	214,862	574,561	493,543	3,893,269
Goods and services	369,087	171,630	2,918,054	2,787,087	655,148	3,236,269	10,137,275
Facilities & maintenance	333,074	13,196	227,092	448,323	98,416	90,929	1,211,030
Interest	477,562	19,740	318,604	661,240	111,752	146,912	1,735,810
Depreciation & amortization	309,251	739	392,438	816,062	837,053	1,030,679	3,386,222
	<u>\$ 13,260,743</u>	<u>\$ 357,353</u>	<u>\$ 8,973,656</u>	<u>\$ 5,823,004</u>	<u>\$ 5,182,895</u>	<u>\$ 8,563,350</u>	<u>\$ 42,161,001</u>
	June 30, 2020						
	Program Expenses				Support Expenses		
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	Total Expenses
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>

Saint Martin's University

Notes to Financial Statements

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 lectures. Due to the state of emergency, the University closed residence halls and issued housing refunds in the spring of 2020.

To aid with the pandemic, closures, and lost revenues, the federal government provided all Colleges and Universities an annual allocation of federal funds. For the years ended June 30, 2021 and 2020, the University's statement of activities and changes in net assets include a federal allocation in government grants and contracts of \$2,133,004 and \$1,207,772 from the Higher Education Emergency Relief fund (HEERF) for HEERF I and HEERF II federal grants.

After graduation, in May 2021, the University received another federal allocation of HEERF III funds in the amount of approximately \$3,800,000 of which approximately \$1,900,000 may go to the institution and approximately \$1,900,000 must go to students. The University desires to devote the maximum amount of funds possible to financial aid grants to students from HEERF III funding. The University is waiting until fall of 2021 to distribute the HEERF III funds when students return to campus.

The institutional portion of HEERF III is conditioned upon the University disbursing the student portion received to students. Consequently, at June 30, 2021, approximately \$1,766,000 is not recognized in statement of activities and changes in net assets, because the conditions on which they depend upon have not yet been met. These amounts are reported on the statements of financial position as other receivables and deferred revenues.

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, 2021, 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 September 14, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
September 14, 2021

Saint Martin's University Financial Responsibility Ratios

Section 498(c)(1) of the Higher Education Act authorizes the secretary for the U.S. Department of Education (ED) to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility. Section 668.172 established a methodology based on three ratios – primary reserve, equity, and net income – that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution's ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- Add the weighted scores to arrive at the composite score

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certification for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to ED of 10 percent or more of its previous year's Title IV funding, as determined by ED.

The source for each balance below has been referenced to either the statement of financial position (SFP), statement of activities and changes in net assets (SOA), or a specific footnote.

<u>Primary Reserve Ratio Calculation</u>	<u>Reference</u>	<u>June 30, 2021</u>
Net assets with donor restrictions	SFP +	\$ 30,176,086
Net assets without donor restrictions	SFP +	<u>35,363,819</u>
Total net assets		65,539,905
Less:		
Net assets held in perpetuity	Note 11	(15,380,493)
Annuities, term endowments, and life income funds with donor restrictions	Note 11	-
Intangible assets	Note 9	-
Property, plant, and equipment (PPE)	SFP	(58,406,827)
Right-of-use assets	n/a	-
Unsecured related-party receivables	Note 13	-
Add:		
All long term debt and operating lease liabilities (not to exceed total PPE)	Note 9 +	27,474,324
Post-employment and defined pension liabilities	n/a +	<u>-</u>
Total expendable net assets		\$ 8,484,910
Total operating expenses	SOA	42,161,001
Add:		
Change in value of split-interest agreements	SOA	351,801
Net gain on interest rate exchange agreements	SOA	(1,582,763)
Losses on sale of property, plant, and equipment	n/a	<u>-</u>
Total expenses without donor restrictions and losses without donor restrictions		<u>\$ 40,930,039</u>
Primary reserve ratio		0.207

Saint Martin's University

Financial Responsibility Ratios

<u>Equity Ratio Calculation</u>	<u>Reference</u>	<u>June 30, 2021</u>
Net assets with and without donor restrictions	SOFP +	\$ 65,539,905
Less:		
Intangible assets	Note 9 -	(227,981)
Unsecured related-party receivables	Note 13 -	<u>(57,554)</u>
Modified net assets		\$ 65,254,370
Total assets	SOFP +	\$ 107,744,486
Less:		
Unsecured related-party receivables	Note 13 -	(57,554)
Intangible assets	Note 9 -	<u>(227,981)</u>
Modified assets		<u>\$ 107,458,951</u>
Equity ratio		0.607

<u>Net Income Ratio Calculation</u>	<u>Reference</u>	<u>June 30, 2021</u>
Change in net assets without donor restrictions	SOA	\$ 3,707,125
Total operating revenues, gains, and other support without donor restrictions	SOA	\$ 44,285,363
Add:		
Gains (losses) on other investments	n/a	-
Building gifts released from restrictions	n/a	-
Non-operating gifts	n/a	-
Change in split-interest agreements	n/a	-
Other income, net	n/a	-
Gain on disposal of property, plant, and equipment	n/a	-
Less:		
Endowment returns, net of appropriations for operations	n/a	<u>-</u>
Total non-operating revenues, gains, and other support without donor restrictions		<u>\$ 44,285,363</u>
Net income ratio		0.084

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)

Positive net income ratio result: Net Income strength factor = 1 + (50 x net income ratio result)

Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor for the ratio is -1.

Saint Martin's University Financial Responsibility Ratios

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores:

Primary reserve weighted score = 40% x the primary reserve strength factor score

Equity weighted score = 40% x the equity strength factor score

Net income weighted score = 20% x the net income strength factor score

Composite score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

RATIO TYPE	Ratio	Strength Factor	Weight	Scores
Primary Reserve Ratio	0.207	2.1	40%	0.8
Equity Ratio	0.607	3.0	40%	1.2
Net Income Ratio	0.084	3.0	20%	0.6
Composite Score				<u><u>2.63</u></u>