

SAINT MARTIN'S UNIVERSITY

Audited Financial Statements

June 30, 2023 and 2022



Table of Contents

	Page
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Financial Responsibility Ratios	29

Report of Independent Auditors

The Board of Trustees
Saint Martin's University

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saint Martin's University which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Saint Martin's University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Saint Martin's University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Saint Martin's University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Saint Martin's University's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of financial responsibility ratios is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Moss Adams LLP

Yakima, Washington
September 28, 2023

Financial Statements

Saint Martin's University
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents		
Operating cash	\$ 1,193,036	\$ 4,184,265
Restricted cash (see Note 15)	1,481,872	1,627,164
Investment cash	580,000	355,731
Total cash and cash equivalents	3,254,908	6,167,160
Prepays	732,929	1,082,799
Student accounts receivable, net of allowance of \$890,110 in 2023 and \$647,933 in 2022	4,541,420	3,413,312
Student loans receivable - Perkins loan program, net of allowance of \$10,913 in 2023 and \$27,006 in 2022	56,276	135,822
Contributions receivable, net	1,756,240	2,435,821
Other receivables, net	1,253,509	932,468
Investments	41,737,561	37,554,797
Fixed assets, net	56,654,277	55,781,946
Total assets	\$ 109,987,120	\$ 107,504,125
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,990,542	\$ 3,790,053
Deferred revenues	2,382,386	2,334,543
Annuities payable	1,667,792	1,811,625
Related-party notes payable	101,035	167,576
Governmental grants refundable	268,463	342,727
Interest rate swap payable	651,525	1,914,335
Bonds payable	24,987,434	26,032,227
Total liabilities	34,049,177	36,393,086
NET ASSETS		
Without donor restrictions	25,088,711	26,508,942
Without donor restrictions - board-designated	10,490,153	9,780,650
Total net assets without donor restrictions	35,578,864	36,289,592
With donor restrictions	40,359,079	34,821,447
Total net assets	75,937,943	71,111,039
Total liabilities and net assets	\$ 109,987,120	\$ 107,504,125

See accompanying notes.

Saint Martin's University
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Tuition and fees	\$ 61,226,782	\$ -	\$ 61,226,782
Less scholarship allowance	(30,334,540)	-	(30,334,540)
	30,892,242	-	30,892,242
Government grants and contracts	1,663,684	191,543	1,855,227
Contributions	2,237,765	1,667,006	3,904,771
Contributed non financial assets from related party	3,126,934	-	3,126,934
Contributed non financial assets	104,845	-	104,845
Auxiliary enterprises	7,677,184	-	7,677,184
Investment income and realized gains (losses), net	202,270	(147,683)	54,587
Unrealized gains on investments	115,104	4,417,205	4,532,309
Other sources	575,763	-	575,763
Change in value of split-interest agreements	(172,459)	-	(172,459)
	46,423,332	6,128,071	52,551,403
Net assets released from restrictions	590,439	(590,439)	-
	47,013,771	5,537,632	52,551,403
EXPENSES			
Program expenses			
Instruction	13,778,434	-	13,778,434
Research	273,427	-	273,427
Student services	10,494,036	-	10,494,036
Auxiliary enterprises	5,692,543	-	5,692,543
Support expenses			
Academic	7,468,412	-	7,468,412
Institutional	11,280,457	-	11,280,457
	48,987,309	-	48,987,309
OTHER			
Unrealized gain on interest rate swap	1,262,810	-	1,262,810
CHANGE IN NET ASSETS	(710,728)	5,537,632	4,826,904
NET ASSETS, beginning of year	36,289,592	34,821,447	71,111,039
NET ASSETS, end of year	\$ 35,578,864	\$ 40,359,079	\$ 75,937,943

See accompanying notes.

Saint Martin's University
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Tuition and fees	\$ 58,462,997	\$ -	\$ 58,462,997
Less scholarship allowance	(29,112,167)	-	(29,112,167)
	29,350,830	-	29,350,830
Government grants and contracts	5,464,756	201,453	5,666,209
Contributions	2,057,660	4,204,754	6,262,414
Contributions from related party	-	5,000,000	5,000,000
Contributed non financial assets	323,034	-	323,034
Auxiliary enterprises	7,316,429	-	7,316,429
Investment income and realized gains, net	252,073	474,487	726,560
Unrealized losses on investments	(1,595,824)	(4,398,531)	(5,994,355)
Other sources	438,280	-	438,280
Change in value of split-interest agreements	(117,105)	-	(117,105)
	43,490,133	5,482,163	48,972,296
Net assets released from restrictions	836,802	(836,802)	-
	44,326,935	4,645,361	48,972,296
EXPENSES			
Program expenses			
Instruction	12,779,325	-	12,779,325
Research	366,630	-	366,630
Student services	11,109,420	-	11,109,420
Auxiliary enterprises	6,176,887	-	6,176,887
Support expenses			
Academic	5,674,984	-	5,674,984
Institutional	9,599,689	-	9,599,689
	45,706,935	-	45,706,935
OTHER			
Unrealized gain on interest rate swap	2,305,773	-	2,305,773
CHANGE IN NET ASSETS	925,773	4,645,361	5,571,134
NET ASSETS, beginning of year	35,363,819	30,176,086	65,539,905
NET ASSETS, end of year	\$ 36,289,592	\$ 34,821,447	\$ 71,111,039

See accompanying notes.

Saint Martin's University
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,826,904	\$ 5,571,134
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,288,375	3,333,981
Unrealized (gain) loss on investments, net	(4,532,309)	5,994,355
Change in value of split-interest agreements	172,459	117,105
Change in bad debt expense	510,987	311,256
Contributions restricted for long-term purposes	(940,422)	(7,954,153)
Change in cash surrender value of life insurance	(239)	(53)
Change in fair value of interest rate swap	(1,262,810)	(2,305,773)
Change in cash due to changes in assets and liabilities		
Student accounts receivable	(1,639,095)	(587,453)
Contributions receivable	679,581	(1,100,235)
Other receivables	(321,041)	833,640
Prepays	349,870	(14,945)
Accounts payable and accrued expenses	200,489	(601,001)
Deferred revenues	47,843	(23,725)
	<u>1,380,592</u>	<u>3,574,133</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in student loans receivable - Perkins loan program	79,546	31,998
Change in government grants refundable - Perkins loan program	(74,264)	(1,806,349)
Purchase of fixed assets	(4,160,706)	(693,892)
Purchase of investments	(50,094,316)	(18,197,097)
Sale of investments	50,444,100	9,765,222
	<u>(3,805,640)</u>	<u>(10,900,118)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and related party notes payable	(1,111,334)	(1,061,748)
Contributions received restricted for long-term purposes	940,422	7,954,153
Change in value/payments in annuity agreements	(316,292)	(145,212)
	<u>(487,204)</u>	<u>6,747,193</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(2,912,252)</u>	<u>(578,792)</u>
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>6,167,160</u>	<u>6,745,952</u>
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 3,254,908</u>	<u>\$ 6,167,160</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 1,774,458</u>	<u>\$ 1,585,295</u>

See accompanying notes.

Saint Martin's University

Notes to Financial Statements

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, 2023 and 2022, are classified as operating cash on the accompanying statements of financial position. Restricted cash is held in money market 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 (ED). Recoveries of student accounts receivable previously written off are recorded when received. 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

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 ED.

Fair value measurements – The fair value measurements and disclosures topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 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 former President who retired June 30, 2022, had an agreement entitling him to an additional \$50,000 in deferred compensation per year. The deferred compensation vested as of June 30, 2022, and is being paid in accordance with the agreement. The deferred compensation is recorded as an account payable and as an accrued expense on the statements of financial position.

As of June 30, 2023 and 2022, the amount accrued amount was \$146,250 and \$195,000, respectively. The remaining \$146,250 deferred compensation will be paid to the now retired president in equal annual installments ending July 2025.

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 (IRC) 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, 2023 and 2022. In addition, the University has no material unrelated business income subject to tax at June 30, 2023 and 2022.

Saint Martin's University Notes to Financial Statements

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 ED. Disbursements under each program are subject to disallowance by the ED 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 ED.

Saint Martin's University

Notes to Financial Statements

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 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.

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.

Contributed nonfinancial assets (gifts in kind) – Contributed nonfinancial assets are recognized as revenues in the statements of activities and changes in net assets as contributions. For the years ended June 30, 2023 and 2022, contributed nonfinancial assets were approximately \$3,231,000 and \$323,000, respectively. In fiscal year 2023, the Abbey gifted the Heider Hall building to the University at a value of \$3,126,000.

The University did not monetize any contributed nonfinancial assets. Contributed nonfinancial assets did not have donor restrictions were recorded at the fair market value determined as of the date the assets were 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.

Fundraising costs – The University incurred fundraising costs of approximately \$700,000 and \$560,000 for the years ended June 30, 2023 and 2022, respectively, which are included in institutional support on the statements of activities.

Saint Martin's University

Notes to Financial Statements

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be 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 available to be issued.

The University has evaluated subsequent events through September 28, 2023, which is the date the financial statements are available to be issued.

Reclassification – Certain amounts reported in the June 30, 2022, financial statements have been reclassified to be in accordance with the June 30, 2023, 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, 2023 and 2022, student loans outstanding through the Perkins loan program were \$51,096 and \$135,822, 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. The University had allowances for amounts outstanding older than five years as of June 30, 2022. As of June 30, 2023, the University had allowances for amounts aged no more than two years. Amounts aged over two years have been assigned back to the Department of Education.

At June 30, 2023 and 2022, 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, 2023	\$ 1,821	\$ -	\$ 26,483	\$ 28,304
June 30, 2022	\$ 9,901	\$ -	\$ 84,837	94,738

Saint Martin's University

Notes to Financial Statements

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 16% of outstanding student receivables at June 30, 2023 and 2022. 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 months late. At June 30, 2023 and 2022, 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, 2023	\$ 67,701	\$ 1,300	\$ 1,780,483	\$ 1,849,484
June 30, 2022	\$ 21,935	\$ 1,920	\$ 992,652	1,016,507

Note 4 – Investments

At June 30, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
Invested cash		
Savings accounts	\$ 251,259	\$ 251,039
Money market funds	328,741	104,692
	<u>580,000</u>	<u>355,731</u>
Investments		
Mutual funds	38,743,248	24,071,646
Common stocks	2,980,910	13,469,987
Cash surrender value of life insurance	13,403	13,164
	<u>41,737,561</u>	<u>37,554,797</u>
	<u>\$ 42,317,561</u>	<u>\$ 37,910,528</u>

Saint Martin's University Notes to Financial Statements

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 \$70,888 and \$83,213 for the years ended June 30, 2023 and 2022, 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.

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 statements 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, 2023 and 2022.

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, 2023 or 2022.

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.

Saint Martin's University

Notes to Financial Statements

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, 2023			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 2,980,910	\$ 2,980,910	\$ -	\$ -
Equity mutual funds				
Small cap funds	1,662,894	1,662,894	-	-
Mid cap funds	-	-	-	-
Large cap funds	21,317,315	21,317,315	-	-
Other	311,448	311,448	-	-
International funds	10,802,378	10,802,378	-	-
Fixed income mutual funds				
Debt funds	4,649,213	4,649,213	-	-
Total assets in fair value hierarchy	<u>\$ 41,724,158</u>	<u>\$ 41,724,158</u>	<u>\$ -</u>	<u>\$ -</u>
Obligation under interest rate swap	<u>\$ (651,525)</u>	<u>\$ -</u>	<u>\$ (651,525)</u>	<u>\$ -</u>
Total liabilities in fair value hierarchy	<u>\$ (651,525)</u>	<u>\$ -</u>	<u>\$ (651,525)</u>	<u>\$ -</u>

Saint Martin's University Notes to Financial Statements

	Fair Value Measurements as of June 30, 2022			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments				
Common stock				
U.S. marketable equities	\$ 13,469,987	\$ 13,469,987	\$ -	\$ -
Equity mutual funds				
Small cap funds	1,240,082	1,240,082	-	-
Mid cap funds	50,447	50,447	-	-
Large cap funds	1,174,996	1,174,996	-	-
Other	344,534	344,534	-	-
International funds	8,340,378	8,340,378	-	-
Fixed income mutual funds				
Debt funds	12,921,209	12,921,209	-	-
Total assets in fair value hierarchy	\$ 37,541,633	\$ 37,541,633	\$ -	\$ -
Obligation under interest rate swap	\$ (1,914,335)	\$ -	\$ (1,914,335)	\$ -
Total liabilities in fair value hierarchy	\$ (1,914,335)	\$ -	\$ (1,914,335)	\$ -

Cash surrender value of life insurance of \$13,403 and \$13,164 for the years ended June 30, 2023 and 2022, 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:

	2023	2022
Contributions to be collected		
In one year or less	\$ 769,864	\$ 986,081
Between one year and five years	1,011,763	1,490,981
More than five years	15,400	19,450
	1,797,027	2,496,512
Less discount	40,787	60,691
Net contributions receivable	\$ 1,756,240	\$ 2,435,821

Approximately 65% of the total outstanding contribution receivable balance is from seven major donors as of June 30, 2023. Approximately 60% is from five major donors as of June 30, 2022. Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary. The discount rate applied to multi-year promises was 5.64% and 2.36% for the years ended June 30, 2023 and 2022, 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.

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	40 years
Land improvements	5-20 years
Equipment	3-20 years

Fixed assets comprise the following at June 30:

	<u>2023</u>	<u>2022</u>
Land improvements	\$ 3,549,634	\$ 3,549,633
Buildings	91,162,913	87,260,061
Equipment	21,435,815	21,050,485
Construction in progress	229,688	458,937
	<u>116,378,050</u>	<u>112,319,116</u>
Less accumulated depreciation	59,723,773	56,537,170
	<u>\$ 56,654,277</u>	<u>\$ 55,781,946</u>

Depreciation expense – At June 30, 2023 and 2022, depreciation expense for the University was \$3,273,168 and \$3,318,774, 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, 2023 and 2022.

Note 8 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled \$3,494,142 and \$3,446,463 at June 30, 2023 and 2022, respectively. Of these amounts, \$825,844 and \$794,457 relate to charitable gift annuities at June 30, 2023 and 2022, 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 Internal Revenue Service (IRS) tables.

Saint Martin's University Notes to Financial Statements

At June 30, 2023 and 2022, liabilities under the charitable trusts are reported as annuities payable, totaling \$1,667,792 and \$1,811,625, respectively. For the year ended June 30, 2023, \$403,593 relates to charitable gift annuities and \$1,264,199 relates to charitable remainder unitrusts. For the year ended June 30, 2022, \$412,420 relates to charitable gift annuities and \$1,399,205 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:

	Interest Rate	Maturity Date	2023	2022
Series 2014A Bonds	1.59% - 2.36%	February 1, 2037	\$ 22,285,000	\$ 23,160,000
Series 2014B Bonds	1.59% - 2.36%	February 1, 2037	2,900,000	3,085,000
Payable to St. Martin's Abbey (Note 13)	See Note 13	See Note 13	101,035	167,576
			25,286,035	26,412,576
Unamortized discount and issuance cost			(197,566)	(212,773)
			<u>\$ 25,088,469</u>	<u>\$ 26,199,803</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:

2024	\$ 1,192,035
2025	1,202,000
2026	1,273,000
2027	1,334,000
2028	1,405,000
Thereafter	18,880,000
	<u>\$ 25,286,035</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, 2023, was 5.86%.

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 (\$875,000 in 2023 and \$820,000 in 2022) 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.

Saint Martin's University Notes to Financial Statements

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 (\$185,000 in 2023 and \$180,000 in 2022) 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, 2023, was 5.86%.

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 \$197,566 and \$212,773 (net) at June 30, 2023 and 2022, have been capitalized and are being amortized over the remaining 22-year life of the bonds. Accumulated amortization totaled \$134,674 and \$119,467 at June 30, 2023 and 2022, 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 \$651,525 and \$1,914,335 at June 30, 2023 and 2022, 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 statements of activities for the years ended June 30:

	2023	2022
Interest expense	\$ 1,774,458	\$ 1,667,446
Unrealized gain on interest rate swap	(1,262,810)	(2,305,773)
	\$ 511,648	\$ (638,327)

As of June 30, 2023 and 2022, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was \$23,595,000 and \$24,655,000, respectively. The original notional amount was \$34,405,000.

Saint Martin's University

Notes to Financial Statements

Line of credit – The University has a \$2,000,000 line of credit in the form of a demand note with U.S. Bank. This agreement provides for interest at the bank's monthly reset term SOFR (secured overnight financing rate) 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, 2023, 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, 2024.

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, 2023 and 2022.

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, 2023 and 2022, the University made no repayments. The total loan balance outstanding as of June 30, 2023 and 2022, was \$3,904,980.

As of June 30, 2023 and 2022, net assets with and without donor restrictions were as follows:

	<i>Net Assets With and Without Donor Restriction</i>					
	Without Donor Restrictions		With Donor Restrictions		2023 Total	2022 Total
	2023	2022	2023	2022		
Without donor or board designations	\$ 25,088,711	\$ 26,508,942	\$ -	\$ -	\$ 25,088,711	\$ 26,508,942
<i>Board-designated funds</i>						
Funds held for long-term investments and scholarships	10,490,153	9,780,650	-	-	10,490,153	9,780,650
<i>Donor-restricted funds</i>						
Endowments (a)	-	-	19,811,054	19,466,891	19,811,054	19,466,891
Endowments and scholarships (b)	-	-	18,791,367	13,713,642	18,791,367	13,713,642
Split interest agreements	-	-	1,743,255	1,627,750	1,743,255	1,627,750
Other	-	-	13,403	13,164	13,403	13,164
Total net assets	\$ 35,578,864	\$ 36,289,592	\$ 40,359,079	\$ 34,821,447	\$ 75,937,943	\$ 71,111,039

(a) Endowments held in perpetuity

(b) Endowments and scholarships held for time or purpose

Saint Martin's University Notes to Financial Statements

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:

	Without Donor Restrictions	With Donor Restrictions*	Total
2023			
Donor-restricted endowment funds	\$ -	\$ 33,962,672	\$ 33,962,672
Board-designated endowment/scholarship funds	6,585,172	-	6,585,172
Total funds	<u>\$ 6,585,172</u>	<u>\$ 33,962,672</u>	<u>\$ 40,547,844</u>
	Without Donor Restrictions	With Donor Restrictions*	Total
2022			
Donor-restricted endowment funds	\$ -	\$ 30,118,661	\$ 30,118,661
Board-designated endowment/scholarship funds	5,875,668	-	5,875,668
Total funds	<u>\$ 5,875,668</u>	<u>\$ 30,118,661</u>	<u>\$ 35,994,329</u>

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

Saint Martin's University
Notes to Financial Statements

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

	Without Donor Restrictions	With Donor Restrictions	Total
2023			
Endowment net assets, beginning of year	\$ 5,875,668	\$ 30,118,661	\$ 35,994,329
Investment return			
Investment income, net	80,477	571,208	651,685
Net appreciation, realized and unrealized	547,971	3,133,481	3,681,452
	628,448	3,704,689	4,333,137
Interest on Quasi-endowment loan payment	218,679	-	218,679
	218,679	-	218,679
Contributions	164,477	940,422	1,104,899
Expenditures appropriated	(302,100)	(801,100)	(1,103,200)
Endowment net assets, end of year	\$ 6,585,172	\$ 33,962,672	\$ 40,547,844
	Without Donor Restrictions	With Donor Restrictions	Total
2022			
Endowment net assets, beginning of year	\$ 6,551,481	\$ 26,628,109	\$ 33,179,590
Investment return			
Investment income, net	70,774	323,278	394,052
Net depreciation, realized and unrealized	(945,406)	(4,211,979)	(5,157,385)
	(874,632)	(3,888,701)	(4,763,333)
Interest on Quasi-endowment loan payment	218,679	-	218,679
	218,679	-	218,679
Contributions	184,540	7,954,153	8,138,693
Expenditures appropriated	(204,400)	(574,900)	(779,300)
Endowment net assets, end of year	\$ 5,875,668	\$ 30,118,661	\$ 35,994,329

Saint Martin's University

Notes to Financial Statements

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, 2023, the University had 53 funds with deficiencies out of 229 active funds. The total corpus value of these funds is \$8,203,050 with a current fair market value of \$7,781,099 which leads to a total deficiency value of \$421,951. At June 30, 2022, 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 12 quarters through the two fiscal year-ends preceding the fiscal year in which the distribution is planned. For the years ended June 30, 2023 and 2022, this amount was 3.5% and 3.0%, 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 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. Due to the unique arrangement where the Abbey owns the land and the University owns specific physical structures, management has determined that any valuation of land would be impractical and not accurately represented. Therefore, the University has not recorded an annual in-kind gift for the usage of the land.

Saint Martin's University

Notes to Financial Statements

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:

	2023	2022
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.	\$ 60,176	\$ 116,017
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.	40,859	51,559
	\$ 101,035	\$ 167,576

Related-party – other – For the years ended June 30, 2023 and 2022, the University received various gifts from the Abbey totaling approximately \$3,126,934 and \$5,000,000, respectively. As of June 30, 2023 and 2022, the University had accounts receivable from the Abbey of \$45,800 and \$23,445, 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, 2023, \$3,126,934 was reported as contributions from related party - without restrictions on the statement of activities and changes in net assets, while \$0 remains reported as contributions from related party - with donor restrictions. For the year ended June 30, 2022, \$5,000,000 was reported as contributions from related party – with donor restrictions.

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.

Saint Martin's University

Notes to Financial Statements

Note 14 – Pension Plan

The University has a defined contribution pension plan under IRC 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 5% and 3% as of June 30, 2023 and 2022, respectively, resulting in total contributions of \$742,340 and \$400,313, respectively.

Note 15 – Liquidity and Availability

An analysis of asset accounts at fiscal year-end June 30, 2023 and 2022, 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 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>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents		
Operating cash	\$ 1,193,036	\$ 4,184,265
Restricted cash	1,481,872	1,627,164
Invested cash	580,000	355,731
Student receivable - net	4,541,420	3,413,312
Student loans receivable - Perkins loan program - net	56,276	135,822
Contributions receivable - net	1,756,240	2,435,821
Other receivables - net	1,253,509	932,468
Investments	<u>41,737,561</u>	<u>37,554,797</u>
Financial assets, at year end	<u>52,599,914</u>	<u>50,639,380</u>
Less those unavailable for general expenditure within one year		
Funds unused from the Abbot Neal Roth Scholarship	1,335,622	1,432,164
Cash held for President's deferred compensation (Note 2)	146,250	195,000
Student receivable - net	1,780,483	992,652
Perkins loan receivable - collectible beyond one year	80,557	99,750
Contributions receivable - collectible beyond one year	1,027,163	1,510,431
Other receivables - collectible beyond one year	1,253,509	932,468
Long term investments (includes \$3,784,995 held for custodial purposes)	<u>41,737,561</u>	<u>37,554,797</u>
	<u>47,361,145</u>	<u>42,717,262</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,238,769</u>	<u>\$ 7,922,118</u>

Saint Martin's University Notes to Financial Statements

Amounts included in the restricted cash balance as of June 30, 2023, 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 U.S. Bank for the line of credit collateral. Additional cash is set aside for payment of the President's deferred compensation agreement (Note 2).

The line of credit is intended to assist the University with liquidity needs during times of low liquidity and cash flow. As of June 30, 2023, the university has not drawn on the line of credit (Note 9)

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, 2023 and 2022:

	June 30, 2023						
	Program Expenses				Support Expenses		Total Expenses
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	
Salaries & payroll taxes	\$ 10,238,319	\$ 105,092	\$ 4,354,585	\$ 777,499	\$ 3,205,053	\$ 3,779,379	\$ 22,459,927
Benefits	1,291,588	6,450	1,023,116	189,066	1,660,242	865,657	5,036,119
Goods and services	872,069	146,910	3,994,121	3,477,591	1,424,064	4,551,141	14,465,896
Facilities & maintenance	522,364	6,920	374,494	292,391	188,736	577,629	1,962,534
Interest	566,592	7,586	362,107	165,178	192,550	480,445	1,774,458
Depreciation & amortization	287,502	469	385,613	790,818	797,767	1,026,206	3,288,375
	<u>\$ 13,778,434</u>	<u>\$ 273,427</u>	<u>\$ 10,494,036</u>	<u>\$ 5,692,543</u>	<u>\$ 7,468,412</u>	<u>\$ 11,280,457</u>	<u>\$ 48,987,309</u>

	June 30, 2022						
	Program Expenses				Support Expenses		Total Expenses
	Instruction	Research	Student Services	Auxiliary Enterprise	Academic	Institutional	
Salaries & payroll taxes	\$ 9,774,669	\$ 135,751	\$ 4,335,170	\$ 805,155	\$ 3,114,088	\$ 3,793,100	\$ 21,957,933
Benefits	1,078,294	3,714	642,420	102,732	379,782	491,080	2,698,022
Goods and services	690,610	187,653	5,074,667	3,143,264	1,123,293	3,939,459	14,158,946
Facilities & maintenance	478,794	19,742	364,160	680,102	139,687	208,122	1,890,607
Interest	459,789	19,006	306,746	636,630	107,593	137,682	1,667,446
Depreciation & amortization	297,169	764	386,257	809,004	810,541	1,030,246	3,333,981
	<u>\$ 12,779,325</u>	<u>\$ 366,630</u>	<u>\$ 11,109,420</u>	<u>\$ 6,176,887</u>	<u>\$ 5,674,984</u>	<u>\$ 9,599,689</u>	<u>\$ 45,706,935</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.

Supplementary Information

Saint Martin's University
Financial Responsibility Ratios
June 30, 2023

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:

- (g) Determine the value of each ratio;
- (h) Calculate a strength factor score for each ratio using the appropriate algorithm;
- (i) Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- (j) 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 (SOFP), statement of activities and changes in net assets (SOA), or a specific footnote.

Saint Martin's University

Financial Responsibility Ratios

June 30, 2023

<u>Primary Reserve Ratio Calculation</u>	<u>Reference</u>	<u>As of and for the Year Ended June 30, 2023</u>	
Net assets without donor restrictions	SOF P	\$	35,578,864
Net assets with donor restrictions	SOF P		<u>40,359,079</u>
 Total net assets			 75,937,943
Less:			
Annuities with donor restrictions	Note 11		(1,743,255)
Term endowments with donor restrictions	N/A		-
Life income funds with donor restrictions	N/A		-
Net assets with donor restrictions: restricted in perpetuity (less annuities)	Note 11		(19,811,054)
Unsecured related party receivables	Note 13		(45,800)
Unsecured other related party assets	N/A		-
Property, plant and equipment - pre-implementation	*		(46,742,005)
Property, plant and equipment - post-implementation with outstanding debt for original purchase	**		-
Property, plant and equipment - post-implementation without outstanding debt for original purchase	***		(9,682,584)
Construction in progress	*****		(229,688)
Lease right-of-use asset pre-implementation			-
Lease right-of-use asset post-implementation	****		-
Intangible assets	Note 9		(197,566)
Add:			
Post-employment and pension liabilities			-
Long-term debt for long term purposes pre-implementation	†		25,286,035
Long-term debt for long term purposes post-implementation	††		-
Line of credit for construction in progress	N/A		-
Pre-implementation right-of-use lease liabilities	N/A		-
Post-implementation right-of-use lease liabilities	N/A		<u>-</u>
 Total expendable net assets		\$	 22,772,026
 Total expenses without donor restrictions	SOA		 48,987,309
Add:			
Non-operating and net investment losses	N/A		-
Net investment losses	N/A		-
Change in value of split-interest agreements	SOA		172,459
Pension - related changes other than net periodic costs	N/A		<u>-</u>
 Total expenses without donor restrictions and losses without donor restrictions		\$	 <u>49,159,768</u>
 Primary reserve ratio			 0.5
 Net assets with donor restrictions: other for purpose or time (not included in the calculation)	^		 (20,548,025)

Saint Martin's University

Financial Responsibility Ratios

June 30, 2023

<u>Equity Ratio Calculation</u>	<u>Reference</u>	<u>June 30, 2023</u>
Net assets without donor restrictions	SOFP	\$ 35,578,864
Net assets with donor restrictions	SOFP	<u>40,359,079</u>
		75,937,943
Less:		
Lease right-of-use assets pre-implementation		-
Intangible assets	Note 9	(197,566)
Unsecured related-party receivables	Note 13	(45,800)
Unsecured related-party other assets	N/A	-
Add:		
Pre-implementation right-of-use lease liabilities		<u>-</u>
Modified net assets		\$ 75,694,577
Total assets	SOFP	\$ 109,987,120
Less:		
Lease right-of-use assets pre-implementation		-
Intangible assets	Note 9	(197,566)
Unsecured related-party receivables	Note 13	(45,800)
Unsecured related-party other assets	N/A	<u>-</u>
Modified assets		<u>\$ 109,743,754</u>
Equity ratio		0.7

<u>Net Income Ratio Calculation</u>	<u>Reference</u>	<u>For the Year Ended June 30, 2023</u>
Change in net assets without donor restrictions	SOA	(710,728)
Total operating revenue, gains, and other support without donor restrictions	SOA	\$ 47,013,771
Add:		
Investment return appropriated for spending (without donor restriction)	N/A	-
Non-operating revenue and other gains (without donor restriction)	SOA	1,262,810
Total revenue and gains without donor restrictions		<u>\$ 48,276,581</u>
Net income ratio		(0.015)

Saint Martin's University

Financial Responsibility Ratios

June 30, 2023

The following tables reconcile amounts in the scores above to footnotes in the audited financial statements:

	Reference			
Property, plant and equipment - pre-implementation		\$	46,742,005	*
Property, plant and equipment - post-implementation with outstanding debt for original purchase			-	**
Property, plant and equipment - post-implementation without outstanding debt for original purchase			9,682,584	***
Lease right-of-use assets post-implementation			-	****
Construction in progress	Note 7		229,688	*****
 Total property, plant, and equipment at June 30, 2023	 Note 7	 \$	 56,654,277	
 Long-term debt for long term purposes pre-implementation				
Series 2014A Bonds	Note 9	\$	22,285,000	
Series 2014B Bonds	Note 9		2,900,000	
Payable to St. Martin's Abbey	Note 9		101,035	
Total long-term debt for long term purposes pre-implementation			25,286,035	†
 Long-term debt for long term purposes post-implementation				
N/A	N/A		-	
Total long-term debt for long term purposes post-implementation			-	††
Line of credit for construction in progress	N/A		-	
 Total long-term debt at June 30, 2023		 \$	 25,286,035	
 Accumulated earnings subject to time or purpose restriction(s)	N/A	\$	-	
Other net assets with time and purpose restriction	Note 11		13,403	
Other net assets with time and purpose restriction	Note 11		1,743,255	
Other net assets with time and purpose restriction	Note 11		18,791,367	
 Net assets with donor restrictions: other for purpose or time (less annuities)		 \$	 20,548,025	 ^

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
June 30, 2023

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 DESCRIPTION	As of and for the year ended June 30, 2023			Composite Scores
	Ratio	Strength Factor	Weight	
Primary Reserve Ratio	0.463	3.000	40%	1.200
Equity Ratio	0.690	3.000	40%	1.200
Net Income Ratio	(0.015)	0.632	20%	0.126
Composite Score				<u>2.5</u>