

**ST. MARY SEMINARY AND
GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)**

FINANCIAL REPORT

JUNE 30, 2021 and 2020

**ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)**

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3-4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7-14

Independent Auditors' Report

Board of Trustees
St. Mary Seminary and Graduate School of Theology
(Our Lady of the Lake)
Cleveland, Ohio

We have audited the accompanying financial statements of St. Mary Seminary and Graduate School of Theology (Our Lady of the Lake) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Mary Seminary and Graduate School of Theology (Our Lady of the Lake) as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Cleveland, Ohio
September 15, 2021

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percent Change</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents:			
Operating	\$ 757,841	\$ 1,084,326	(30.11) %
Savings	649,780	649,452	0.05
Agency cash - Rector's Fund	245,536	156,300	57.09
Agency cash - other	4,806	4,806	-
Accounts receivable - net	857	4,869	(82.40)
Affiliate receivable - Center for Pastoral Leadership	-	14,729	(100.00)
Prepaid expenses	<u>3,631</u>	<u>6,573</u>	(44.76)
Total current assets	1,662,451	1,921,055	(13.46)
EQUIPMENT, net of accumulated depreciation of \$130,925	-	-	-
LONG-TERM ASSETS			
Investments, at market	807,289	674,039	19.77
Beneficial interest in perpetual trusts	154,730	126,276	22.53
Loan receivable - Center for Pastoral Leadership	<u>500,000</u>	<u>-</u>	100.00
Total long-term assets	<u>1,462,019</u>	<u>800,315</u>	82.68
TOTAL ASSETS	<u>\$3,124,470</u>	<u>\$2,721,370</u>	14.81
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 13,148	\$ 15,011	(12.41)
Accrued payroll and related taxes	9,287	8,058	15.25
Affiliate payable - Center for Pastoral Leadership	36,492	-	100.00
Unearned revenue	1,085	565	92.04
Funds held for others - Rector's Fund	245,536	156,300	57.09
Funds held for others - other	<u>4,806</u>	<u>4,806</u>	-
Total current liabilities	310,354	184,740	68.00
NET ASSETS			
Without donor restrictions	1,480,227	1,481,345	(0.08)
With donor restrictions	<u>1,333,889</u>	<u>1,055,285</u>	26.40
Total net assets	<u>2,814,116</u>	<u>2,536,630</u>	10.94
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,124,470</u>	<u>\$2,721,370</u>	14.81

The accompanying notes are an integral part of these financial statements.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Percent Change</u>
REVENUES, GAINS AND LOSSES				
Tuition and fees	\$ 230,594		\$ 230,594	(21.69) %
Diocesan contribution	247,782		247,782	(5.80)
Priestly formation endowment earnings contribution	1,537,411		1,537,411	5.02
Priestly formation annual appeal	321,000		321,000	114.00
Contributions	5,497	\$ 185,463	190,960	57.60
Contributed services - priest, religious and lay faculty and staff	366,232		366,232	(3.36)
Investment income	7,579	9,298	16,877	(39.42)
Net realized and unrealized gain on investments	13,274	133,749	147,023	393.22
Change in value of beneficial interest in perpetual trust		28,454	28,454	534.28
Net assets released from restrictions	<u>78,360</u>	<u>(78,360)</u>	<u>-</u>	-
Total revenues, gains and losses	2,807,729	278,604	3,086,333	13.36
EXPENDITURES				
Program services	2,336,720		2,336,720	4.49
Management and general	460,800		460,800	(3.33)
Fundraising	<u>11,327</u>		<u>11,327</u>	8.23
Total expenditures	<u>2,808,847</u>		<u>2,808,847</u>	3.13
CHANGE IN NET ASSETS	(1,118)	278,604	277,486	32,478.76
NET ASSETS – BEGINNING	<u>1,481,345</u>	<u>1,055,285</u>	<u>2,536,630</u>	(0.03)
NET ASSETS – ENDING	<u>\$1,480,227</u>	<u>\$1,333,889</u>	<u>\$2,814,116</u>	10.94

The accompanying notes are an integral part of these financial statements.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND LOSSES			
Tuition and fees	\$ 294,466		\$ 294,466
Diocesan contribution	263,045		263,045
Priestly formation endowment earnings contribution	1,463,873		1,463,873
Priestly formation annual appeal	150,000		150,000
Contributions	43,697	\$ 77,471	121,168
Contributed services - priest, religious and lay faculty and staff	378,955		378,955
Investment income	16,285	11,572	27,857
Net realized and unrealized gain on investments	2,570	27,239	29,809
Change in value of beneficial interest in perpetual trust		(6,552)	(6,552)
Net assets released from restrictions	<u>43,045</u>	<u>(43,045)</u>	<u>-</u>
Total revenues, gains and losses	2,655,936	66,685	2,722,621
EXPENDITURES			
Program services	2,236,330		2,236,330
Management and general	476,682		476,682
Fundraising	<u>10,466</u>		<u>10,466</u>
Total expenditures	<u>2,723,478</u>		<u>2,723,478</u>
CHANGE IN NET ASSETS	(67,542)	66,685	(857)
NET ASSETS – BEGINNING	<u>1,548,887</u>	<u>988,600</u>	<u>2,537,487</u>
NET ASSETS – ENDING	<u>\$1,481,345</u>	<u>\$1,055,285</u>	<u>\$2,536,630</u>

The accompanying notes are an integral part of these financial statements.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2021 and 2020

	As of June 30, 2021			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$1,060,372	\$ 199,448	\$ 4,036	\$1,263,856
Contributed services - priest, religious and lay faculty and staff	305,804	54,935	5,493	366,232
Community grants	24,001			24,001
Student support	133,291			133,291
Spiritual formation	52,736			52,736
General office expense	40,711	76,187	1,798	118,696
Academic programming support	93,772			93,772
Student health insurance	62,196			62,196
Library books and supplies	63,732	1,265		64,997
Food service	113,210			113,210
Rent expense	386,895	128,965		515,860
Total expenses	<u>\$2,336,720</u>	<u>\$ 460,800</u>	<u>\$ 11,327</u>	<u>\$2,808,847</u>

	As of June 30, 2020			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$1,046,896	\$ 215,527	\$ 4,228	\$1,266,651
Contributed services - priest, religious and lay faculty and staff	316,428	56,843	5,684	378,955
Community grants	23,201			23,201
Student support	79,213			79,213
Spiritual formation	48,247			48,247
General office expense	49,302	75,201	554	125,057
Academic programming support	99,887			99,887
Student health insurance	52,033			52,033
Library books and supplies	58,860	146		59,006
Food service	75,368			75,368
Rent expense	386,895	128,965		515,860
Total expenses	<u>\$2,236,330</u>	<u>\$ 476,682</u>	<u>\$ 10,466</u>	<u>\$2,723,478</u>

The accompanying notes are an integral part of these financial statements.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS USED BY OPERATING ACTIVITIES		
Change in net assets	\$ 277,486	\$ (857)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(147,023)	(29,809)
Change in value of beneficial interest in perpetual trust	(28,454)	6,552
Change in operating assets and liabilities:		
Decrease in accounts receivable	4,012	3,507
Change in affiliate receivable/payable - Center for Pastoral Leadership	51,221	(2,393)
Decrease (increase) in prepaid expenses	2,942	(5,421)
Decrease in accounts payable	(1,863)	(7,281)
Increase (decrease) in accrued payroll and related taxes	1,229	(116)
Increase (decrease) in unearned revenue	520	(165)
Total adjustments	<u>(117,416)</u>	<u>(35,126)</u>
Net cash provided (used) by operating activities	160,070	(35,983)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in loan receivable - Center for Pastoral Leadership	(500,000)	-
Sale of investments	<u>13,773</u>	<u>518,402</u>
Net cash (used) provided by investing activities	<u>(486,227)</u>	<u>518,402</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(326,157)	482,419
CASH AND CASH EQUIVALENTS – BEGINNING	<u>1,733,778</u>	<u>1,251,359</u>
CASH AND CASH EQUIVALENTS – ENDING	<u><u>\$ 1,407,621</u></u>	<u><u>\$ 1,733,778</u></u>

The accompanying notes are an integral part of these financial statements.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization

St. Mary Seminary and Graduate School of Theology (Our Lady of the Lake) (the Seminary) is incorporated as a non-profit educational institution with the Bishop of the Catholic Diocese of Cleveland as Chancellor. It receives a substantial portion of its revenues from the Diocese of Cleveland. Its basic purpose is to provide an integrated program of theological study and spiritual formation for candidates for the Roman Catholic priesthood.

Note 2. Summary of Significant Accounting Policies

The following significant accounting policies have been followed in the preparation of the financial statements:

- A. Basis of Presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Seminary has reported information regarding its financial position and activities according to two classes of assets: without donor restrictions and with donor restrictions.

A description of these classes follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets from contributions or other inflows that are subject to donor-imposed stipulations that may or will be met either by actions of the Seminary and/or the passage of time. Also included in this category are net assets from contributions where the use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or removed by actions of the Seminary.

- B. 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.
- C. Cash and Investments – Cash and cash equivalents: For purposes of the statements of cash flows, the Seminary considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. The Seminary maintains its cash accounts at a national financial institution. The balance, at times, may exceed federally insured limits.

Investments: The Seminary's long-term investments are in a pooled investment account at the Diocese of Cleveland, and are reported at fair value. Realized and unrealized gains and losses from securities in the pooled investment are allocated to the individual funds based on the market value of each fund to the total. Investment income has been recognized in the statements of activities in accordance with the terms of any donor restrictions.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

- D. Accounts Receivable – The Seminary has provided an allowance for potential uncollectible accounts receivable of \$853 and \$1,648 at June 30, 2021 and 2020, respectively. Management estimates an allowance for uncollectible accounts based on their review of delinquent accounts and an assessment of the Seminary's historical evidence of collections.
- E. Beneficial Interest in Perpetual Trusts – The Seminary is an income beneficiary of various trust funds. The funds are held in trust by others under legal trust instruments created by donors independent of the reporting organization. The Seminary has an irrevocable right to receive the income from the Trusts' assets in perpetuity but will never receive the Trusts' assets. The fund assets, which had a market value on June 30, 2021 and 2020 of \$154,730 and \$126,276, respectively, are included in the financial statements of the Seminary as net assets with donor restrictions. \$6,323 and \$6,243 was received from the trusts in the fiscal years ending June 30, 2021 and 2020, respectively, and recognized as investment income.
- F. Equipment – The Seminary capitalizes all purchases or donations of equipment exceeding \$5,000 at cost or fair market value at date of donation. Equipment is depreciated utilizing the straight-line method over their estimated useful lives ranging from five to ten years.
- G. Rector's Fund – The Rector's fund represents assets held in trust to be used for disbursement at the discretion of the Rector. Summary transactions for the fund for the years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Donations received	\$154,114	\$ 33,676
Disbursements made	<u>(64,878)</u>	<u>(50,218)</u>
Net change in account	<u>\$ 89,236</u>	<u>\$ (16,542)</u>

- H. Fair Value of Financial Instruments – The Seminary's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments.

The Seminary's financial instruments are measured at fair value on a recurring basis in accordance with Fair Value Measurement standards, as defined by accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

H. Fair Value of Financial Instruments (Continued)

The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following tables set forth by level within the fair value hierarchy the Seminary's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2021 and 2020:

		June 30, 2021		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
	Investment - pooled investment fund		\$807,289	
	Beneficial interest in perpetual trusts			\$154,730
		June 30, 2020		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
	Investment - pooled investment fund		\$674,039	
	Beneficial interest in perpetual trusts			\$126,276

Investments - pooled investment fund – The Seminary invests in a pooled investment fund managed by the Diocese of Cleveland, which invests in publicly traded fixed income and equity securities. Fair value of the pooled investment is indirectly observable through correlation with market data including quoted prices for similar assets in active markets, and is considered to be a Level 2 input.

Beneficial interest in perpetual trusts – The beneficial interest in perpetual trusts is held by others, not under the direct control of the Seminary. There is not an active market for the Seminary's interest in the trusts, therefore, it is classified as a Level 3 input.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There have been no changes in the methodologies used from 2020 to 2021. Furthermore, while the Seminary 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 fair value measurement at reporting date.

- I. Revenue Recognition** – In accordance with professional accounting standards, contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All contributions are considered without donor restrictions unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

I. Revenue Recognition (Continued)

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Seminary recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Payments are generally required prior to the beginning of the school year. All amounts received prior to the commencement of the school year, including enrollment deposits, are deferred to the applicable period. All prior year deferred revenue was recognized as current year revenue.

J. Noncash Contributions – Donated items are reflected as contributions at their estimated values at the date of contribution.

The Seminary estimates the value of faculty contributed services to include medical, pension, housing and other benefits. The donated amount is calculated by comparing actual amounts paid to or on behalf of faculty members with standard industry figures compiled by the Association of Theological Schools. The monetary value of services contributed by the faculty of \$366,232 and \$378,955 for the years ended June 30, 2021 and 2020, respectively, has been recorded in the financial statements as a revenue from contributed services and a corresponding expense.

K. Income Taxes – The Seminary is a not-for-profit entity and has been granted an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Seminary is listed in the Official Catholic Directory and, therefore, exempt from filing a federal 990 tax return. The Seminary believes that it has the appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

L. Functional Expenses – The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy expenses, which are allocated based on square footage, as well as salaries and benefits and contributed services, which are allocated on the basis of estimates of time and effort.

M. Subsequent Events – The Seminary has evaluated subsequent events through September 15, 2021, which is the date financial statements were available to be issued. There are no subsequent events that require additional disclosure.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments

Long-term investments of the Seminary are held and managed by the finance office of the Catholic Diocese of Cleveland in a general fund that is part of a pooled investment fund. The pooled investment fund had investment targets of 60% equity and 40% fixed income as of June 30, 2021 and 2020. The actual allocations approximate target allocations. Investments are stated at fair value and are summarized as follows as of June 30, 2021 and 2020:

	2021			2020		
	Cost	Market	Unrealized Appreciation	Cost	Market	Unrealized Appreciation
Pooled investments						
Mersy Fund	\$ 61,887	\$ 74,453	\$ 12,566	\$ 52,814	\$ 60,250	\$ 7,436
Outreach Trust Fund	567,096	732,836	165,740	499,770	613,789	114,019
	<u>\$ 628,983</u>	<u>\$ 807,289</u>	<u>\$ 178,306</u>	<u>\$ 552,584</u>	<u>\$ 674,039</u>	<u>\$ 121,455</u>

Note 4. Endowment Funds

The Board of Trustees of the Seminary has elected to invest its endowment funds with the Catholic Diocese of Cleveland, as part of the general fund. The Catholic Diocese of Cleveland has an investment policy detailing the long-term goals, asset allocation, guidelines for security selection, measurable objectives and on-going communication. The investment funds are managed to produce growth and income while controlling risk.

The Seminary's endowment consists of donor-restricted endowment funds. As required by applicable standards, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (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 Seminary maintains in perpetuity (a) the original value of donor-restricted gifts donated to the endowment and (b) the original value of subsequent donor-restricted gifts to the endowment. Any accumulations to the endowment are included in net assets with donor restrictions until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard prudence prescribed by UPMIFA.

Endowment funds are appropriated based on an approval process through the Board of Trustees. The Seminary appropriates for distribution each year up to 4% of its endowment fund's average fair value over the last three fiscal years.

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Seminary to retain as a fund of perpetual duration. The Seminary has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Seminary had no funds with deficiencies at June 30, 2021 and 2020.

	June 30, 2021		
	Original Gift Amount	Accumulated Gains	Total With Donor Restrictions
Endowment net assets, beginning of year	\$400,000	\$213,789	\$613,789
Investment return:			
Investment income		9,298	9,298
Net appreciation (realized and unrealized)		<u>133,749</u>	<u>133,749</u>
Total investment return		143,047	143,047
Appropriation of endowment assets for expenditure	<u> </u>	<u>(24,000)</u>	<u>(24,000)</u>
Endowment net assets, end of year	<u>\$400,000</u>	<u>\$332,836</u>	<u>\$732,836</u>
	June 30, 2020		
	Original Gift Amount	Accumulated Gains	Total With Donor Restrictions
Endowment net assets, beginning of year	\$400,000	\$198,178	\$598,178
Investment return:			
Investment income		11,572	11,572
Net appreciation (realized and unrealized)		<u>27,239</u>	<u>27,239</u>
Total investment return		38,811	38,811
Appropriation of endowment assets for expenditure	<u> </u>	<u>(23,200)</u>	<u>(23,200)</u>
Endowment net assets, end of year	<u>\$400,000</u>	<u>\$213,789</u>	<u>\$613,789</u>

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Pension and Annuity Plans

The Seminary participates in the Diocese of Cleveland's pension plan for eligible lay employees. The plan provides for the vesting of benefits after five years of employment. It is the policy of the Seminary to fund pension cost accrued. The pension expense was \$33,161 and \$32,739 for the years ended June 30, 2021 and 2020, respectively.

The clergy are covered by the Priests' Retirement Trust Agreement and Plan of the Diocese of Cleveland. The total contribution to this program is paid by the Seminary. The expense was \$74,489 and \$101,818 for the years ended June 30, 2021 and 2020, respectively.

Note 6. Lease and Other Transactions With Related Organizations

The Seminary is affiliated with various religious organizations. The Seminary receives an annual contribution from the Catholic Diocese of Cleveland to defray its cost of operations. The contributions received for the years ended June 30, 2021 and 2020 were \$247,782 and \$263,045, respectively. The Seminary also receives a contribution of earnings from the Catholic Diocese of Cleveland from its Priestly Formation Endowment Fund and from the Priestly Formation Annual Appeal. For the years ended June 30, 2021 and 2020, the Seminary received \$1,537,411 and \$1,463,873, respectively, from the Priestly Formation Endowment earnings and \$321,000 and \$150,000, respectively, from the Priestly Formation Annual Appeal.

The Seminary has entered into an ongoing lease commitment with the Center for Pastoral Leadership (CPL) calling for minimum annual rentals to be adjusted annually. The minimum lease payment as of June 30, 2021 and 2020 was \$10.00 per square foot. For both of the years ended June 30, 2021 and 2020, the Seminary paid a base rent of \$515,860. To assist with the second floor renovation, the Seminary loaned \$500,000 to CPL for the year ended June 30, 2021. It is anticipated that the repayment of these loans will be funded from the receipts of the Heart of a Shepherd campaign.

The Seminary shares various personnel, space and operating expenses with CPL and Borromeo Seminary. At June 30, 2021 and 2020, the Seminary had a payable to and receivable from CPL for \$36,492 and \$14,729, respectively. The advances are non-interest bearing and are repaid in the next fiscal year.

Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions are designated for the following purposes as of June 30:

	<u>2021</u>	<u>2020</u>
Net Assets With Donor Restrictions:		
<u>Subject to expenditure for specified purpose:</u>		
Scholarships and other	\$ 446,323	\$ 315,220
Endowments:		
<u>Subject to NFP endowment spending policy and appropriation:</u>		
Unappropriated endowment earnings	332,836	213,789
Funds restricted in perpetuity	<u>400,000</u>	<u>400,000</u>
	732,836	613,789
<u>Not subject to spending policy and appropriation:</u>		
Beneficial interest in perpetual trust - operating	<u>154,730</u>	<u>126,276</u>
	<u>\$ 1,333,889</u>	<u>\$ 1,055,285</u>

ST. MARY SEMINARY AND GRADUATE SCHOOL OF THEOLOGY
(OUR LADY OF THE LAKE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Net Assets With Donor Restrictions (Continued)

Net assets of \$24,000 and \$23,200 were released for community grants, and \$54,360 and \$19,845 were released for scholarship and other in 2021 and 2020, respectively.

Note 8. Liquidity and Availability

The table below presents financial assets available for general expenditures within one year at June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,407,621	\$ 1,733,778
Accounts receivable	857	19,598
Distributions from beneficial interest in perpetual trusts	6,300	6,200
Endowment spending-rate appropriations	<u>25,900</u>	<u>23,900</u>
	<u>\$ 1,440,678</u>	<u>\$ 1,783,476</u>

The Seminary's resources are primarily from tuition and earnings from endowments held at the Diocese of Cleveland to support the Seminary. The Seminary considers contributions restricted for program services which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. The Seminary also receives general operating support from the Diocese of Cleveland on an annual basis. The Seminary manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Additionally, the Seminary has long-term investments without donor restrictions of \$74,453 and \$60,250 as of June 30, 2021 and 2020, respectively. Although the Seminary does not intend to spend from its long-term investments, amounts could be made available if necessary.

Note 9. COVID-19 Global Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 (COVID-19) a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

The Seminary's operations are heavily dependent on tuition and private and public donations from individuals, foundations and corporations, as well as distributions from endowment funds. Access to donations and grants may decrease or may not be available depending on appropriations from other organizations and material declines in the market value of invested assets could impact the amount of resources available from these entities.