

# **SAINT MARY'S UNIVERSITY OF MINNESOTA**

Winona, Minnesota

## **FINANCIAL STATEMENTS** Including Independent Auditors' Report

As of and for the Years Ended May 31, 2017 and 2016

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Saint Mary's University of Minnesota  
Winona, Minnesota

We have audited the accompanying financial statements of Saint Mary's University of Minnesota (the "University"), which comprise the statements of financial position as of May 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary's University of Minnesota as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 16, 2017

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

STATEMENTS OF FINANCIAL POSITION  
As of May 31, 2017 and 2016

| <b>ASSETS</b>  |                              |                              |
|--|------------------------------|------------------------------|
|  | <u>2017</u>                  | <u>2016</u>                  |
| Cash and cash equivalents  | \$ 11,355,566                | \$ 15,400,145                |
| Receivables  |                              |                              |
| Student accounts, net of allowance for doubtful accounts<br>of \$860,000 and \$460,000, respectively | 9,857,328                    | 6,953,103                    |
| Pledges, net   | 9,159,000                    | 8,407,000                    |
| Other  | 26,180                       | 146,240                      |
| Prepaid expenses and other assets  | 515,514                      | 49,872                       |
| Other investments  | 272,224                      | 283,378                      |
| Student loans receivable, net  | 2,565,835                    | 3,039,825                    |
| Endowment investments  | 53,834,588                   | 47,666,996                   |
| Funds held in trust by others  | 163,092                      | 158,318                      |
| Deposits with bond trustees  | 369,199                      | 368,973                      |
| Investments held for investment in property and equipment  | 4,588,424                    | 8,586,050                    |
| Property, plant and equipment, net   | <u>76,881,423</u>            | <u>63,933,951</u>            |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 169,588,373</u></b> | <b><u>\$ 154,993,851</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                              |                              |
| <b>LIABILITIES</b>   |                              |                              |
| Accounts payable   | \$ 2,849,328                 | \$ 2,377,837                 |
| Accrued liabilities  | 1,956,703                    | 2,018,516                    |
| Deposit accounts   | 1,007,429                    | 525,959                      |
| Deferred revenue   | 11,394,458                   | 10,971,617                   |
| Contract payable - food service  | 331,590                      | 426,330                      |
| Asset retirement obligations   | 812,685                      | 774,015                      |
| Notes payable  | 881,212                      | 911,187                      |
| Loan payable to U.S. Department of Education   | 121,084                      | 141,046                      |
| Bonds and note payable to Minnesota Higher Education Facilities Authority                            | 6,966,630                    | 7,752,278                    |
| Annuities payable  | 444,060                      | 488,441                      |
| Deposits held in custody for others  | 148,669                      | 110,094                      |
| Government grants refundable   | <u>2,812,833</u>             | <u>3,028,789</u>             |
| Total Liabilities  | <u>29,726,681</u>            | <u>29,526,109</u>            |
| <b>NET ASSETS</b>  |                              |                              |
| Unrestricted   | 89,343,876                   | 76,580,805                   |
| Temporarily restricted   | 20,344,666                   | 20,939,829                   |
| Permanently restricted   | <u>30,173,150</u>            | <u>27,947,108</u>            |
| Total Net Assets   | <u>139,861,692</u>           | <u>125,467,742</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b><u>\$ 169,588,373</u></b> | <b><u>\$ 154,993,851</u></b> |

See accompanying notes to financial statements.

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

STATEMENT OF ACTIVITIES  
For the Year Ended May 31, 2017  
With Comparative Totals for 2016

|   | 2017                 |                           |                           | 2016                  |                       |
|---|----------------------|---------------------------|---------------------------|-----------------------|-----------------------|
|   | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 | Total                 |
| <b>REVENUES, GAINS AND OTHER SUPPORT</b>                |                      |                           |                           |                       |                       |
| Tuition and fees  | \$ 71,063,693        |                           |                           | \$ 71,063,693         | \$ 72,354,559         |
| Less: Scholarships and grants                           | (16,888,533)         |                           |                           | (16,888,533)          | (16,990,787)          |
| Net tuition and fees                                    | 54,175,160           |                           |                           | 54,175,160            | 55,363,772            |
| Government grants                                       | 2,682,233            |                           |                           | 2,682,233             | 2,363,048             |
| Private gifts and grants                                | 645,979              | \$ 10,225,439             | \$ 2,178,874              | 13,050,292            | 11,344,952            |
| Private sponsored research and programs                 |                      |                           |                           |                       | 390,756               |
| Endowment income  | 297,136              | 731,615                   |                           | 1,028,751             | 965,211               |
| Other sources   | 1,166,757            |                           |                           | 1,166,757             | 1,043,043             |
| Net gains (losses) on investments                       | 1,101,207            | 3,833,655                 |                           | 4,934,862             | (2,134,039)           |
| Gains (losses) on funds held in trust by others         |                      | (11,191)                  | 15,965                    | 4,774                 | (286,816)             |
| Sales and services from auxiliary enterprises           | 8,153,916            |                           |                           | 8,153,916             | 8,358,141             |
|   | 68,222,388           | 14,779,518                | 2,194,839                 | 85,196,745            | 77,408,068            |
| Net assets released from restrictions                   | 15,374,681           | (15,374,681)              |                           |                       |                       |
| Total Revenues, Gains and Other Support                 | <u>83,597,069</u>    | <u>(595,163)</u>          | <u>2,194,839</u>          | <u>85,196,745</u>     | <u>77,408,068</u>     |
| <b>EXPENSES</b>   |                      |                           |                           |                       |                       |
| Program expenses  |                      |                           |                           |                       |                       |
| Instruction   | 28,662,708           |                           |                           | 28,662,708            | 29,171,728            |
| Research  | 138,758              |                           |                           | 138,758               | 87,326                |
| Public service  | 5,142,614            |                           |                           | 5,142,614             | 4,834,647             |
| Academic support  | 7,630,418            |                           |                           | 7,630,418             | 7,454,035             |
| Student services  | 10,674,744           |                           |                           | 10,674,744            | 10,639,331            |
| Auxiliary enterprises                                   | 5,085,650            |                           |                           | 5,085,650             | 5,568,204             |
| Support expenses  |                      |                           |                           |                       |                       |
| Institutional support                                   | 13,528,246           |                           |                           | 13,528,246            | 14,158,501            |
| Allocable expenses                                      |                      |                           |                           |                       |                       |
| Operation and maintenance of plant                      | 4,430,588            |                           |                           | 4,430,588             | 5,419,157             |
| Depreciation and amortization                           | 2,824,297            |                           |                           | 2,824,297             | 2,774,175             |
| Interest  | 297,762              |                           |                           | 297,762               | 322,418               |
| Less: Allocated expenses                                | (7,552,647)          |                           |                           | (7,552,647)           | (8,515,750)           |
| Adjustment of actuarial liability for annuities payable | (29,140)             |                           | (31,203)                  | (60,343)              | 108,713               |
| Total Expenses  | <u>70,833,998</u>    |                           | <u>(31,203)</u>           | <u>70,802,795</u>     | <u>72,022,485</u>     |
| <b>Change in Net Assets</b>                             | 12,763,071           | (595,163)                 | 2,226,042                 | 14,393,950            | 5,385,583             |
| NET ASSETS - Beginning of Year                          | <u>76,580,805</u>    | <u>20,939,829</u>         | <u>27,947,108</u>         | <u>125,467,742</u>    | <u>120,082,159</u>    |
| <b>NET ASSETS - END OF YEAR</b>                         | <u>\$ 89,343,876</u> | <u>\$ 20,344,666</u>      | <u>\$ 30,173,150</u>      | <u>\$ 139,861,692</u> | <u>\$ 125,467,742</u> |

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

STATEMENT OF ACTIVITIES  
For the Year Ended May 31, 2016

|  | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|----------------------|---------------------------|---------------------------|-----------------------|
| <b>REVENUES, GAINS AND OTHER SUPPORT</b>                   |                      |                           |                           |                       |
| Tuition and fees   | \$ 72,354,559        |                           |                           | \$ 72,354,559         |
| Less: Scholarships and grants                              | (16,990,787)         |                           |                           | (16,990,787)          |
| Net tuition and fees                                       | 55,363,772           |                           |                           | 55,363,772            |
| Government grants  | 2,363,048            |                           |                           | 2,363,048             |
| Private gifts and grants                                   | 2,532,123            | \$ 7,667,748              | \$ 1,145,081              | 11,344,952            |
| Private sponsored research and programs                    | 390,756              |                           |                           | 390,756               |
| Endowment income   | 196,444              | 768,767                   |                           | 965,211               |
| Other sources  | 1,043,043            |                           |                           | 1,043,043             |
| Net losses on investments                                  | (475,739)            | (1,658,300)               |                           | (2,134,039)           |
| Gains (losses) on funds held in trust by others            |                      | (290,246)                 | 3,430                     | (286,816)             |
| Sales and services from auxiliary enterprises              | 8,358,141            |                           |                           | 8,358,141             |
|  | 69,771,588           | 6,487,969                 | 1,148,511                 | 77,408,068            |
| Net assets released from restrictions                      | 8,182,191            | (8,182,191)               |                           |                       |
| Total Revenues, Gains and Other Support                    | 77,953,779           | (1,694,222)               | 1,148,511                 | 77,408,068            |
| <b>EXPENSES</b>  |                      |                           |                           |                       |
| Program expenses   |                      |                           |                           |                       |
| Instruction  | 29,171,728           |                           |                           | 29,171,728            |
| Research   | 87,326               |                           |                           | 87,326                |
| Public service   | 4,834,647            |                           |                           | 4,834,647             |
| Academic support   | 7,454,035            |                           |                           | 7,454,035             |
| Student services   | 10,639,331           |                           |                           | 10,639,331            |
| Auxiliary enterprises                                      | 5,568,204            |                           |                           | 5,568,204             |
| Support expenses   |                      |                           |                           |                       |
| Institutional support                                      | 14,158,501           |                           |                           | 14,158,501            |
| Allocable expenses   |                      |                           |                           |                       |
| Operation and maintenance of plant                         | 5,419,157            |                           |                           | 5,419,157             |
| Depreciation and amortization                              | 2,774,175            |                           |                           | 2,774,175             |
| Interest   | 322,418              |                           |                           | 322,418               |
| Less: Allocated expenses                                   | (8,515,750)          |                           |                           | (8,515,750)           |
| Adjustment of actuarial liability<br>for annuities payable | 44,866               |                           | 63,847                    | 108,713               |
| Total Expenses   | 71,958,638           |                           | 63,847                    | 72,022,485            |
| <b>Change in Net Assets</b>                                | 5,995,141            | (1,694,222)               | 1,084,664                 | 5,385,583             |
| NET ASSETS - Beginning of Year                             | 70,585,664           | 22,634,051                | 26,862,444                | 120,082,159           |
| <b>NET ASSETS - END OF YEAR</b>                            | <u>\$ 76,580,805</u> | <u>\$ 20,939,829</u>      | <u>\$ 27,947,108</u>      | <u>\$ 125,467,742</u> |

SAINT MARY'S UNIVERSITY OF MINNESOTA

STATEMENTS OF CASH FLOWS  
For the Years Ended May 31, 2017 and 2016

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |               |               |
| Change in net assets  | \$ 14,393,950 | \$ 5,385,583  |
| Adjustments to reconcile change in net assets to net cash flows from operating activities |               |               |
| Depreciation and amortization   | 2,824,297     | 2,774,175     |
| Net (gains) losses on investments   | (4,934,862)   | 2,134,039     |
| (Gains) losses on funds held in trust by others   | (4,774)       | 286,816       |
| Actuarial adjustment of annuities payable   | 6,804         | 15,317        |
| Loan cancellations and reinstatements   | 21,986        | 18,437        |
| Increase in allowance for doubtful accounts   | 400,000       |               |
| Gift in kind  |               | (740,000)     |
| Changes in assets and liabilities   |               |               |
| Student accounts receivable   | (3,304,225)   | (1,117,747)   |
| Pledges receivable - operations   | (666,000)     | (271,500)     |
| Other receivables   | 120,060       | (44,095)      |
| Prepaid expenses and other assets   | (465,642)     | (6,989)       |
| Accounts payable  | (166,504)     | 90,006        |
| Accrued liabilities   | (61,813)      | (53,479)      |
| Deposit accounts  | 481,470       | 56,809        |
| Deferred revenue  | 422,841       | 753,851       |
| Deposits held in custody for others   | 38,575        | (9,518)       |
| Contributions restricted for long-term investment and plant                               | (9,344,398)   | (6,223,179)   |
| Net Cash Flows From Operating Activities  | (238,235)     | 3,048,526     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |               |               |
| Purchases of endowment investments  | (12,598,707)  | (8,430,540)   |
| Sales of endowment investments  | 11,365,977    | 7,385,783     |
| Sales of other investments, net   | 11,154        | 40,705        |
| (Increase) decrease in deposits with trustee, net   | (226)         | 536           |
| Decrease (increase) in investments held for investment in property and equipment          | 3,997,626     | (1,706,267)   |
| Purchases of property, plant and equipment  | (15,181,492)  | (6,538,033)   |
| Disbursements of loans to students  | (350,750)     | (433,150)     |
| Repayments of loans from students   | 453,993       | 462,247       |
| Net Cash Flows From Investing Activities  | (12,302,425)  | (9,218,719)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |               |               |
| Repayments of principal on indebtedness   | (843,937)     | (819,664)     |
| Contributions received restricted for long-term investment and plant                      | 9,258,398     | 6,213,179     |
| Loan funds assigned to the government   | 348,761       |               |
| (Decrease) increases in refundable governmental grants                                    | (215,956)     | 23,646        |
| Payments to annuitants  | (51,185)      | (55,053)      |
| Net Cash Flows From Financing Activities  | 8,496,081     | 5,362,108     |
| <b>Net Change in Cash and Cash Equivalents</b>  | (4,044,579)   | (808,085)     |
| CASH AND CASH EQUIVALENTS - Beginning of Year   | 15,400,145    | 16,208,230    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>  | \$ 11,355,566 | \$ 15,400,145 |
| <b>Supplemental disclosures of cash flow information</b>                                  |               |               |
| Interest paid   | \$ 303,372    | \$ 327,617    |
| <b>Noncash investing and financing activities</b>   |               |               |
| Property, plant and equipment acquired through accounts payable                           | 1,318,425     | 680,430       |
| Amortization of contract payable - food service   | 94,740        | 94,740        |



# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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Saint Mary's University of Minnesota, a Catholic liberal arts university, offers accredited bachelor's, master's and doctoral degree programs. The University has the sponsorship of the DeLaSalle Christian Brothers, an international Roman Catholic teaching order, which has residual rights to the property of the University. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

**Net Asset Classifications** - For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are constructed or placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in unrestricted net assets.

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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***Tuition and Fees and Auxiliary Revenues*** - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

***Cash and Cash Equivalents*** - The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the University is restricted for the Perkins Loan Fund.

***Receivables*** - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on a review of all outstanding amounts. A student account receivable is considered to be delinquent if not paid by the due date. A monthly service fee is charged on delinquent amounts and is recognized as it is charged. 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. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured.

***Deposits with Bond Trustees*** - Deposits with bond trustees include amounts restricted for debt service as required by the related trust indenture.

***Physical Plant and Equipment*** - Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The University depreciates its assets on the straight-line basis over the estimated useful lives of buildings (50 years), outdoor facilities (20 years), land improvements (15 years), equipment and furniture (5-10 years), and library books (10 years). Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes physical plant additions in excess of \$5,000.

***Deferred Revenue*** - Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period classes are provided and expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

***Asset Retirement Obligations*** - The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

SAINT MARY'S UNIVERSITY OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2017 and 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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Changes in the accrual for asset retirement obligations during the years ended May 31, 2016 and 2015 are as follows:

|                                | <u>2017</u>       | <u>2016</u>       |
|--------------------------------|-------------------|-------------------|
| Balance, Beginning of the year | \$ 774,015        | \$ 737,189        |
| Accretion expense              | <u>38,670</u>     | <u>36,826</u>     |
| Balance, End of the year       | <u>\$ 812,685</u> | <u>\$ 774,015</u> |

**Government Grants Refundable** - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the Statements of Financial Position. Revenues from other government grants are recognized as they are earned in accordance with provisions of the grants. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

**Grants to Specified Students** - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University.

**Fund-Raising and Advertising Expenses** - Fund-raising expenses totaled approximately \$1,941,000 and \$1,812,000 for the years ended May 31, 2017 and 2016, respectively. Advertising expenses totaled approximately \$684,000 and \$817,000 for the years ended May 31, 2017 and 2016, respectively. The University expenses advertising at the time incurred.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Use of Estimates** - The preparation of financial statements in conformity 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 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.

**Income Tax Status** - The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. Accordingly, the University is subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt status (unrelated business activities).

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2017 and 2016. The University's tax returns are subject to review and examination by federal and state authorities.

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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**Impairment of Long-Lived Assets** - The University reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses recorded.

**New Accounting Pronouncements** - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017. Early application is permitted for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. In addition, the ASU will no longer allow entities to imply a time restriction on contributions restricted by donors to acquire long-lived assets, including gifts of cash restricted for those acquisitions. Instead, the restrictions will expire when the long-lived assets are placed in service. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash or restricted cash equivalents when reconciling the beginning of period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The University is assessing the impact the standard will have on its financial statements.

## SAINT MARY'S UNIVERSITY OF MINNESOTA

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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#### NOTE 2 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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***Fair Value Hierarchy*** - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

#### ***Valuation Techniques and Inputs***

- Level 1 - Level 1 assets include investments in mutual funds, fixed income securities and stocks for which the fair values are based on quoted prices in active markets.
- Level 2 - Level 2 assets include investments in money market funds for which quoted market prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.
- Level 3 - Level 3 assets include beneficial interest in funds held in trust by others as the fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trust fund assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trust fund assets.

Certain mutual funds and alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

# **SAINT MARY'S UNIVERSITY OF MINNESOTA**

## **NOTES TO FINANCIAL STATEMENTS** As of and for the Years Ended May 31, 2017 and 2016

### **NOTE 2 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

There have been no changes in the techniques and inputs used as of May 31, 2017 and 2016.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

The following table presents information about the University's assets measured at fair value on a recurring basis as of May 31, 2017:

|  | <u>Total</u>             | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>    |
|--|--------------------------|----------------------|---------------------|-------------------|
| Northern Trust Flex Cash Fund          | \$ 6,042,530             |                      | \$ 6,042,530        |                   |
| Mutual Funds - Northern Trust          |                          |                      |                     |                   |
| Fixed income                           | 9,577,162                | \$ 9,577,162         |                     |                   |
| Balanced                               | 263,748                  | 263,748              |                     |                   |
| Funds held in trust by others          | 163,092                  |                      |                     | \$ 163,092        |
| Mutual funds - other                   | 849,689                  | 849,689              |                     |                   |
| Fixed income securities                | 369,199                  | 369,199              |                     |                   |
| Stocks                                 | <u>63,164</u>            | <u>63,164</u>        |                     |                   |
| Subtotal assets by valuation hierarchy | 17,328,584               | <u>\$ 11,122,962</u> | <u>\$ 6,042,530</u> | <u>\$ 163,092</u> |
| Assets measured using NAV              |                          |                      |                     |                   |
| Mutual funds - Northern Trust          |                          |                      |                     |                   |
| Equity - Large Cap US                  | 13,478,258               |                      |                     |                   |
| Equity - Mid Cap US                    | 1,436,577                |                      |                     |                   |
| Equity - Small Cap US                  | 1,911,586                |                      |                     |                   |
| Equity - International                 | 16,717,039               |                      |                     |                   |
| Fixed income                           | 2,657,703                |                      |                     |                   |
| Alternative investments                |                          |                      |                     |                   |
| Hedge funds                            | <u>6,272,927</u>         |                      |                     |                   |
| Subtotal assets measured at NAV        | <u>42,474,090</u>        |                      |                     |                   |
| <br>Total assets at fair value         | <br><u>\$ 59,802,674</u> |                      |                     |                   |

Total assets at fair value consist of the following at May 31, 2017:

|  |                      |
|--|----------------------|
| Money market investments included  |                      |
| in cash and cash equivalents   | \$ 848,697           |
| Other investments  | 272,224              |
| Endowment investments  | 53,834,588           |
| Less cash surrender value of life insurance                                    | (273,550)            |
| Funds held in trust by others  | 163,092              |
| Deposits with bond trustee   | 369,199              |
| Investments held for investment in property and equipment - Money market funds | <u>4,588,424</u>     |
|  | <u>\$ 59,802,674</u> |

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### NOTE 2 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents information about the University's assets measured at fair value on a recurring basis as of May 31, 2016:

|  | Total                | Level 1             | Level 2              | Level 3           |
|--|----------------------|---------------------|----------------------|-------------------|
| Northern Trust Flex Cash Fund          | \$ 10,393,376        |                     | \$ 10,393,376        |                   |
| Mutual funds - Northern Trust          |                      |                     |                      |                   |
| Fixed income                           | 6,769,464            | \$ 6,769,464        |                      |                   |
| Balanced                               | 275,101              | 275,101             |                      |                   |
| Funds held in trust by others          | 158,318              |                     |                      | \$ 158,318        |
| Mutual funds - other                   | 791,030              | 791,030             |                      |                   |
| Money market funds - other             | 31,344               |                     | 31,344               |                   |
| Fixed income securities                | 368,973              | 368,973             |                      |                   |
| Stocks                                 | 48,412               | 48,412              |                      |                   |
| Subtotal assets by valuation hierarchy | 18,836,018           | <u>\$ 8,252,980</u> | <u>\$ 10,424,720</u> | <u>\$ 158,318</u> |
| Assets measured using NAV              |                      |                     |                      |                   |
| Mutual funds - Northern Trust          |                      |                     |                      |                   |
| Equity - Large Cap US                  | 14,699,503           |                     |                      |                   |
| Equity - Mid Cap US                    | 1,370,099            |                     |                      |                   |
| Equity - Small Cap US                  | 1,721,028            |                     |                      |                   |
| Equity - International                 | 11,235,369           |                     |                      |                   |
| Fixed income                           | 4,304,507            |                     |                      |                   |
| Alternative investments                |                      |                     |                      |                   |
| Hedge fund                             | 5,410,579            |                     |                      |                   |
| Fund of funds                          | 237,447              |                     |                      |                   |
| Subtotal assets measured at NAV        | <u>38,978,532</u>    |                     |                      |                   |
| Total assets at fair value             | <u>\$ 57,814,550</u> |                     |                      |                   |

Total assets at fair value consist of the following at May 31, 2016:

|  |                      |
|--|----------------------|
| Money market investments included  |                      |
| in cash and cash equivalents   | \$ 997,508           |
| Other investments  | 283,378              |
| Endowment investments  | 47,666,996           |
| Less cash surrender value of life insurance                                    | (246,673)            |
| Funds held in trust by others  | 158,318              |
| Deposits with bond trustee   | 368,973              |
| Investments held for investment in property and equipment - Money market funds | <u>8,586,050</u>     |
|  | <u>\$ 57,814,550</u> |

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### **NOTE 2 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The following table presents a reconciliation of the Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2017:

|                               | <u>Balances<br/>May 31, 2016</u> | <u>Net realized<br/>and<br/>unrealized<br/>gains</u> | <u>Purchases/<br/>issuances</u> | <u>Sales/<br/>settlements</u> | <u>Balances<br/>May 31, 2017</u> |
|-------------------------------|----------------------------------|--|---------------------------------|-------------------------------|----------------------------------|
| Assets                        |                                  |  |                                 |                               |                                  |
| Funds held in trust by others | \$ 158,318                       | \$ 4,774   | \$ -                            | \$ -                          | \$ 163,092                       |

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at May 31, 2017.

\$ 4,774

The following table presents a reconciliation of the Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2016:

|                               | <u>Balances<br/>May 31, 2015</u> | <u>Net realized<br/>and<br/>unrealized<br/>gains</u> | <u>Purchases/<br/>issuances</u> | <u>Sales/<br/>settlements</u> | <u>Balances<br/>May 31, 2016</u> |
|-------------------------------|----------------------------------|--|---------------------------------|-------------------------------|----------------------------------|
| Assets                        |                                  |  |                                 |                               |                                  |
| Funds held in trust by others | \$ 157,316                       | \$ 1,002   | \$ -                            | \$ -                          | \$ 158,318                       |

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at May 31, 2016.

\$ 1,002



# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### NOTE 2 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2017 and 2016:

| Investment Type                 | Unfunded<br>Commitments | Fair Value at May 31 |               | Redemption<br>Frequency | Redemption<br>Notice Period  | Remaining<br>Life (Years) |
|---------------------------------|-------------------------|----------------------|---------------|-------------------------|--|---------------------------|
|                                 |                         | 2017                 | 2016          |                         |  |                           |
| Mutual Funds (a)                |                         |                      |               |                         |  |                           |
| Equity - Large Cap US           | \$ -                    | \$ 13,478,258        | \$ 14,699,503 | Daily                   | N/A  | N/A                       |
| Equity - Mid Cap US             | -                       | 1,436,577            | 1,370,099     | Daily                   | N/A  | N/A                       |
| Equity - Small Cap US           | -                       | 1,911,586            | 1,721,028     | Daily                   | N/A  | N/A                       |
| Equity - International          | -                       | 16,717,039           | 11,235,369    | Daily                   | N/A  | N/A                       |
| Fixed Income                    | -                       | 2,657,703            | 4,304,507     | Daily                   | N/A  | N/A                       |
| Alternative Investments (b)     |                         |                      |               |                         |  |                           |
| Makena Liquid<br>Endowment Fund | -                       | -                    | 5,410,579     | (c)                     | Quarterly<br>following 6<br>month lock-up<br>with 95-day<br>notice | N/A                       |
| Makena Endowment<br>Fund        | -                       | 6,212,927            | 237,447       | (d)                     | Annual,<br>following 2-<br>year lock-up<br>with 1-year<br>notice   | N/A                       |
| Blackstone                      | -                       | 60,000               | -             | (e)                     |  |                           |

- (a) Comprised of various mutual funds whose objectives vary based on the nature of the index that the funds' returns intend to approximate. The investments are redeemable on a daily basis.
- (b) Comprised of a hedge fund (the Makena Endowment Portfolio) and a fund of funds (the Makena Liquid Endowment Fund), which together utilize both traditional and non-traditional investment strategies for the implementation of asset allocation. The pooled funds are managed by approximately 167 individual managers across 7 asset classes and over 42 sub-asset class investment strategies.
- (c) As of initial eligible withdrawal date, 1/3 capital may be returned after 95-day notice. As of 1-year anniversary of first withdrawal date, 50% of remaining capital. As of 2-year anniversary of first withdrawal date, 100% of remaining capital, with 10% holdback paid after audit.
- (d) 90% of liquid assets paid within 30 days (following 2-year lock-up with 1-year notice). 10% of liquid assets paid after audit. Remaining investments distributed quarterly as liquidated from underlying managers. This fund is in the process of being consolidated with Makena Liquid Endowment Fund.
- (e) Comprised of various asset classes, investment types and transaction structures to leverage opportunistic investments globally. The investments cannot be redeemed, rather distributions are received through liquidation of the underlying assets over an estimated 9 years.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Through the University's investment in the mutual funds and alternative investments, the University is indirectly involved in investment activities such as foreign currency forward contracts, futures contracts on U.S. Treasuries and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these instruments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its respective share in each investment pool.

# **SAINT MARY'S UNIVERSITY OF MINNESOTA**

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### **NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

Permanently restricted net assets consist of the following at May 31, 2017 and 2016:

|                                | 2017                 | 2016                 |
|--------------------------------|----------------------|----------------------|
| Endowment funds                | \$ 29,273,263        | \$ 27,180,389        |
| Charitable remainder unitrusts | 587,706              | 556,503              |
| Funds held in trust by others  | 87,181               | 71,216               |
| Receivables - pledges, net     | 225,000              | 139,000              |
|                                | <u>\$ 30,173,150</u> | <u>\$ 27,947,108</u> |

Temporarily restricted net assets consist of the following at May 31, 2017 and 2016:

|  |                      |                      |
|--|----------------------|----------------------|
| Gifts and other unexpended revenues and gains available for: |                      |                      |
| Scholarships, instruction and other support - operating      | \$ 1,832,572         | \$ 2,458,061         |
| Scholarships, instruction and other support - endowment      | 7,400,402            | 5,256,569            |
| Acquisition of buildings and equipment                       | 2,101,781            | 4,870,097            |
|  | <u>11,334,755</u>    | <u>12,584,727</u>    |
| Funds held in trust by others                                | 75,911               | 87,102               |
| Receivables - pledges, net                                   | 8,934,000            | 8,268,000            |
|  | <u>\$ 20,344,666</u> | <u>\$ 20,939,829</u> |

At May 31, 2017 and 2016, the University's unrestricted net assets were allocated as follows:

|                                 |                      |                      |
|---------------------------------|----------------------|----------------------|
| Operations                      | \$ 1,808,479         | \$ 4,449,065         |
| Long-term investment            | 22,147,318           | 20,589,621           |
| Annuity funds                   | 81,672               | 52,532               |
| Loans to students               | 353,923              | 425,908              |
| Retirement of indebtedness      | 298,275              | 292,439              |
| Replacement of plant facilities | 20,428,194           | 9,640,123            |
| Net investment in plant         | 44,226,015           | 41,131,117           |
|                                 | <u>\$ 89,343,876</u> | <u>\$ 76,580,805</u> |

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2017 and 2016

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**NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS**

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Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31, 2017 and 2016 as follows:

|  | <u>2017</u>          | <u>2016</u>         |
|--|----------------------|---------------------|
| Scholarships, instruction and other departmental support | \$ 5,339,168         | \$ 4,299,899        |
| Acquisition of physical plant assets                     | <u>10,035,513</u>    | <u>3,882,292</u>    |
| Total  | <u>\$ 15,374,681</u> | <u>\$ 8,182,191</u> |

These net assets were reclassified to unrestricted net assets.

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**NOTE 5 - PLEDGES RECEIVABLE**

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Pledges receivable include the following unconditional promises to give at May 31, 2017 and 2016:

|                                      | <u>2017</u>         | <u>2016</u>         |
|--------------------------------------|---------------------|---------------------|
| Temporarily restricted - operations  | \$ 9,145,922        | \$ 8,520,855        |
| Permanently restricted - endowment   | <u>235,525</u>      | <u>146,605</u>      |
| Gross unconditional promises to give | 9,381,447           | 8,667,460           |
| Less: Unamortized discount           | <u>(222,447)</u>    | <u>(260,460)</u>    |
| Net unconditional promises to give   | <u>\$ 9,159,000</u> | <u>\$ 8,407,000</u> |
| Amounts due in:                      |                     |                     |
| Less than one year                   | \$ 5,311,638        |                     |
| One to five years                    | <u>4,069,809</u>    |                     |
|                                      | <u>\$ 9,381,447</u> |                     |

At May 31, 2017 and 2016, pledges receivable from board members and officers totaled \$8,686,250 and \$7,081,105, respectively.

Promises due in more than one year were discounted at interest rates ranging from 1.79% to 2.82% based on the daily treasury yield curve rates plus a 1% premium. Promises due in less than one year are not discounted.

**SAINT MARY'S UNIVERSITY OF MINNESOTA****NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended May 31, 2017 and 2016

**NOTE 6 - CREDIT QUALITY OF STUDENT LOAN RECEIVABLES**

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2017 and 2016, student loans represented 1.51% and 1.96% of total assets, respectively.

At May 31, 2017 and 2016, student loans consisted of the following:

|                                       | 2017                | 2016                |
|---------------------------------------|---------------------|---------------------|
| Perkins Federal government programs   | \$ 2,985,835        | \$ 3,459,825        |
| Less allowance for doubtful accounts: | <u>(420,000)</u>    | <u>(420,000)</u>    |
| Student loans receivable, net         | <u>\$ 2,565,835</u> | <u>\$ 3,039,825</u> |

Funds advanced by the Federal government of \$2,812,833 and \$3,028,789 at May 31, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the Statements of Financial Position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time late fees are charged and recognized. The Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2017 and 2016, the following principal amounts were past due under Perkins student loan programs:

| May 31 | Amounts Past Due |             |            |            |
|--------|------------------|-------------|------------|------------|
|        | 1-60 days        | 60-240 days | 240+ days  | Total      |
| 2017   | \$ 82,944        | \$ 157,975  | \$ 488,128 | \$ 729,047 |
| 2016   | 207,353          | 120,683     | 363,488    | 691,524    |

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following at May 31, 2017 and 2016:

|                                  | 2017                 | 2016                 |
|----------------------------------|----------------------|----------------------|
| Land and land improvements       | \$ 6,461,101         | \$ 6,206,116         |
| Buildings and outdoor facilities | 79,767,561           | 78,061,478           |
| Equipment and furniture          | 27,013,592           | 25,293,275           |
| Library books and art work       | 5,212,304            | 5,104,085            |
| Construction in progress         | 17,941,551           | 5,965,295            |
|                                  | <u>136,396,109</u>   | <u>120,630,249</u>   |
| Less: Accumulated depreciation   | <u>(59,514,686)</u>  | <u>(56,696,298)</u>  |
|                                  | <u>\$ 76,881,423</u> | <u>\$ 63,933,951</u> |

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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### NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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At May 31, 2017, the following projects were included in construction in progress:

|                                     |               |
|-------------------------------------|---------------|
| Science and Learning Center         | \$ 17,671,766 |
| New residence hall                  | 170,453       |
| Hendrickson entrance                | 63,357        |
| Hoffman Adducci Br. Charles remodel | 35,975        |
|                                     | <hr/>         |
|                                     | \$ 17,941,551 |

As of May 31, 2017, remaining committed contracts are \$1,831,000 for the Science and Learning Center.

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### NOTE 8 - LOAN PAYABLE TO U.S. DEPARTMENT OF EDUCATION

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The University is indebted to the U.S. Department of Education for an energy loan, with an outstanding balance of \$121,084 and \$141,046 at May 31, 2017 and 2016, respectively. The loan is payable in semiannual installments of \$12,023 including interest at 3.0% to 2022. The note is secured by Heffron Hall student dormitory.

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### NOTE 9 - NOTES PAYABLE AND LINE OF CREDIT

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The University purchased the Prairie Island building in September 2010 at the cost of \$100,000. The building sits on land leased from the City of Winona. The lease term for the land is 20 years which commenced on September 15, 2010 and ends on December 31, 2030 at the cost of \$1. The land lease is considered a conditional gift to the University based on premise use, so the difference between the fair value and the \$1 cost has not been recorded.

In August 2013, Toyota Financial provided the University with a \$21,344 interest free loan for one vehicle. The note requires monthly payment of \$344 through August 2018, at which time the note will be paid in full. The balance at May 31, 2017 and 2016 was \$4,821 and \$8,952, respectively.

In June 2011, Saint Mary's University of Minnesota finalized a purchase of the Harrington Mansion and Events Center, located adjacent to the University's Schools of Graduate and Professional Programs in Minneapolis. The University borrowed \$1,000,000 at 2.27% to finance a portion of the purchase price, plus closing costs. This note requires annual payments of \$46,325 through 2020, at which time the remaining principal balance is due. The loan balance at May 31, 2017 and 2016 was \$876,391 and \$902,235, respectively.

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### NOTE 10 - MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY NOTES AND BONDS

Notes and bonds payable issued by the Minnesota Higher Education Facilities Authority on behalf of the University at May 31, 2017 and 2016 consist of the following:

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Minnesota Higher Education Facilities Authority Revenue Note, Series Eight-A  | \$ 4,402,000        | \$ 4,961,000        |
| Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-C | <u>2,630,000</u>    | <u>2,865,000</u>    |
| Principal outstanding on note and bonds                                       | 7,032,000           | 7,826,000           |
| Less deferred debt issuance costs   | <u>(65,370)</u>     | <u>(73,722)</u>     |
| Total Minnesota Higher Education Facilities Authority Notes and Bonds         | <u>\$ 6,966,630</u> | <u>\$ 7,752,278</u> |

In 2014, the Minnesota Higher Education Facilities Authority (MHEFA) issued Revenue Note, Series Eight-A on behalf of the University to advance refund the Series Five-U Bonds issued by the Authority. The note has a fixed interest rate of 2.83% and is held by US Bank. The note requires principal payments from \$576,000 to \$684,000 annually on October 1, 2017 through October 1, 2024. In addition, interest is payable semi-annually on October 1 and April 1. The MHEFA Revenue Note is secured by a note payable to MHEFA by the University. Interest and principal payments under the University's note correspond to the interest and principal payments under the MHEFA Revenue Note.

In 2010, the Minnesota Higher Education Facilities Authority issued Revenue Bonds, Series Seven-C on behalf of the University to advance refund the Series Five-E Bonds issued by the Authority as well as to fund a debt service reserve and pay issuance costs. The Series Seven-C bonds have interest rates ranging from 4.05% to 5.0% and mature annually on March 1, 2018 through March 1, 2023 in the amounts of \$245,000 to \$300,000. In addition, a payment of \$1,000,000 is due on March 1, 2026. The term bonds maturing in 2026 are subject to annual sinking fund payments on March 1 in the years 2024 through 2026 in amounts ranging from \$315,000 to \$350,000. The MHEFA Revenue Bonds are secured by notes payable to MHEFA by the University and by the required reserve account. Interest and principal payments under the University's notes correspond to the interest and principal payments under the Revenue Bonds.

The Series Eight-A Note and Series Seven-C Bonds require that the University satisfy certain financial covenants and the University's ability to incur additional long-term debt may be limited.

Deferred debt issuance costs are being amortized over the life of the loan. Accumulated amortization of deferred debt issuance costs totaled \$39,000 and \$30,658 at May 31, 2017 and 2016, respectively.

Annual scheduled maturities of the loan, note and bonds and notes payable, as disclosed in Note 8, Note 9 and Note 10, for each of the five fiscal years subsequent to May 31, 2017 are \$870,000, \$900,000, \$920,000, \$950,000 and \$990,000, respectively.

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### NOTE 11 - ENDOWMENT

The University's endowment consists of approximately 140 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the University's Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the University's Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The University has interpreted the Minnesota enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the University. See Note 1 for further information on net asset classification.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by 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 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 consists of the following as of May 31, 2017:

|                                  | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                |
|----------------------------------|----------------------|------------------------|------------------------|----------------------|
| Donor-restricted endowment funds | \$ (42,387)          | \$ 7,400,402           | \$ 29,273,263          | \$ 36,631,278        |
| Board-designated endowment funds | 22,189,705           |                        |                        | 22,189,705           |
| Total endowment net assets       | <u>\$ 22,147,318</u> | <u>\$ 7,400,402</u>    | <u>\$ 29,273,263</u>   | <u>\$ 58,820,983</u> |

Endowment net asset composition by type of fund consists of the following as of May 31, 2016:

|                                  | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                |
|----------------------------------|----------------------|------------------------|------------------------|----------------------|
| Donor-restricted endowment funds | \$ (37,041)          | \$ 5,256,569           | \$ 27,180,389          | \$ 32,399,917        |
| Board-designated endowment funds | 20,626,662           |                        |                        | 20,626,662           |
| Total endowment net assets       | <u>\$ 20,589,621</u> | <u>\$ 5,256,569</u>    | <u>\$ 27,180,389</u>   | <u>\$ 53,026,579</u> |

# SAINT MARY'S UNIVERSITY OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

### NOTE 11 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

|   | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|---|----------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets, May 31, 2016                | \$ 20,589,621        | \$ 5,256,569              | \$ 27,180,389             | \$ 53,026,579        |
| Investment return:                                |                      |                           |                           |                      |
| Investment income, net of fees of \$230,276       | 456,649              | 731,615                   |                           | 1,188,264            |
| Net appreciation - realized and unrealized        | 1,101,048            | 3,833,655                 |                           | 4,934,703            |
| Total investment return                           | 1,557,697            | 4,565,270                 |                           | 6,122,967            |
| Contributions                                     |                      |                           | 2,092,874                 | 2,092,874            |
| Appropriation of endowment assets for expenditure |                      | (2,421,437)               |                           | (2,421,437)          |
| Endowment net assets, May 31, 2017                | <u>\$ 22,147,318</u> | <u>\$ 7,400,402</u>       | <u>\$ 29,273,263</u>      | <u>\$ 58,820,983</u> |

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

|   | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|---|----------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets, May 31, 2015                | \$ 20,600,914        | \$ 7,645,133              | \$ 26,045,308             | \$ 54,291,355        |
| Investment return:                                |                      |                           |                           |                      |
| Investment income, net of fees of \$221,577       | 196,444              | 768,767                   |                           | 965,211              |
| Net depreciation - realized and unrealized        | (472,947)            | (1,658,300)               |                           | (2,131,247)          |
| Total investment return                           | (276,503)            | (889,533)                 |                           | (1,166,036)          |
| Contributions                                     |                      |                           | 1,135,081                 | 1,135,081            |
| Transfer from current funds                       | 265,210              |                           |                           | 265,210              |
| Appropriation of endowment assets for expenditure |                      | (1,499,031)               |                           | (1,499,031)          |
| Endowment net assets, May 31, 2016                | <u>\$ 20,589,621</u> | <u>\$ 5,256,569</u>       | <u>\$ 27,180,389</u>      | <u>\$ 53,026,579</u> |

**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 or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$42,387 and \$37,041 as of May 31, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in restricted net assets.



## SAINT MARY'S UNIVERSITY OF MINNESOTA

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2017 and 2016

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#### NOTE 11 - ENDOWMENT (Continued)

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**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, the endowment assets are invested in a manner that is intended to produce results that exceed 5% while assuming a moderate level of investment risk. Actual returns in any year may vary from this amount.

**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 up to 5% of the three year rolling average of the market value from the first day of the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. This is consistent with the University's objective to provide long-term growth and income while preserving capital and achieving return over inflation and the distribution rate for the endowment assets.

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#### NOTE 12 - OPERATING LEASES

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The University has lease commitments for property rentals in the Twin Cities, Minnesota area of \$225,000, \$56,000 and \$6,000 for fiscal years 2018, 2019 and 2020 respectively. Rent expense totaled \$290,000 and \$345,000 for the years ended May 31, 2017 and 2016, respectively.

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#### NOTE 13 - INTERFUND BORROWINGS

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The investment in plant fund was indebted to the quasi-endowment funds in the amount of \$5,836,086 and \$6,181,958 at May 31, 2017 and 2016, respectively. The interfund borrowings relate to the renovation of St. Joe's Hall and the construction of Brother Leopold Hall. For St Joe's Hall, semiannual payments of \$60,000, including interest of 8% per annum are payable through February 1, 2018. Annual maturities for the year subsequent to May 31, 2017 are \$63,428. The St Joe's interfund borrowing will be paid in full by May 31, 2018. For Brother Leopold Hall, annual payments of \$385,386, including interest of 2.5% per annum are payable through June 1, 2037. Annual maturities for each of the five years subsequent to May 31, 2017 are \$241,000, \$247,000, \$253,000, \$260,000 and \$266,000, respectively. The Brother Leopold Hall interfund borrowing was refinanced effective June 1, 2016 at an interest rate of 2.5% with a repayment date aligned with the original loan amortization, resulting in a final payment date of June 1, 2035. All interfund borrowings and the related payments have been eliminated in the financial statements.

## SAINT MARY'S UNIVERSITY OF MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended May 31, 2017 and 2016

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#### NOTE 14 - EMPLOYEE BENEFIT PLANS

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Saint Mary's University of Minnesota is a participant in the Christian Brothers Employer Retirement Plan (EIN: 36-4052282; Plan Number: 333). Christian Brothers Employer Retirement Plan is sponsored by Brothers of the Christian Schools (EIN: 36-2671613). The plan is a multi-employer defined benefit plan covering all full-time lay faculty and personnel which is financed by contributions made by the University. Annual contributions made by the University were \$1,648,100 and \$1,685,900 in fiscal 2017 and 2016, respectively. These contributions are less than 5% of total contributions to the plan each year. The Plan is not required by the Pension Protection Act of 2006 to report a certified zone status; however, the Plan is 76% funded.

The University also provides medical benefits through a self-insurance plan which is available to all employees of the University for certain medical expenses. The University has limited its exposure under the plan with individual and aggregate stop loss insurance. Estimates for claims incurred but not reported have been accrued by the University. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims. The University contributed \$2,831,000 and \$3,429,000 to the plan in fiscal 2017 and 2016, respectively.

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#### NOTE 15 - CONCENTRATIONS

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Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, and accounts receivable and notes. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Investments, consisting principally of short-term investments and mutual funds, are placed in funds administered by Northern Trust. Student receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

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#### NOTE 16 - SPLIT-INTEREST AGREEMENTS

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The University has arrangements with donors classified as charitable gift annuities, charitable lead trusts, charitable remainder trusts, and future interest in residence. In general, under these arrangements the University or an external trustee receives a gift from a donor in which the University has an interest. Either the University or the trustee agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The University or the trustee invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University or distributed to the University by the trustee as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received by the University under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. The University used interest rates between 3.2% and 8.0% in making the calculations at May 31, 2017 and 2016. If the gift is received by an external trustee, the University records the estimated present value of the future cash flows to be received by the University.

**SAINT MARY'S UNIVERSITY OF MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2017 and 2016

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**NOTE 16 - SPLIT-INTEREST AGREEMENTS (Continued)**

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The University did not receive any gifts relating to split-interest agreements during the years ended May 31, 2017 or 2016. Total assets held by the University under split-interest agreements are as follows at May 31, 2017 and 2016:

|                                | <u>2017</u>         | <u>2016</u>         |
|--------------------------------|---------------------|---------------------|
| Funds held in trust by others  | \$ 163,092          | \$ 158,318          |
| Charitable remainder unitrusts | 849,689             | 822,374             |
| Gift annuities                 | <u>263,747</u>      | <u>275,101</u>      |
|                                | <u>\$ 1,276,528</u> | <u>\$ 1,255,793</u> |

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**NOTE 17 - SUBSEQUENT EVENTS**

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The University has evaluated subsequent events through October 16, 2017, which is the date that the financial statements were issued.