St. Mary's University

Financial Report

May 31, 2018

Ernst & Young LLP
Frost Bank Tower
Suite 1700
100 West Houston Street
San Antonio, TX 78205

Tel: +1 210 228 9696
Fax: +1 210 242 7252
ey.com

Building a better working world

Report of Independent Auditors

Management and The Board of Trustees
St. Mary's University

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Mary's University, which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated 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 consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Building a better
working world

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Mary's University as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 9, 2018 on our consideration of St. Mary's University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Mary's University's internal control over financial reporting and compliance.

Ernst + Young LLP

November 9, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2018 and 2017 *(in thousands)*

	2018	2017
ASSETS:		
Cash and cash equivalents	$ 18,373	$ 23,337
Restricted cash	104	177
Receivables		
Student accounts, net	4,193	4,182
Other accounts, net	1,342	2,574
Contributions, net	8,320	6,860
Student loans, net	5,028	5,680
Prepaid expenses	734	890
Notes receivable	9,433	9,373
Investments	186,834	171,173
Funds held in trust by others	4,999	4,675
Land, buildings and equipment, net	121,984	118,417
Other assets	574	574
Total Assets	**$ 361,918**	**$ 347,912**
LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,743	$ 5,856
Accrued salaries and benefits	3,606	3,355
Student deposits	415	417
Other deposits	1,062	755
Deferred revenue	3,910	4,158
Capital lease obligations	–	73
Indebtedness	49,760	43,228
U.S. government advances for student loans	5,475	5,720
Total Liabilities	**66,971**	**63,562**
NET ASSETS:		
Without donor restrictions	139,066	141,645
With donor restrictions	155,881	142,705
Total Net Assets	**294,947**	**284,350**
Total Liabilities and Net Assets	**$ 361,918**	**$ 347,912**

See accompanying notes.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended May 31, 2018 *(in thousands)*

	Without donor restrictions	With donor restrictions	Total
OPERATING ACTIVITIES:			
OPERATING REVENUES:			
Tuition and fees	$ 101,115	$ –	$ 101,115
Less scholarship allowance	(44,208)	–	(44,208)
Net tuition and fees	56,907	–	56,907
Contributions	959	9,792	10,751
Government grants and contracts	9,840	–	9,840
Investment return designated for current operations	6,690	6,918	13,608
Other income	3,384	79	3,463
Auxiliary enterprises	12,917	–	12,917
Net assets released from restrictions	9,180	(9,180)	–
Total operating revenues	**99,877**	**7,609**	**107,486**
EXPENSES:			
Education and general expenses:			
Academic programs:			
Instruction	39,120	–	39,120
Academic support	12,581	–	12,581
Research	622	–	622
Public service	2,154	–	2,154
Total academic programs	54,477	–	54,477
Management and general:			
Student services	16,255	–	16,255
Institutional support	15,049	–	15,049
Total management and general	31,304	–	31,304
Fundraising	3,800	–	3,800
Total education and general expenses	89,581	–	89,581
Auxiliary enterprises	12,906	–	12,906
Total expenses	**102,487**	–	**102,487**
Change in net assets from operating activities	**(2,610)**	**7,609**	**4,999**
NON-OPERATING ACTIVITIES:			
Investment income, net of expenses of $1,211	1,114	1,036	2,150
Net assets released from restrictions	558	(558)	–
Net capital gain on investments	5,049	12,007	17,056
Investment return designated for current operations	(6,690)	(6,918)	(13,608)
Change in net assets	**(2,579)**	**13,176**	**10,597**
Net assets at beginning of year	**141,645**	**142,705**	**284,350**
Net assets at end of year	**$ 139,066**	**$ 155,881**	**$ 294,947**

See accompanying notes.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended May 31, 2017 *(in thousands)*

	Without donor restrictions	With donor restrictions	Total
OPERATING ACTIVITIES:			
OPERATING REVENUES:			
Tuition and fees	$ 95,651	$ –	$ 95,651
Less scholarship allowance	(39,786)	–	(39,786)
Net tuition and fees	55,865	–	55,865
Contributions	483	10,681	11,164
Government grants and contracts	9,857	–	9,857
Investment return designated for current operations	3,250	6,042	9,292
Other income	3,598	40	3,638
Auxiliary enterprises	11,818	–	11,818
Net assets released from restrictions	9,017	(9,017)	–
Total operating revenues	**93,888**	**7,746**	**101,634**
EXPENSES:			
Education and general expenses:			
Academic programs:			
Instruction	38,236	–	38,236
Academic support	12,051	–	12,051
Research	692	–	692
Public service	2,229	–	2,229
Total academic programs	53,208	–	53,208
Management and general:			
Student services	14,422	–	14,422
Institutional support	15,141	–	15,141
Total management and general	29,563	–	29,563
Fundraising	3,474	–	3,474
Total education and general expenses	86,245	–	86,245
Auxiliary enterprises	11,273	–	11,273
Total expenses	**97,518**	–	**97,518**
Change in net assets from operating activities	**(3,630)**	**7,746**	**4,116**
NON-OPERATING ACTIVITIES:			
Investment income, net of expenses of $1,093	1,546	729	2,275
Net assets released from restrictions	95	(95)	–
Net capital gain on investments	6,754	13,682	20,436
Investment return designated for current operations	(3,250)	(6,042)	(9,292)
Change in net assets	**1,515**	**16,020**	**17,535**
Net assets at beginning of year	**140,130**	**126,685**	**266,815**
Net assets at end of year	**$ 141,645**	**$ 142,705**	**$ 284,350**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended May 31, 2018 and 2017 *(in thousands)*

	2018	2017
OPERATING ACTIVITIES:		
Change in net assets	$ 10,597	$ 17,535
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt expense and amounts written off	608	698
Loss on disposal of land, building and equipment	71	109
Amortization of bond discount and issuance costs	14	12
Net realized and unrealized gain on investments	(17,391)	(20,747)
Loan assignments and cancellations	41	42
Depreciation	6,846	6,339
Contributions and income restricted for long-term investment	(6,074)	(3,303)
Changes in operating assets and liabilities (used in) provided by cash:		
Accounts and student receivables	706	(1,806)
Contributions receivable	(1,459)	(3,748)
Inventories, prepaid expenses, and other assets	141	(178)
Accounts payable and accrued expenses	(2,962)	1,805
Deposits and deferred revenues	157	(102)
Agency transactions – cash received	49,163	45,334
Agency transactions – cash disbursed	(49,256)	(45,378)
Net cash used in operating activities	**(8,798)**	**(3,388)**
INVESTING ACTIVITIES:		
Additions to buildings and equipment	(10,390)	(18,246)
Issuance of student loans	(504)	(693)
Collection of student loans	1,024	1,108
Proceeds from sales of investments	68,043	70,112
Purchases of investments	(66,640)	(55,905)
Net cash used in investing activities	**(8,467)**	**(3,624)**
FINANCING ACTIVITIES:		
Proceeds from contributions and income restricted for long-term investment	6,074	3,303
Issuance of notes receivable	(60)	(59)
Proceeds from notes payable	10,485	14,515
Unexpended bond revenue proceeds and restricted funds	73	72
Payments on indebtedness	(3,953)	(2,869)
Payments on capital lease obligations	(73)	(85)
Net decreases in advances from federal government	(245)	(130)
Net cash provided by financing activities	**12,301**	**14,747**
Net (decrease) increase in cash and cash equivalents	(4,964)	7,735
Cash and cash equivalents at beginning of year	23,337	15,602
Cash and cash equivalents at end of year	**$ 18,373**	**$ 23,337**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	**$ 1,150**	**$ 961**

See accompanying notes.

Notes to Consolidated Financial Statements *(in thousands)*

1. Summary of Significant Accounting Policies

General

St. Mary's University (the University) is an independent, not-for-profit Marianist Catholic institution in San Antonio, Texas, founded in 1852 by the Society of Mary. The University is organized into five schools and offers classes that lead to Bachelors, Masters, Ph.D. and Juris Doctor degrees. Revenues are derived primarily from tuition, fees and auxiliary services.

The University controls St. Mary's Holdings Inc. (SMHI), which is consolidated in the accompanying financial statements. SMHI was formed in June 2012 to improve, construct and own property leased to the University for educational, athletic and administrative functions. SMHI was funded using the federal New Market Tax Credit (NMTC) program resulting in restricted cash, notes receivable and indebtedness.

Basis of Presentation

The accompanying consolidated financial statements of the University have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The University maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For reporting purposes, however, the University classifies net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Without Donor Restrictions Net Assets

Use is not subject to donor-imposed stipulations; may be designated for specific purposes by action of the Board of Trustees.

With Donor Restrictions Net Assets

Use is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time nor can be fulfilled or otherwise removed by the University.

The University follows the policy of reporting restricted contributions and restricted endowment income on the consolidated statements of activities as increases in net assets with donor restrictions in the period received.

Cash donations to acquire long-lived assets are recorded as donor-restricted until the asset is acquired and expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations are reclassified to the without donor restrictions category and reported as net assets released from restrictions. With donor restrictions contributions received and expended in the same period are classified as net assets without donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and generally have original maturities of three months or less.

Restricted Cash

Restricted cash is reserved for administrative and compliance expenses related to the NMTC transaction and for unexpended construction and management expenses.

Allowances for Doubtful Accounts

Allowances for doubtful student accounts receivable and student loans ($3,850 and $2,162, respectively, at May 31, 2018, and $3,334 and $2,070, respectively, at May 31, 2017) are determined annually based upon historical experience, aging of receivables, loans in default and an analysis of collections.

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Tuition and fees are recognized on an accrual basis in the period earned. Auxiliary income is recognized when goods or services are provided. Tuition and fees collected that are applicable to future academic terms are recorded as deferred revenue, fees and deposits.

Contributions

Contributions, including unconditional promises to give made to the University, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Unconditional promises to receive that are expected to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's estimate, including such factors as prior collection history, type of contribution, current economic conditions and nature of fundraising activity.

Contributed services are reflected in the consolidated financial statements at the fair value of the services received. The contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically be purchased if not provided by donation. The fair value of contributed services was approximately $484 and $544 for the years ended May 31, 2018 and 2017, respectively.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in securities traded on a national exchange are valued at the last reported bid price. Over-the-counter securities and government obligations are valued at the bid price or the average bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. The University's marketable securities do not represent significant concentrations of market risk as the portfolio is diversified across strategies, managers and geography. The fair value of real estate investments are based on the most current quarterly financial information for the real estate trusts. The fair value of mineral rights is estimated based on the income stream those assets generate. Investments received by gift or bequest are carried at fair value at the date of the gift. If fair value is not determinable at the date of the gift, the asset received by gift or bequest is recorded at a nominal value.

The University's investments in certain institutional commingled funds or alternative investments are not publicly traded. These funds comprise 24% and 26% of total investment securities at May 31, 2018 and 2017, respectively. These investments contain underlying funds, which may include marketable securities, limited partnerships, limited liability companies, or non-U.S. corporations and are valued at redemption values that represent the net asset value of the units held at year end. These investments entail liquidity risks to the extent that they may be difficult to sell or may not be converted to cash quickly at favorable prices. All of the funds are diversified across strategies, managers and geography.

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis, and dividend income is recognized on the ex-dividend date. Investment securities are exposed to various risks, such as interest rate, liquidity, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

1. Summary of Significant Accounting Policies (continued)

In accordance with the Texas Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA), dividends, interest, gains, losses and other investment income are reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. In the absence of donor stipulations or law to the contrary, gains and losses on the investments of a donor-restricted endowment fund increase and reduce net assets with donor restrictions. If losses reduce the fair value of a donor-restricted endowment fund below the level required by the donor stipulations of law, these losses are reported as reductions in the net assets without donor restrictions as of year end. Any gains that restore the fair value of the donor-restricted endowment fund are reported as increases in net assets without donor restrictions in the subsequent year when gains were incurred.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access. The types of investments included as Level 1 include listed equities, U.S. government and agency obligations and frequently traded corporate bonds.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted market prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of investments included as Level 3 include funds held in trust by others (see Note 5), real estate trusts, mineral rights, venture capital funds, and privately held hedge funds.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methodologies described herein may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, 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 a different fair value measurement at the reporting date. The methodologies used to determine fair value have been consistent for the years ended May 31, 2018 and 2017.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if donated, at fair value at the date of gift. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Net interest incurred during the construction phase of major plant additions is capitalized. The capitalized interest was $5 and $76 for the years ended May 31, 2018 and 2017 respectively.

1. Summary of Significant Accounting Policies (continued)

Scholarship Allowances

A scholarship allowance (or tuition discount) is the difference between the stated charge for goods and services provided by the University and the amount billed to students and/or third parties making payments on behalf of students for tuition and fees. Scholarships for books, room and board are included in auxiliary expense. The scholarship allowance includes amounts directly funded by the University from unrestricted revenue of approximately $34,447 and $29,509 for the years ended May 31, 2018 and 2017, respectively. The allowance also includes scholarships funded by endowment earnings and external sources, including federal and state grants.

Tax Status

The University is exempt from federal income tax under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (the Code). This exemption does not apply to unrelated business income, as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. The University had no material tax liability resulting from such unrelated business income in 2018 or 2017. U.S. GAAP requires management to evaluate uncertain tax positions taken by the University. The consolidated financial statement effects of a tax position are recognized when the position is more likely than not based on the technical merits, to be sustained upon examination by the Internal Revenue Service or U.S. Department of Treasury. Management has analyzed the tax positions taken by the University, and has concluded that as of May 31, 2018, there are no uncertain positions taken or expected to be taken. The University has recognized no interest or penalties related to uncertain tax positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred, creates new taxes on certain foreign sourced earnings, and limits the use of future net operating losses. For tax-exempt organizations, the Act imposes an excise tax on compensation paid in excess of $1 million to certain executives, subjects certain fringe benefits to taxation as unrelated business income, requires organizations to separately compute UBI for each trade or business, imposes an excise tax on investment income of applicable educational institutions, and repeals the exempt status of advance refunding bond issuances. The provisions of the Act do not have a material tax effect on the University’s financial statements. Certain regulatory guidance provides for a measurement period of up to one year during which accounting for the tax effects of the Act may be completed. The University will continue to evaluate the impact of the Act and may record adjustments as additional information and guidance is released by the Internal Revenue Service.

Retirement Plans

The University has a defined contribution retirement plan administered by providers of retirement services, which covers substantially all of its employees upon completing one year of service and working at least 1,000 hours. Contributions are made at 7% of participants’ base salaries for those who contribute 5% of their base salaries, if the employee doesn’t contribute 5% of their salary then they are not eligible for the 7% contribution. The University’s contributions for the years ended May 31, 2018 and 2017, approximated $2,458 and $2,331, respectively. The University has a deferred compensation plan administered by providers of retirement services for certain members of the University’s management. Contributions are made by the employees, and no amounts are contributed by the University.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (continued)

Functional Allocations of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited, using a methodology consistent with prior years.

Federal Student Financial Aid Programs

Funds provided by the U.S. government under the Federal Perkins Student Loan program are loaned to qualified students and may be re-loaned as collections are made. These funds are ultimately refundable to the government and are, therefore, recorded as a long-term liability. Such funds require the University to provide a matching amount which varies according to current regulations.

Activities of Federal Pell Grants (Pell) and the Veterans Affairs (VA) Yellow Ribbon Program are not reflected in the consolidated statements of activities as the transactions are considered to be agency transactions. Students received approximately $4,874 and $4,821 from Pell for the years ended May 31, 2018 and 2017, respectively.

Agency Transactions

The University maintains accounts for the Federal Direct Lending, Pell, and VA Yellow Ribbon programs, as well as Texas Be-On-Time loans, student organizations, local not-for-profit organizations, fundraising events, and the Society of Mary (see Note 13). These transactions are excluded from the consolidated statements of activities as they are not University activities but are reflected in the accompanying consolidated statements of cash flows.

New Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases, Amendments to the FASB Accounting Standards Codification*, which requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term and a lease liability for the payments to be made to lessor on its statement of position for all operating leases greater than 12 months. ASU 2016-02 is effective for the University on June 1, 2020, with early adoption permitted. ASU 2016-02 requires adoption of its amendments on a modified retrospective basis. The University is evaluating the impact that the adoption of ASU 2016-07 will have on the University's consolidated financial position, operating activities or cash flows.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 decreases the number of net asset classes from three to two. The new classes are net assets with donor restrictions and net assets without donor restrictions. The ASU 2016-14 also requires qualitative disclosure on how a not-for-profit entity manages its liquid available resources and liquidity risks and quantitative disclosure regarding the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures. ASU 2016-14 also requires expanded reporting and disclosure of expenses. ASU 2016-14 is effective for the University in 2019 and early adoption is permitted. Management has adopted ASU 2016-14 as of year the ended May 31, 2018. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements.

Subsequent Events

Subsequent events were evaluated through November 9, 2018, which is also the date the consolidated financial statements were available to be issued.

2. Liquidity and Availability

The University's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	Year Ended 31-May-18	Year Ended 31-May-17
Total assets at year end	$ 361,918	$ 347,912
Less		
Pledges receivable due in more than one year	(4,234)	(3,561)
Donor-restricted endowment funds	(139,728)	(127,235)
Board-designated endowment funds	(56,285)	(55,802)
Notes receivable	(9,433)	(9,373)
Land, buildings and equipment, net	(121,984)	(118,417)
Other assets	(574)	(574)
Financial assets available at year end for current use	$ 29,680	$ 32,950

As part of the University's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, the University has a board-designated endowment of $56,285 as of May 31, 2018. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment funds and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 10 for disclosures about investments).

3. Contributions Receivable

Contributions receivable consist of unconditional promises to give, which the University received and are outstanding at May 31, 2018 and 2017. Receivables with maturities of more than one year are reflected at present value of estimated future cash flows using a discount rate appropriate to the term of the receivable. The fair value of the gross contributions at May 31, 2018 and 2017, approximates the carrying value. Most of the contributions are donor-restricted and were received primarily for future building acquisitions or scholarships.

Maturities of contributions receivable at May 31 are as follows:

	2018	2017
Less than one year	$ 4,775	$ 3,606
One to four years	3,407	4,550
More than five years	2,096	–
Total contributions	**10,278**	**8,156**
Less allowance for uncollectible pledges	(963)	(534)
Discount	(995)	(762)
Net contributions receivable	**$ 8,320**	**$ 6,860**

4. Notes Receivable

On June 27, 2012, the University made a loan of $9,091 to Chase NMTC St. Mary's University Investment Fund, LLC (the Borrower) to fund capital improvements and construction. Beginning June 27, 2012 through June 2019 (the NMTC Compliance Period), the outstanding principal of the loan accrues interest at 1.945% per annum and the Borrower makes annual interest only payments of 1.3395% per annum on the outstanding balance. The carrying value of the note includes accrued unpaid interest of $342 as of May 31, 2018.

Interest income totaled $182 and $181 for the years ended May 31, 2018 and 2017, respectively.

5. Investments and Funds Held in Trust by Others

Investments and funds held in trust have the following positions based on the ASC 820 fair value hierarchy levels.

	Assets at Fair Value as of May 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**$ 8,066**	**$ –**	**$ –**	**$ 8,066**
Investments				
U.S. corporate bonds and notes	15,476	–	–	15,476
U.S. real estate trusts	50	–	–	50
U.S. intermediate government/credit bond funds	–	6,335	–	6,335
U.S. equities	73,072	–	–	73,072
U.S. mineral rights	–	–	1,364	1,364
International intermediate bond funds	–	2,296		2,296
International equities	32,338	–	–	32,338
Emerging markets-mutual fund	6,985	–	–	6,985
Subtotal	**$ 127,921**	**$ 8,631**	**$ 1,364**	**$ 137,916**
Investments measured at net asset value:				
U.S. equities fund	–	–	–	$ 11,720
U.S. real estate trusts funds	–	–	–	10,889
International hedge fund	–	–	–	611
Multi-strategy hedge fund	–	–	–	16,077
Credit long-short-hedge fund	–	–	–	5,870
Multi-strategy private equities fund	–	–	–	3,751
Total Investments	–	–	–	**$ 186,834**
Funds held in trust by others	**–**	**–**	**4,999**	**4,999**
Total assets at fair value	–	–	–	**$ 199,899**

	Assets at Fair Value as of May 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**$ 9,197**	**$ –**	**$ –**	**$ 9,197**
Investments				
U.S. corporate bonds and notes	15,510	–	–	15,510
U.S. real estate trusts	373	–	–	373
U.S. intermediate government/credit bond funds	–	8,607	–	8,607
U.S. equities	62,394	–	–	62,394
U.S. mineral rights	–	–	2,044	2,044
International intermediate bond funds	–	1,141	–	1,141
International equities	28,964	–	–	28,964
Emerging markets – mutual fund	7,681	–	–	7,681
Subtotal	**$ 114,922**	**$ 9,748**	**$ 2,044**	**$ 126,714**
Investments measured at net asset value:				
U.S. equities fund	–	–	–	$ 9,598
U.S. real estate trusts	–	–	–	11,086
International hedge fund	–	–	–	9,167
Multi-strategy private equities	–	–	–	14,608
Total Investments	–	–	–	**$ 171,173**
Funds held in trust by others	**–**	**–**	**4,675**	**4,675**
Total assets at fair value	–	–	–	**$ 185,045**

5. Investments and Funds Held in Trust by Others (continued)

The following table includes additional disclosures for the fair value measurements of investments in certain entities that calculate fair value using net asset value per share.

	Assets at Fair Value as of May 31, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. equities fund[a]	$ 11,720	$ –	Monthly	6-15 days
U.S. real estate trusts[b]	10,889	–	Subject to approval	45 days before the quarter ends
International hedge fund[c]	611	–	Subject to approval	Redemption request is pending
Multi-strategy hedge fund[d]	16,077	–	Quarterly	60-65 days before the quarter ends
Credit long short hedge fund[e]	5,870	–	Quarterly	45 days before the quarter ends
Multi-strategy private equities [f]	3,751	7,396	Subject to approval	
Total	**$ 48,918**	**$ 7,396**		

	Assets at Fair Value as of May 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
U.S. equities funds[a]	$ 9,598	$ –	Monthly	6-15 days
U.S. real estate trusts[b]	11,086	–	Subject to approval	45 days before the quarter ends
International hedge funds[c]	8,142	–	Quarterly	Quarterly after first 12-month lock up
International hedge funds[c]	1,025	–	Subject to approval	
Multi-strategy private equities[f]	14,608	3,203	Subject to approval	
Total	**$ 44,459**	**$ 3,203**		

[a] U.S. equities funds include investments that are traded securities in the United States; however, the value of the fund itself can only be derived based on those holdings.

[b] U.S. real estate trusts include investments in a trust and a limited partnership that invest in real estate. Management of the trust and partnership manage their respective investment portfolios.

[c] International hedge funds include investments in international securities outside the United States. Management of the trust and partnership manages their respective investment portfolios. A redemption request to liquidate total holdings is pending on fund manager approval.

[d] Multi-strategy hedge funds consist of concentrated group of hedge funds across various strategies including long short/equity, event driven, relative value and global asset allocation in the traditional LP structure. Management of the fund manage their respective investment portfolios.

[e] Credit long short hedge funds primarily include investments in U.S. high yield debt, consisting of securities rated lower than Baa3/BBB- by Moody's or Standard & Poor's, respectively. The fund may take long/short positions in securities or obligations or any other claims at any position in the capital structure of a high yield issuer, including bank debt, bonds, preferred stock and equities.

[f] Multi-strategy private equities include investments that pursue multiple strategies that invest approximately 26% buyout, 26% venture, 33% special situations, 12% real estate and 3% international. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

5. Investments and Funds Held in Trust by Others (continued)

The fair value measurement Level 3 reconciliation is as follows:

	Mineral Rights	Funds Held by Others	Total
Balance at June 1, 2016	**$ 910**	**$ 4,362**	**$ 5,272**
Net gain realized and unrealized	1,134	313	1,447
Balance at May 31, 2017	**$ 2,044**	**$ 4,675**	**$ 6,719**
Net (loss) gain realized and unrealized	(680)	324	(356)
Balance at May 31, 2018	**$ 1,364**	**$ 4,999**	**$ 6,363**

At May 31, investments included the Myra Stafford Pryor Free Enterprises Trust, a perpetual trust fund held by the University for a "Chair in Free Enterprise" and scholarships.

	2018	2017
Fair value	$ 1,482	$ 1,497
Income distributed	93	88

At May 31, funds held in trust by others consisted of the Emil C.E. Jurica Endowment Trust, an irrevocable trust formed for the sole benefit of the University. Assets are held and managed by the Emil C.E. Jurica Endowment Trust trustees, and income is to be used for the Bill Greehey School of Business. The fair value of the funds held in trust by others is based on the University's portion of the fair value of the underlying investments held by the trust.

	2018	2017
Fair value	$ 4,999	$ 4,675
Income distributed	146	125

6. Land, Buildings and Equipment

Land, buildings and equipment consisted of the following as of May 31:

	Estimated Useful Lives	2018	2017
Land		$ 601	$ 601
Buildings	45 years	135,387	113,368
Building improvements, parking lots and drives	20 years	40,246	37,168
Equipment	5 to 25 years	22,272	21,756
Library books	5 years	32,639	31,827
Construction in progress		229	16,535
Land, buildings and equipment		**$ 231,374**	**$ 221,255**
Less accumulated depreciation		(109,390)	(102,838)
Land, buildings and equipment, net		**$ 121,984**	**$ 118,417**

7. Indebtedness

Indebtedness at May 31 consisted of the following:

	Interest Rate	Final Maturity	2018 Principal Payments	Unpaid Principal	
				2018	2017
$15,055 Revenue and Refunding Bonds of 1999 For extinguishment of 1990 Student Center Bonds, construction of a convocation center and new residence hall, and renovations to existing residence halls; issued through the City of San Antonio, Texas, Higher Education Authority, Inc.; refinanced in July 2010; payable semiannually	3.05%	May 2019	$ 1,127	$ 1,188	$ 2,315

7. Indebtedness (continued)

	Interest Rate	Final Maturity	2018 Principal Payments	Unpaid Principal 2018	Unpaid Principal 2017
$8,500 Revenue Bonds of 2007 For residence hall construction; issued through the City of Olmos Park, San Antonio, Texas, Higher Education Authority, Inc.; payable semiannually	3.43% to 4.35%	May 2032	305	4,750	5,055
$10,000 Revenue Bonds of 2008 For residence hall construction; issued through the City of Olmos Park, San Antonio, Texas Higher Education Authority, Inc.; payable semiannually	3.92%	May 2032	355	6,895	7,250
$9,091 SMHI to TPDC Note Payable 2012 From SMHI to TransPecos Development Corporation (TPDC); for capital improvements and construction; interest only payable annually through 2019; thereafter, principal and interest payable annually	1.036%	June 2042	–	9,091	9,091
$2,669 SMHI to TPDC Note Payable 2012 From SMHI to TPDC; for capital improvements and construction; Interest only payable annually through 2019; thereafter, Principal and interest payable annually	1.036%	June 2042	–	2,669	2,669
$7,000 Note Payable 2012 For facility renovations and other capital improvements; principal payable annually; Interest resets and payable monthly; at 3.22% as of May 31, 2018	LIBOR + 1.15%	March 2020	1,166	1,167	2,333
$25,000 Note Payable 2016 For residence hall construction; issued through the City of San Antonio, Texas, Higher Education Facilities Corporation. Interest payable monthly and principal payable annually. The $10,485 in borrowings that were available under the note as of May 31, 2017, were drawn in 2018. On September 30, 2026, the University has a 10-year extension option under the note, which can be exercised, subject to lender's approval; at 2.46% as of May 31, 2018	LIBOR + 0.70%	Sept 2026	1,000	24,000	14,515
Total			**$ 3,953**	**$ 49,760**	**$ 43,228**

Combined aggregate amount of principal maturities and interest for indebtedness are as follows:

	Principal	Interest	Total
2019	$ 4,040	$ 1,262	$ 5,302
2020	13,470	1,027	14,497
2021	1,745	963	2,708
2022	1,775	909	2,684
2023	1,810	853	2,663
Thereafter	26,920	3,298	30,218
Total	**$ 49,760**	**$ 8,312**	**$ 58,072**

8. Net Assets Released From Restrictions

Sources of net assets released from donor-restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors were as follows during the years ended May 31:

	2018	2017
Academic programs	$ 3,135	$ 3,752
Community service	220	187
Operational support	858	724
Scholarships	4,967	4,354
Total operating activities	**$ 9,180**	**$ 9,017**
Non-operating activities, building improvement	**$ 558**	**$ 95**

9. Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions consist of gifts, other unexpended revenues and gains restricted for the following as of May 31:

	2018	2017
Academic programs	$ 69,163	$ 61,179
Community service	2,720	2,139
Operational support and construction	8,261	8,236
Scholarships	75,737	71,151
Total	**$ 155,881**	**$ 142,705**

Net assets with donor restrictions consist of endowment gifts and funds held in trust by others. The income from these invested net assets is primarily dedicated for academic programs, scholarships, operational support and construction, and is recorded as donor-restricted income.

10. Endowment Net Asset Classifications

The University's endowment consists of 385 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the University permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: duration and preservation of the fund; purposes of the University and the donor-restricted endowment fund; general economic conditions; possible effect of inflation and deflation; expected total return from income and the appreciation of the investments; and investment policies of the University.

The University has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets.

Endowment investments are diversified to achieve a reasonable defense against loss of corpus or future purchasing power while stabilizing the amount available for current spending. Taking these factors into consideration, the University's spending policy is to distribute up to 4.75% of the three-year moving average of the total endowment market value, along with utilization of any prior year carryforward balances subject to University policies.

10. Endowment Net Asset Classifications (continued)

The endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2017	**$ 55,802**	**$ 127,235**	**$ 183,037**
Investment return			
Investment income	580	1,024	1,604
Net appreciation	5,479	12,321	17,800
Total investment gain	**6,059**	**13,345**	**19,404**
Contributions	–	4,877	4,877
Appropriated for expenditure	(5,576)	(5,882)	(11,458)
Carried forward for expenditure	–	153	153
Endowment net assets, May 31, 2018	**$ 56,285**	**$ 139,728**	**$ 196,013**

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. Deficiencies of this nature, which are reported in with donor restricted net assets, were $16 and $0 as of May 31, 2018 and 2017, respectively. Endowment deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

11. Net Assets

The University's net assets as of May 31, includes the following:

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Nature of Specific Net Assets						
Undesignated	$ 1,078	$ –	$ 1,078	$ 3,964	$ –	$ 3,964
Donor-restricted	–	16,153	16,153	–	$ 15,470	15,470
Donor-restricted endowment funds	–	139,728	139,728	–	127,235	127,235
Board designated endowment funds	56,285	–	56,285	55,802	–	55,802
Net physical assets	81,703	–	81,703	81,879	–	81,879
Total	**$ 139,066**	**$ 155,881**	**$ 294,947**	**$ 141,645**	**$ 142,705**	**$ 284,350**

12. Functional and Natural Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include depreciation, interest and office and occupancy. Depreciation expense is allocated on tangible assets over its estimated useful life. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the external debt.

12. Functional and Natural Expenses (continued)

For the year ended May 31, 2018, natural expense consists of the following:

	Program Activities			Supporting Activities			
	Academic Programs and student services	Auxiliaries	Program Total	Administrative Support	Fundraising	Support Total	Total
Salaries and Benefits	$ 53,622	$ 2,216	$ 55,838	$ 8,956	$ 2,767	$ 11,723	$ 67,561
Professional Services	978	4,968	5,946	1,090	20	1,110	7,056
Occupancy	2,064	1,872	3,936	799	5	804	4,740
Depreciation	4,423	1,545	5,968	824	54	878	6,846
Interest on indebtedness	81	1,034	1,115	30	–	30	1,145
Operating expenses	9,564	1,271	10,835	3,350	954	4,304	15,139
Total expenses	**$ 70,732**	**$ 12,906**	**$ 83,638**	**$ 15,049**	**$ 3,800**	**$ 18,849**	**$ 102,487**

For the year ended May 31, 2017, natural expense consists of the following:

	Program Activities			Supporting Activities			
	Academic Programs and student services	Auxiliaries	Program Total	Administrative Support	Fundraising	Support Total	Total
Salaries and Benefits	$ 51,440	$ 2,106	$ 53,546	$ 8,598	$ 2,746	$ 11,344	$ 64,890
Professional Services	910	4,572	5,482	1,299	–	1,299	6,781
Occupancy	2,087	1,638	3,725	987	5	992	4,717
Depreciation	4,281	1,143	5,424	862	53	915	6,339
Interest on indebtedness	109	670	779	41	–	41	820
Operating expenses	8,803	1,144	9,947	3,354	670	4,024	13,971
Total expenses	**$ 67,630**	**$ 11,273**	**$ 78,903**	**$ 15,141**	**$ 3,474**	**$ 18,615**	**$ 97,518**

13. Related-Party Transactions

The Society of Mary is represented on the University Board of Trustees and the Corporation. The Members of the Corporation (Provincial Superior and three other Provincial Council members of the Society of Mary, Province of the United States, President of the University, and the Chairperson of the Board of Trustees), upon recommendation of the Board of Trustees, approve the Bylaws of the University, the nomination of the individuals to serve on the Board of Trustees, the sale and transfer of properties and the distribution of assets in the event of dissolution. The Society of Mary of the Marianist Province of the United States (Marianists) and the Marianists Trusts combined contributed amounts to the University of $448 and $766 for the years ended May 31, 2018 and 2017, respectively. These contributions are reported as donor-restricted private gifts.

The University entered into an agreement to lease certain real property to the Marianists during fiscal year 2004. The lease is for a term of 50 years with two 10-year renewal options. The University recorded a contribution payable of approximately $124 at May 31, 2004, to reflect the fair market value, discounted at 5.5% of the lease. The contribution payable is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position. The Marianists own and operate certain properties within the University's campus boundaries. The University pays certain bills on behalf of the Marianists and then is reimbursed on a periodic basis. At May 31, 2018 and 2017, receivables of approximately $0 and $29, respectively, are included in accounts receivable.

The University receives endowment gifts from the University Alumni Association (the Association), a separate nonprofit organization that is not consolidated into the accompanying consolidated financial statements of the University. Gifts from the Association totaled $276 and $95 for the years ended May 31, 2018 and 2017, respectively. These gifts are recorded as donor-restricted private gifts.