

Saint Mary's University of Minnesota

Financial Statements

May 31, 2023 and 2022

Saint Mary's University of Minnesota

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Saint Mary's University of Minnesota (the University), which comprise the statements of financial position as of May 31, 2023 and 2022, and the related statements of activities 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 the University as of May 31, 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 (GAAP).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 GAAP, 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 the University's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 the 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 the 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.

Baker Tilly US, LLP

Minneapolis, Minnesota
October 17, 2023

Saint Mary's University of Minnesota

Statements of Financial Position

May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 14,681,584	\$ 14,930,099
Receivables:		
Student accounts, net of allowance for doubtful accounts of \$800,000 each year	4,297,871	4,701,944
Pledges, net	11,614,000	8,900,000
Other	640,936	577,333
Prepaid expenses and other assets	118,198	273,570
Other investments	122,530	158,621
Student loans receivable, net	731,690	912,458
Endowment investments	62,971,446	68,776,461
Funds held in trust by others	85,380	201,908
Cash held for investment in property and equipment	2,123,327	3,531,389
Property, plant and equipment, net	96,623,918	99,391,800
	<u>\$ 194,010,880</u>	<u>\$ 202,355,583</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,064,647	\$ 2,351,972
Accrued liabilities	1,689,686	1,792,883
Deposit accounts	168,680	155,568
Deferred revenue	11,172,801	12,540,243
Contract payable, food service	1,610,348	1,774,350
Asset retirement obligations	1,016,089	971,875
Loan payable to U.S. Department of Education	-	23,131
Bonds and note payable to Minnesota Higher Education Facilities Authority	4,475,168	4,736,985
Annuities payable	298,671	328,978
Deposits held in custody for others	1,304	40,802
Government grants refundable	639,227	958,893
	<u>24,136,621</u>	<u>25,675,680</u>
Total liabilities		
Net Assets		
Without donor restrictions	100,997,026	101,425,592
With donor restrictions	68,877,233	75,254,311
	<u>169,874,259</u>	<u>176,679,903</u>
Total net assets		
Total liabilities and net assets	<u>\$ 194,010,880</u>	<u>\$ 202,355,583</u>

See notes to financial statements

Saint Mary's University of Minnesota

Statement of Activities

Year Ended May 31, 2023

(With Comparative Totals for 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues, Gains and Other Support				
Tuition and fees, net of scholarships and grants of \$20,837,661	\$ 47,334,378	\$ -	\$ 47,334,378	\$ 51,274,552
Government grants	3,469,973	-	3,469,973	8,210,900
Private gifts and grants	833,579	9,248,012	10,081,591	13,253,146
Private sponsored research and programs	-	105,867	105,867	682,533
Endowment income	275,497	1,040,012	1,315,509	1,424,482
Other sources	4,601,446	28,523	4,629,969	1,981,715
Net losses on investments	(726,351)	(2,484,748)	(3,211,099)	(5,109,470)
Losses on funds held in trust by others	-	(116,528)	(116,528)	(15,160)
Sales and services from auxiliary enterprises	7,118,293	-	7,118,293	7,967,347
	62,906,815	7,821,138	70,727,953	79,670,045
Net assets released from restrictions	14,229,161	(14,229,161)	-	-
Total revenues, gains and other support	77,135,976	(6,408,023)	70,727,953	79,670,045
Expenses				
Program expenses:				
Instruction	23,654,727	-	23,654,727	25,337,114
Research	266,223	-	266,223	86,356
Public service	5,982,023	-	5,982,023	5,432,703
Academic support	7,464,616	-	7,464,616	8,520,032
Student services	15,005,673	-	15,005,673	17,425,363
Auxiliary enterprises	6,239,424	-	6,239,424	5,883,909
Support expenses:				
Institutional support	18,915,068	-	18,915,068	17,369,031
Allocable expenses:				
Operation and maintenance of plant	4,622,879	-	4,622,879	3,777,519
Depreciation and amortization	3,765,279	-	3,765,279	3,606,605
Interest	200,466	-	200,466	357,715
Less allocated expenses	(8,588,624)	-	(8,588,624)	(7,741,839)
Adjustment of actuarial liability for annuities payable	36,788	(30,945)	5,843	38,655
Total expenses	77,564,542	(30,945)	77,533,597	80,093,163
Change in net assets	(428,566)	(6,377,078)	(6,805,644)	(423,118)
Net Assets, Beginning	101,425,592	75,254,311	176,679,903	177,103,021
Net Assets, Ending	\$ 100,997,026	\$ 68,877,233	\$ 169,874,259	\$ 176,679,903

See notes to financial statements

Saint Mary's University of Minnesota

Statement of Activities
Year Ended May 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains and Other Support			
Tuition and fees, net of scholarships and grants of \$23,182,220	\$ 51,274,552	\$ -	\$ 51,274,552
Government grants	-	8,210,900	8,210,900
Private gifts and grants	1,641,528	11,611,618	13,253,146
Private sponsored research and programs	-	682,533	682,533
Endowment income	370,793	1,053,689	1,424,482
Other sources	1,981,715	-	1,981,715
Net losses on investments	(1,329,995)	(3,779,475)	(5,109,470)
Losses on funds held in trust by others	(4,582)	(10,578)	(15,160)
Sales and services from auxiliary enterprises	7,967,347	-	7,967,347
	<u>61,901,358</u>	<u>17,768,687</u>	<u>79,670,045</u>
Net assets released from restrictions	<u>21,318,178</u>	<u>(21,318,178)</u>	<u>-</u>
Total revenues, gains and other support	<u>83,219,536</u>	<u>(3,549,491)</u>	<u>79,670,045</u>
Expenses			
Program expenses:			
Instruction	25,337,114	-	25,337,114
Research	86,356	-	86,356
Public service	5,432,703	-	5,432,703
Academic support	8,520,032	-	8,520,032
Student services	17,425,363	-	17,425,363
Auxiliary enterprises	5,883,909	-	5,883,909
Support expenses:			
Institutional support	17,369,031	-	17,369,031
Allocable expenses:			
Operation and maintenance of plant	3,777,519	-	3,777,519
Depreciation and amortization	3,606,605	-	3,606,605
Interest	357,715	-	357,715
Less allocated expenses	(7,741,839)	-	(7,741,839)
Adjustment of actuarial liability for annuities payable	38,655	-	38,655
Total expenses	<u>80,093,163</u>	<u>-</u>	<u>80,093,163</u>
Change in net assets	3,126,373	(3,549,491)	(423,118)
Net Assets, Beginning	<u>98,299,219</u>	<u>78,803,802</u>	<u>177,103,021</u>
Net Assets, Ending	<u>\$ 101,425,592</u>	<u>\$ 75,254,311</u>	<u>\$ 176,679,903</u>

See notes to financial statements

Saint Mary's University of Minnesota

Statements of Cash Flows

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (6,805,644)	\$ (423,118)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	3,765,279	3,606,605
Net losses on investments	3,211,099	5,109,470
Losses on funds held in trust by others	116,528	15,160
Actuarial adjustment of annuities payable	(290)	(23,295)
Loan cancellations and reinstatements	2,025	5,832
Recovery of loan funds	-	20,284
Changes in assets and liabilities:		
Student accounts receivable	404,073	(940,162)
Pledges receivable, operations	(2,274,000)	(1,979,500)
Other receivables	(63,603)	(107,116)
Prepaid expenses and other assets	155,372	245,803
Accounts payable	670,470	208,173
Accrued liabilities	(103,197)	32,025
Deposit accounts	13,112	44,615
Deferred revenue	(1,367,442)	(105,008)
Deposits held in custody for others	(39,498)	(1,166)
Contributions restricted for long-term investment and plant	(2,701,544)	(2,242,953)
 Net cash flows from operating activities	 <u>(5,017,260)</u>	 <u>3,465,649</u>
Cash Flows From Investing Activities		
Purchases of endowment investments	(7,977,498)	(17,136,537)
Sales of endowment investments	10,571,414	19,178,704
Sales of other investments, net	36,091	42,673
Purchases of property, plant and equipment	(1,072,797)	(5,240,444)
Loans funds returned to government	(387,287)	(213,137)
Repayments of loans from students	178,743	206,167
 Net cash flows from investing activities	 <u>1,348,666</u>	 <u>(3,162,574)</u>
Cash Flows From Financing Activities		
Repayments of principal on indebtedness	(287,131)	(3,687,882)
Contributions received restricted for long-term investment and plant	2,261,544	201,453
Change in refundable governmental grants	67,621	(33,613)
Payments to annuitants	(30,017)	(30,417)
 Net cash flows from financing activities	 <u>2,012,017</u>	 <u>(3,550,459)</u>
 Net change in cash and cash equivalents	 <u>(1,656,577)</u>	 <u>(3,247,384)</u>
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>18,461,488</u>	<u>21,708,872</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 16,804,911</u>	<u>\$ 18,461,488</u>

See notes to financial statements

Saint Mary's University of Minnesota

Notes to Financial Statements
May 31, 2023 and 2022

1. Significant Accounting Policies

Saint Mary's University of Minnesota (the University), 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 Assets

For the purposes of financial reporting, the University classifies resources into two 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:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations. Board designated net assets are net assets without donor restrictions subject to self-imposed limits by action of the governing board. In addition to the board designated endowment discussed in Note 13, the University has board designated net assets for investment in property and equipment of \$114,066 and \$1,542,842 at May 31, 2023 and 2022, respectively.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time or maintained in perpetuity 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.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

Unconditional contributions, including 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 donor 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 - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are met, in the appropriate category of net assets in accordance with donor restrictions.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues within net asset without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues within net assets with donor restrictions; 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, gains (losses) on the investments of a donor-restricted endowment fund increase (decrease) net assets with donor restrictions.

Gains and losses on investments of endowment funds created by a board designation of undesignated funds are classified as changes in net assets without donor restrictions.

Revenue Recognition and Disaggregation of Revenue**Tuition and Fees Revenues**

The University provides academic instruction toward bachelor's, master's and doctoral degree programs. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first 6 weeks of the semester may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2023/2024 academic year. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the University's policies.

Auxiliary Revenue

The University also provides auxiliary services, such as residence and food services (board). Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the University within the first 6 weeks of the semester may receive a partial refund for Room in accordance with the University's refund policy. Refunds for board is calculated pro-rata based on a 16-week semester. Refunds issued reduce the amount of revenue recognized.

Government Grants

The University provides geospatial analyses and related services for state and federal agencies connected to various governmental grants. Under the terms of the grants, the University is reimbursed for services performed and revenue is recognized in the fiscal year in which the services are performed. Beginning in fiscal year 2023, the University records the revenue related to reimbursable grants as without donor restriction, utilizing the simultaneous release practical expedient. All performance obligations under the various contracts are satisfied in conjunction with the recognition of the associated revenues.

Deferred Tuition and Grant Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, fees, auxiliary services, and grant revenue:

	<u>2023</u>	<u>2022</u>
Deferred Revenue, Beginning	\$ 12,540,243	\$ 13,778,168
Revenue recognized	(11,873,242)	(13,112,168)
Cash received in advanced of performance	<u>10,505,800</u>	<u>11,874,243</u>
Deferred Revenue, Ending	<u>\$ 11,172,801</u>	<u>\$ 12,540,243</u>

Payments received before year-end for summer classes and programs are reflected as deferred revenue in the financial statements. The University applies the practical expedient, and therefore does not disclose amounts of remaining performance obligations that have original expected durations of one year or less. Deferred revenue at May 31, 2023 and 2022 includes \$690,529 and \$1,254,274, respectively, of deferred grant revenue.

Saint Mary's University of Minnesota

Notes to Financial Statements
May 31, 2023 and 2022

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. Cash, cash equivalents and restricted cash on the statements of cash flows includes cash equivalents (money market funds) of \$2,123,327 and \$3,531,389 of cash held for investment in property and equipment as of May 31, 2023 and 2022, respectively.

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.

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.

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.

Changes in the accrual for asset retirement obligations during the years ended May 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2023</u>
Balance, beginning of the year	\$ 971,875	\$ 963,684
Accretion expense	48,952	47,923
Abatement	<u>(4,738)</u>	<u>(39,732)</u>
Balance, end of the year	<u>\$ 1,016,089</u>	<u>\$ 971,875</u>

Saint Mary's University of Minnesota

Notes to Financial Statements

May 31, 2023 and 2022

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 \$2,020,400 and \$2,104,100 for the years ended May 31, 2023 and 2022, respectively. Advertising expenses totaled approximately \$752,900 and \$1,010,000 for the years ended May 31, 2023 and 2022, 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 statements 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, 2023 and 2022. The University's tax returns are subject to review and examination by federal and state authorities.

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 Pronouncement Adopted in Current Year

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The University has adopted the provisions of this new standard for the year ended May 31, 2023. The adoption of this standard did not have a significant impact on the University's financial statements.

New Accounting Pronouncement Not Yet Effective

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 (as amended) is effective for annual periods beginning after December 15, 2022 (fiscal year 2024). The University is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its financial statements.

Reclassifications

Certain amounts appearing in the 2022 financial statements have been reclassified to conform with the 2023 presentation. The reclassifications have no effect on previously reported amounts of total net assets or change in total net assets.

Saint Mary's University of Minnesota

Notes to Financial Statements
May 31, 2023 and 2022

2. Liquidity and Availability

The following reflects the University's financial assets as of May 31 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investment in the board-designated endowments that could be drawn upon if the governing board approves that action.

	<u>2023</u>	<u>2022</u>
Financial assets, at year-end*	\$ 97,386,962	\$ 102,963,783
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor imposed restrictions:		
Prepaid expenses	(671,044)	(358,972)
Pledges receivable due in more than one year	(2,444,067)	(4,577,682)
Restricted by donor with time or purpose restrictions	(9,169,933)	(3,838,058)
Student loans receivable	(731,690)	(912,458)
Investments held in annuity trust	(84,752)	(121,540)
Funds held in trust by others	(85,380)	(201,908)
Net assets restricted for acquisition of buildings and equipment	(114,066)	(4,913,081)
Endowment assets restricted by donors, net of next year's appropriation	(51,441,851)	(53,853,416)
Board designations:		
Amounts designated for endowment	(12,115,315)	(16,412,370)
Amounts set aside for capital projects	(2,009,261)	(3,531,389)
	<u>\$ 18,519,603</u>	<u>\$ 14,242,909</u>

*Total assets less property, plant and equipment

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due and targets a minimum of 60 days of operating expense coverage at any point in time.

3. Investments and Fair Value of Financial Investments

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 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 interests are estimated to approximate the fair value of the trust fund assets.

The University measures the fair value for their investment in certain mutual funds and alternative investments based on net asset value (NAV) as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the University's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investment, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. 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.

In the 2022 financial statements, certain mutual funds were presented as valued using NAV as the practical expedient. Investments totaling \$15,994,793 as of May 31, 2022 have been reclassified into the fair value hierarchy as Level 1 to conform to the presentation elected as of May 31, 2023. During 2023, the University determined for these particular mutual funds that NAV was a readily determinable fair value, is published and is the basis for current transactions. There were no changes to the amounts or presentation of assets on the Statements of Net Assets Available for Benefits, as of December 31, 2022 and December 31, 2021.

There have been no other changes in the techniques and inputs used as of May 31, 2023 and 2022.

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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, 2023:

	Assets at Fair Value as of May 31, 2023			
	Level 1	Level 2	Level 3	Total
Northern Trust Flex cash fund	\$ -	\$ 2,928,729	\$ -	\$ 2,928,729
Mutual funds, Northern Trust:				
Fixed income	16,122,500	-	-	16,122,500
Balanced	118,463	-	-	118,463
Global real estate	601,569	-	-	601,569
Global natural resources	3,158,381	-	-	3,158,381
Global infrastructure index	1,169,567	-	-	1,169,567
Emerging markets	2,050,477	-	-	2,050,477
Quality dividend index	3,789,918	-	-	3,789,918
US equity	12,938,116	-	-	12,938,116
International equity	3,850,244	-	-	3,850,244
Funds held in trust by others			85,380	85,380
Mutual funds, other	668,765	-	-	668,765
Stocks	76,203	-	-	76,203
Total assets in the fair value hierarchy	<u>\$ 44,544,203</u>	<u>\$ 2,928,729</u>	<u>\$ 85,380</u>	47,558,312
Investments measured at net asset value:				
Mutual funds, Northern Trust:				
Equity, mid cap US				714,262
Equity, small cap US				958,282
Equity, international				5,831,505
Fixed income				2,883,561
Alternative investments:				
Hedge funds				7,803,306
total investments measured at NAV				<u>18,190,916</u>
Total investments at fair value				<u>\$ 65,749,228</u>
Total assets at fair value consist of the following at May 31, 2023:				
Money market investments included in cash and cash equivalents				\$ 552,941
Other investments				122,530
Endowment investments				62,971,446
Less cash surrender value of life insurance				(106,396)
Funds held in trust by others				85,380
Investments held for investment in property and equipment, money market funds				<u>2,123,327</u>
Total				<u>\$ 65,749,228</u>

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The following table presents information about the University's assets measured at fair value on a recurring basis as of May 31, 2022:

	Assets at Fair Value as of May 31, 2022			
	Level 1	Level 2	Level 3	Total
Northern Trust Flex cash fund	\$ -	\$ 4,704,531	\$ -	\$ 4,704,531
Mutual funds, Northern Trust:				
Fixed income	15,893,455	-	-	15,893,455
Balanced	154,614	-	-	154,614
Global real estate	942,225	-	-	942,225
Global natural resources	4,271,470	-	-	4,271,470
Global infrastructure index	1,017,687	-	-	1,017,687
Emerging markets	2,645,065	-	-	2,645,065
Quality dividend index	3,802,035	-	-	3,802,035
US Equity	14,115,113	-	-	14,115,113
Funds held in trust by others	-	-	201,908	201,908
Mutual funds, other	734,333	-	-	734,333
Stocks	68,182	-	-	68,182
Total assets in the fair value hierarchy	<u>\$ 43,644,179</u>	<u>\$ 4,704,531</u>	<u>\$ 201,908</u>	48,550,618
Investments measured at net asset value:				
Mutual funds, Northern Trust:				
Equity, mid cap US				912,813
Equity, small cap US				1,751,061
Equity, international				9,303,670
Fixed income				3,663,044
Alternative investments:				
Hedge funds				8,985,362
Subtotal investments measured at NAV				<u>24,615,950</u>
Total investments at fair value				<u>\$ 73,166,568</u>
Total assets at fair value consist of the following at May 31, 2022:				
Money market investments included in cash and cash equivalents				\$ 613,025
Other investments				158,621
Endowment investments				68,776,461
Less cash surrender value of life insurance				(114,836)
Funds held in trust by others				201,908
Investments held for investment in property and equipment, money market funds				3,531,389
Total				<u>\$ 73,166,568</u>

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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, 2023 and 2022.

Investment Type	Unfunded Commitments	Fair Value at May 31		Redemption Frequency	Redemption Notice Period	Remaining Life (Years)
		2023	2022			
Mutual funds (a):						
Equity, mid cap US	\$ -	\$ 714,262	\$ 912,813	Daily	N/A	N/A
Equity, small cap US	-	958,282	1,751,061	Daily	N/A	N/A
Equity, international	-	5,831,505	9,303,670	Daily	N/A	N/A
Fixed income	-	2,883,561	3,663,044	Daily	N/A	N/A
Alternative investments (b):						
Makena endowment fund	-	6,628,686	7,525,300	(c)	Annual, following 2 year lock-up with 1 year notice Beginning in 2028	N/A
Blackstone Tacopps	732,831	<u>1,174,620</u>	<u>1,460,062</u>	(d)		N/A
Total		<u>\$ 18,190,916</u>	<u>\$ 24,615,950</u>			

- (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 do not have a published NAV but are redeemable on a daily basis.
- (b) Comprised of a hedge fund (the Makena Endowment Portfolio) and various asset classes, investment types and transaction structures to leverage opportunistic investments globally, which together utilize both traditional and non-traditional investment strategies for the implementation of asset allocation (Blackstone Tacopps).
- (c) 90 percent of liquid assets paid within 30 days (following 2-year lock-up with 1-year notice). 10 percent of liquid assets paid after audit. Remaining investments distributed quarterly as liquidated from underlying managers.
- (d) The investments cannot be redeemed, rather distributions are received through liquidation of the underlying assets over an estimated 8 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.

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4. Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions consist of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Net assets with time and purpose restrictions:		
Endowment funds	\$ 6,908,784	\$ 10,541,751
Charitable remainder unitrusts - endowment	481,117	515,740
Funds held in trust by others	85,380	92,292
Receivables, pledges, net	10,381,000	5,768,000
Scholarships, instruction and other support, operating	2,100,591	5,588,308
Acquisition of buildings and equipment	114,066	4,913,081
Total net assets with time and purpose restrictions	<u>20,070,938</u>	<u>27,419,172</u>
Net assets held in perpetuity:		
Endowment funds	47,573,295	45,593,523
Funds held in trust by others	-	109,616
Receivables, pledges, net	1,233,000	2,132,000
Total net assets held in perpetuity	<u>48,806,295</u>	<u>47,835,139</u>
Total	<u>\$ 68,877,233</u>	<u>\$ 75,254,311</u>

At May 31, 2023 and 2022, the University's net assets without donor restrictions were allocated as follows:

	<u>2023</u>	<u>2022</u>
Operations	\$ 18,073,981	\$ 11,840,529
Long-term investment	12,115,315	16,412,370
Annuity funds	84,752	121,540
Loans to students	313,147	453,315
Retirement of indebtedness	(1,764,936)	(1,343,141)
Replacement of plant facilities	12,967,337	11,237,337
Net investment in plant	<u>59,207,430</u>	<u>62,703,642</u>
Total	<u>\$ 100,997,026</u>	<u>\$ 101,425,592</u>

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Notes to Financial Statements

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5. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Scholarships, instruction and other departmental support (includes restricted endowment spend – Note 13)	\$ 12,499,161	\$ 18,453,178
Acquisition of physical plant assets	<u>1,730,000</u>	<u>2,865,000</u>
Total	<u>\$ 14,229,161</u>	<u>\$ 21,318,178</u>

These net assets were reclassified to net assets without donor restrictions.

6. Pledges Receivable

Pledges receivable include the following unconditional promises to give at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
With donor restrictions, operations	\$ 7,424,012	\$ 4,744,000
With donor restrictions, plant	3,305,988	2,220,036
With donor restrictions, endowment	<u>1,277,937</u>	<u>2,205,022</u>
Gross unconditional promises to give	12,007,937	9,169,058
Less unamortized discount	<u>(393,937)</u>	<u>(269,058)</u>
Net unconditional promises to give	<u>\$ 11,614,000</u>	<u>\$ 8,900,000</u>
Amounts due in:		
Less than one year	\$ 9,065,725	
One to five years	<u>2,942,212</u>	
	<u>\$ 12,007,937</u>	

Promises due in more than one year were discounted at interest rates ranging from 1.2 percent to 5.455 percent based on the daily treasury yield curve rates plus a 1 percent premium. Promises due in less than one year are not discounted.

A donor has agreed to commit a pledge of \$5,000,000 to be directed towards the renovation of Hoffman Aducci Brother Charles Hall, of which \$1,355,952 and \$1,031,792 was recognized as revenue in 2023 and 2022, respectively, as the conditions of the pledge had been met. The balance of this pledge of \$1,000,000 is considered conditional as it will only match new gifts to this fund and has therefore not been recorded in the financial statements.

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Notes to Financial Statements
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7. 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, 2023 and 2022, student loans represented .38% and .45% of total assets, respectively.

At May 31, 2023 and 2022, student loans consisted of the following:

	<u>2023</u>	<u>2022</u>
Perkins Federal government programs	\$ 1,151,690	\$ 1,332,458
Less allowance for doubtful accounts	<u>(420,000)</u>	<u>(420,000)</u>
Student loans receivable, net	<u>\$ 731,690</u>	<u>\$ 912,458</u>

Funds advanced by the Federal government of \$639,227 and \$958,893 at May 31, 2023 and 2022, 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.

The Extension Act amended section 461 of the Higher Education Act to end the University's authority to make new Perkins loans after June 30, 2018. The University is not required to assign the outstanding Perkins loans to the U.S. Department of Education or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program, however, the University may choose to liquidate at any time in the future. As of May 31, 2023, the University continues to service the Perkins Loan Program. During the years ended May 31, 2023 and 2022, the University returned to the government \$387,287 and \$213,137, respectively, in excess cash and recognized \$0 and \$336,400, respectively, in reimbursement for cancellations, which equally reduced the student loans receivable for Perkins and the government grants refundable.

At May 31, 2023 and 2022, the following principal amounts were past due under Perkins student loan programs:

	<u>Amounts Past Due May 31</u>			
	<u>1-60 days</u>	<u>60-240 days</u>	<u>240+ days</u>	<u>Total</u>
2023	\$ 12,904	\$ 40,177	\$ 1,007,341	\$ 1,060,422
2022	89,088	73,780	948,241	1,111,109

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Notes to Financial Statements

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8. Property, Plant and Equipment

Property, plant and equipment consist of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 6,805,917	\$ 6,805,917
Buildings and outdoor facilities	130,765,501	128,112,093
Equipment and furniture	32,860,734	33,180,601
Library books and art work	5,774,405	5,705,758
Construction in progress	136,566	1,910,721
	176,343,123	175,715,090
Less accumulated depreciation	<u>(79,719,205)</u>	<u>(76,323,290)</u>
Total	<u>\$ 96,623,918</u>	<u>\$ 99,391,800</u>

At May 31, 2023, the following projects were included in construction in progress:

Baseball and Softball Turf	<u>\$ 136,566</u>
	<u>\$ 136,566</u>

As of May 31, 2023, remaining committed contracts are \$546,265 for the Turf. The expected completion date is September of 2023.

9. Loan Payable to U.S. Department of Education

The University was indebted to the U.S. Department of Education for an energy loan. The loan was paid in full during fiscal 2023. The outstanding balance at May 31, 2022 was \$23,131. The loan was payable in semiannual installments of \$12,023 including interest at 3.0 percent. The note was secured by Heffron Hall student dormitory.

10. Notes Payable

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 the financial statements.

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Notes to Financial Statements
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11. Minnesota Higher Education Facilities Authority Note

The note payable issued by the Minnesota Higher Education Facilities Authority (MHEFA) on behalf of the University at May 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Minnesota Higher Education Facilities Authority Revenue Note:		
Series 2017A	\$ 4,532,000	\$ 4,796,000
Less deferred debt issuance costs	<u>(56,832)</u>	<u>(59,015)</u>
Total Minnesota Higher Education Facilities Authority Note	<u>\$ 4,475,168</u>	<u>\$ 4,736,985</u>

In 2017, the MHEFA issued Revenue Note, Series 2017A on behalf of the University to serve as a bridge loan while pledges were being collected for the construction of the Science and Learning Center. The note had an initial interest rate of 2.67 percent. Effective January 1, 2018, the interest rate changed to 3.25 percent as a result of a change in the margin rate factor and is held by US Bank. The note requires principal payments ranging from \$264,000 to \$383,000 beginning annually on March 1, 2023 through March 1, 2037.

The Series 2017A Note requires 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 of \$174,313 at May 31, 2023 and 2022 are being amortized over the life of the loan. Accumulated amortization of deferred debt issuance costs totaled \$117,481 and \$115,298 at May 31, 2023 and 2022, respectively.

Annual scheduled maturities of the note payable for each of the five fiscal years subsequent to May 31, 2023 are \$270,000, \$278,000, \$286,000, \$293,000, and \$301,000, respectively.

12. Line of Credit Agreement

The University has a \$5,000,000 line of credit agreement with Merchants Bank, National Association, with a maturity date of December 31, 2022. The University extended the maturity date to January 5, 2024 with no change in terms. The line of credit is unsecured. Interest is calculated using the U.S. Prime Rate, with a floor of 3.25 percent. The Prime Rate at May 31, 2023 was 8.25 percent. There was no borrowing under this arrangement during the year ended May 31, 2023.

13. 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.

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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 is classified as donor 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, 2023 and 2022:

	2023		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds – in perpetuity	\$ -	\$ 47,573,295	\$ 47,573,295
Donor-restricted endowment funds – accumulated earnings	-	6,908,784	6,908,784
Donor-restricted charitable remainder unitrusts (CRUTS)	-	481,117	481,117
Board-designated endowment funds	12,115,315	-	12,115,315
Total endowment net assets	<u>\$ 12,115,315</u>	<u>\$ 54,963,196</u>	<u>\$ 67,078,511</u>

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	2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds – in perpetuity	\$ -	\$ 45,593,523	\$ 45,593,523
Donor-restricted endowment funds – accumulated earnings		10,541,751	10,541,751
Board-designated endowment funds	16,412,370	-	16,412,370
Total endowment net assets	\$ 16,412,370	\$ 56,135,274	\$ 72,547,644

Changes in endowment net assets for the year ended May 31, 2023 are as follows:

	2023		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, May 31, 2022	\$ 16,412,370	\$ 56,135,274	\$ 72,547,644
Reclassification of CRUTS	-	515,740	515,740
Investment return:			
Investment income	275,497	1,040,012	1,315,509
Net depreciation, realized and unrealized	(726,351)	(2,484,748)	(3,211,099)
Total investment return	(450,854)	(1,444,736)	(1,895,590)
Contributions (including pledge payments)	-	1,979,772	1,979,772
Change in annuity liabilities – CRUTS	-	30,945	30,945
Additional appropriation	(2,800,000)	-	(2,800,000)
Appropriation of endowment assets for expenditure – per spending policy	(1,046,201)	(2,253,799)	(3,300,000)
Endowment net assets, May 31, 2023	\$ 12,115,315	\$ 54,963,196	\$ 67,078,511

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Changes in endowment net assets for the year ended May 31, 2022 are as follows:

	2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, May 31, 2021	\$ 20,931,384	\$ 58,903,006	\$ 79,834,390
Investment return:			
Investment income	370,793	1,053,689	1,424,482
Net depreciation, realized and unrealized	<u>(1,248,641)</u>	<u>(3,779,475)</u>	<u>(5,028,116)</u>
Total investment return	(877,848)	(2,725,786)	(3,603,634)
Contributions (including pledge payments)	-	1,885,888	1,885,888
Additional appropriation	(2,500,000)	-	(2,500,000)
Appropriation of endowment assets for expenditure – per spending policy	<u>(1,141,166)</u>	<u>(1,927,834)</u>	<u>(3,069,000)</u>
Endowment net assets, May 31, 2022	<u>\$ 16,412,370</u>	<u>\$ 56,135,274</u>	<u>\$ 72,547,644</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. At May 31, 2023, fourteen donor restricted fund with original gift values of \$8,072,120, fair values of \$7,526,105 and deficiencies of \$546,015 were reported in net assets with donor restrictions. At May 31, 2022, six donor restricted fund with original gift values of \$5,936,466, fair values of \$5,678,230 and deficiencies of \$258,236 were reported in net assets with donor restrictions. The level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions restricted in perpetuity and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

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 percent 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.

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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 percent 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. Additional draws were taken in fiscal 2023 and 2022 for budget relief in the amounts of \$2,800,000 and \$2,500,000, respectively.

14. Expenses by Nature and Function

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, interest, central administration, communications, media production, information technology and facilities operations and maintenance. Depreciation is allocated based on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort.

The University's natural and functional classification of expenses follows for the year ended May 31, 2023 and 2022:

	2023							
	Instruction	Research	Public Service	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total Expenses
Salaries and wages	\$ 14,857,097	\$ 16,460	\$ 2,837,847	\$ 3,637,714	\$ 4,712,288	\$ 1,273,037	\$ 6,285,443	\$ 33,619,886
Employee benefits	3,735,155	4,138	713,450	914,541	1,184,695	320,048	1,580,194	8,452,221
Services, supplies and other	5,062,475	245,625	2,430,726	2,912,361	9,108,690	4,646,339	11,055,274	35,461,490
Occupancy, utilities and maintenance	979,588	41,144	741,048	556,595	2,093,240	-	211,266	4,622,881
Depreciation and amortization	586,254	36,900	165,296	422,088	1,230,870	1,116,405	207,467	3,765,280
Interest	23,203	1,453	6,547	51,079	48,704	17,063	8,203	156,252
	<u>25,243,772</u>	<u>345,720</u>	<u>6,894,914</u>	<u>8,494,378</u>	<u>18,378,487</u>	<u>7,372,892</u>	<u>19,347,847</u>	<u>86,078,010</u>
Operation and maintenance	(1,589,045)	(79,497)	(912,891)	(1,029,762)	(3,372,814)	(1,133,468)	(426,936)	(8,544,413)
Total expenses	<u>\$ 23,654,727</u>	<u>\$ 266,223</u>	<u>\$ 5,982,023</u>	<u>\$ 7,464,616</u>	<u>\$ 15,005,673</u>	<u>\$ 6,239,424</u>	<u>\$ 18,920,911</u>	<u>\$ 77,533,597</u>

	2022							
	Instruction	Research	Public Service	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total Expenses
Salaries and wages	\$ 16,194,606	\$ 7,383	\$ 2,379,884	\$ 4,210,269	\$ 4,583,069	\$ 1,232,051	\$ 6,496,649	\$ 35,103,911
Employee benefits	3,724,385	1,698	547,230	968,267	1,054,003	283,344	1,494,083	8,073,010
Services, supplies and other	5,418,123	77,275	2,505,589	3,341,496	9,211,498	4,368,514	9,416,954	34,339,449
Scholarships and fellowships	-	-	-	-	2,576,793	-	-	2,576,793
Occupancy, utilities and maintenance	789,707	33,208	588,313	443,951	1,682,183	70,151	170,006	3,777,519
Depreciation and amortization	568,061	35,495	157,847	402,068	1,189,802	1,054,585	198,747	3,606,605
Interest	53,121	3,327	9,990	116,937	111,500	39,062	18,780	352,717
	<u>26,748,003</u>	<u>158,386</u>	<u>6,188,853</u>	<u>9,482,988</u>	<u>20,408,848</u>	<u>7,047,707</u>	<u>17,795,219</u>	<u>87,830,004</u>
Operation and maintenance	(1,410,889)	(72,030)	(756,150)	(962,956)	(2,983,485)	(1,163,798)	(387,533)	(7,736,841)
Total expenses	<u>\$ 25,337,114</u>	<u>\$ 86,356</u>	<u>\$ 5,432,703</u>	<u>\$ 8,520,032</u>	<u>\$ 17,425,363</u>	<u>\$ 5,883,909</u>	<u>\$ 17,407,686</u>	<u>\$ 80,093,163</u>

Saint Mary's University of Minnesota

Notes to Financial Statements
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15. Interfund Borrowings

The investment in plant fund was indebted to the quasi-endowment funds in the amount of \$4,505,516 at both May 31, 2023 and 2022. The interfund borrowings relate to the construction of Brother Leopold Hall. Annual payments of \$385,386, including interest of 2.5 percent per annum were payable through June 1, 2035. The internal payments have been suspended beginning with the fiscal year ended May 31, 2023. All interfund borrowings and the related payments have been eliminated in the financial statements.

16. Employee Benefit Plans

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 \$1,806,800 and \$1,795,200 in fiscal 2023 and 2022, respectively. These contributions are less than 5 percent 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 65 percent funded. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. As a result, over or underfunding assets or liabilities are not recognized in the statement of financial position.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the University chooses to stop participating in its multi-employer plan, the University may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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 \$2,491,100 and \$3,017,600 to the plan in fiscal 2023 and 2022, respectively.

17. Concentrations

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. 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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18. Split-Interest Agreements

The University has arrangements with donors classified as charitable gift annuities, charitable lead trusts and charitable remainder trusts. 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 net assets without donor restrictions or net assets with donor restrictions, 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 3.0% and 7.6% in making the calculations at May 31, 2023 and 2022. 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.

The University did not receive any gifts relating to split-interest agreements during the years ended May 31, 2023 and 2022. Total assets held by the University under split-interest agreements are as follows at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Funds held in trust by others	\$ 85,380	\$ 201,908
Charitable remainder unitrusts	668,765	734,333
Gift annuities	<u>118,463</u>	<u>154,614</u>
Total	<u>\$ 872,608</u>	<u>\$ 1,090,855</u>

19. Supplemental Disclosure of Cash Flow Information

	<u>2023</u>	<u>2022</u>
Interest paid	<u>\$ 157,795</u>	<u>\$ 378,662</u>
Noncash investing and financing activities:		
Property, plant and equipment acquired through accounts payable	<u>\$ 136,566</u>	<u>\$ 94,361</u>
Property, plant and equipment acquired through contract payable, food service	<u>\$ -</u>	<u>\$ 1,262,724</u>

Cash, cash equivalents and restricted cash consist of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 14,681,584	\$ 14,930,099
Cash held for investment in property and equipment	<u>2,123,327</u>	<u>3,531,389</u>
Total	<u>\$ 16,804,911</u>	<u>\$ 18,461,488</u>

20. Related-Party Transactions

Contributions made by uncompensated members of the Board of Trustees and officers of the University totaled \$737,560 and \$2,269,166 for the years ended May 31, 2023 and 2022, respectively. Outstanding contribution receivables from members of the Board of Trustees and officers of the University total \$3,351,190 and \$612,256 as of May 31, 2023 and 2022, respectively. There are no other unsecured or secured related party receivables at May 31, 2023 and 2022.

21. Higher Education Emergency Relief Funding

The Higher Education Emergency Relief Fund III (HEERF III) was authorized by the American Rescue Plan (ARP), signed into law on March 11, 2021, providing \$39.6 billion in support to institutions of higher education to serve students and ensure learning continues during the COVID-19 pandemic. The University was awarded approximately \$5,149,000 of HEERF III funds during fiscal 2022 and received all of the funds in fiscal 2022. Half of the funds were provided to students and recognized as government grants income and student aid expense and the remainder represented the institutional portion of the grant was expended and recognized as government grants income and auxiliary enterprises expense. All funds from HEERF III were reported as net assets with donor restrictions and released from restrictions in the fiscal year ended May 31, 2022.

The University did not recognize or receive any HEERF funding in the fiscal year ending May 31, 2023.

22. Contingencies

Financial awards from federal and state agencies, including the Department of Education, in the form of grants are subject to audit by the agencies. Such audits could result in claims against the University for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

The University is subject to asserted and unasserted claims encountered in the normal course of business. In the opinion of management and legal counsel, disposition of these matters will not have a material effect on the University's financial condition or results of operations.

23. Subsequent Events

The University has evaluated subsequent events through October 17, 2023, which is the date that the financial statements were issued.