

McGladrey & Pullen

Certified Public Accountants

Saint Martin's University

Financial Report

June 30, 2008

Saint
Martin's
University

**Financial
Report**

June 30
2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Financial Statements

To the Board of Trustees
Saint Martin's University
Lacey, Washington

We have audited the accompanying statements of financial position of **Saint Martin's University** as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of **Saint Martin's University**. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Saint Martin's University** as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Olympia, Washington
October 1, 2008

Financial
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Statements of Financial Position

Saint Martin's University
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents:		
Operating cash	\$ 1,142,258	\$ 583,193
Invested cash	9,704,322	5,108,444
Total cash and cash equivalents	10,846,580	5,691,637
Student accounts receivable - net of allowance (2008 - \$173,568; 2007 - \$117,161)	1,063,111	957,880
Gate loan receivable - net of discount (2008 and 2007: \$229,960)	233,396	235,415
Student loans receivable - Perkins Loan Program	1,132,094	1,103,476
Contributions receivable - net of allowance	2,680,384	251,000
Other receivables	462,297	751,130
Invested cash - bond proceeds designated for construction	7,523,185	19,404,940
Investments	5,848,647	9,687,089
Inventories	118,786	119,651
Prepaid expenses	105,634	680,935
Bond issuance costs - net	448,860	458,731
Bond reserve	2,637,840	2,501,337
Construction in progress	15,604,322	995,589
Fixed assets - net	36,520,577	37,915,134
Total assets	\$85,225,713	\$80,753,944

See notes to financial statements.

	2008	2007
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 4,970,500	\$ 1,930,322
Deferred revenues	884,780	800,327
Annuities payable	785,834	813,929
Bonds payable	35,490,000	36,000,000
Related-party payables	723,481	745,182
Interest rate swap	3,870,214	--
U.S. Government grants refundable	972,178	972,178
Total liabilities	47,696,987	41,261,938
Commitments and Contingency	--	--
Net Assets		
Unrestricted:		
Undesignated	1,299,803	1,227,323
Investment in plant	20,015,669	24,907,668
Designated:		
Endowment/scholarships	600,173	715,765
Maintenance of plant	993,565	1,172,063
Other	1,536,924	1,317,016
Total unrestricted	24,446,134	29,339,835
Restricted:		
Temporarily	6,249,530	3,494,790
Permanently	6,833,062	6,657,381
Total net assets	37,528,726	39,492,006
Total liabilities and net assets	\$85,225,713	\$80,753,944

Statement of Activities

Saint Martin's University
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	\$27,235,007	\$ --	\$ --	\$27,235,007
Scholarship allowance	(9,408,863)			(9,408,863)
Total tuition and fees - net of scholarship allowance	17,826,144	--	--	17,826,144
Governmental grants and contracts	1,857,452	--	--	1,857,452
Contributions	1,134,469	3,698,797	103,193	4,936,459
Contributions from related party	243,096	55,879	60,000	358,975
Auxiliary enterprises	4,481,706	--	--	4,481,706
Investment income and realized gains	1,365,799	119,220	--	1,485,019
Unrealized losses on investments - net	(312,890)	(379,059)	--	(691,949)
Other sources	397,643	--	--	397,643
Other revenues:				
Change in value of split-interest agreement	(6,476)	--	--	(6,476)
Total revenues, gains and other support before net assets released from restrictions	26,986,943	3,494,837	163,193	30,644,973
Net assets released from restrictions	740,097	(740,097)	--	--
Total revenues, gains and other support	27,727,040	2,754,740	163,193	30,644,973
Expenses				
Program expenses:				
Instruction	9,289,762	--	--	9,289,762
Research	473,655	--	--	473,655
Student services	4,459,844	--	--	4,459,844
Auxiliary enterprises	4,820,147	--	--	4,820,147
	19,043,408	--	--	19,043,408
Support expenses:				
Academic	2,738,346	--	--	2,738,346
Institutional	6,956,285	--	--	6,956,285
	9,694,631	--	--	9,694,631
Total operating expenses	28,738,039	--	--	28,738,039

(continued)

See notes to financial statements

Statement of Activities*(concluded)*Saint Martin's University
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses <i>(concluded)</i>				
Nonoperating expense:				
Unrealized loss on interest rate swap	\$ 3,870,214	\$ --	\$ --	\$ 3,870,214
Total expenses	32,608,253	--	--	32,608,253
Change in net assets	(4,881,213)	2,754,740	163,193	(1,963,280)
Net Assets at June 30, 2007	29,339,835	3,494,790	6,657,381	39,492,006
Transfer of Net Assets	(12,488)	--	12,488	--
Net assets at June 30, 2008	\$24,446,134	\$6,249,530	\$6,833,062	\$37,528,726

See notes to financial statements.

Statement of Activities

Saint Martin's University
Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	\$24,841,063	\$ --	\$ --	\$24,841,063
Scholarship allowance	(8,378,969)	--	--	(8,378,969)
Total tuition and fees - net of scholarship allowance	16,462,094	--	--	16,462,094
Governmental grants and contracts	1,936,274	--	--	1,936,274
Contributions	2,173,854	536,867	890,225	3,600,946
Contributions from related party	97,247	104,328	3,298	204,873
Auxiliary enterprises	4,155,918	--	--	4,155,918
Investment income and realized gains	583,473	124,494	--	707,967
Unrealized gains on investments - net	111,128	246,413	--	357,541
Other sources	517,547	--	--	517,547
Other revenues:				
Change in value of split-interest agreement	(83,136)	--	--	(83,136)
Total revenues, gains and other support before net assets released from restrictions	25,954,399	1,012,102	893,523	27,860,024
Net assets released from restrictions	426,334	(426,334)	--	--
Total revenues, gains and other support	26,380,733	585,768	893,523	27,860,024
Expenses				
Program expenses:				
Instruction	8,362,198	--	--	8,362,198
Research	410,467	--	--	410,467
Student services	3,877,622	--	--	3,877,622
Auxiliary enterprises	4,269,643	--	--	4,269,643
	16,919,930	--	--	16,919,930
Support expenses:				
Academic	2,231,189	--	--	2,231,189
Institutional	6,340,439	--	--	6,340,439
	8,571,628	--	--	8,571,628
Total expenses	25,491,558	--	--	25,491,558
Increase in net assets	889,175	585,768	893,523	2,368,466
Net Assets at June 30, 2006	28,451,700	2,924,022	5,747,818	37,123,540
Transfer of Net Assets	(1,040)	(15,000)	16,040	--
Net assets at June 30, 2007	\$29,339,835	\$3,494,790	\$6,657,381	\$39,492,006

See notes to financial statements.

Statements of Cash Flows

Saint Martin's University
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	(\$ 1,963,280)	\$ 2,368,466
Adjustments:		
Depreciation	2,045,593	1,925,632
Unrealized (gains) losses on investments - net	691,949	(357,541)
Bad debt expense	105,388	35,417
Contributions restricted for long-term purposes	(163,193)	(893,523)
Cash surrender value of life insurance	(33,880)	(22,631)
Loss on disposal of assets	47,048	143,697
Fair value of interest rate swap	3,870,214	291,384
Bond issuance cost amortization	15,479	278,166
Changes in operating assets and liabilities:		
Increase in student receivables	(210,619)	(109,940)
(Increase) decrease in gate loan receivable	2,019	(21,883)
Increase in contributions receivable	(2,429,384)	(245,428)
(Increase) decrease in other receivables	288,833	(206,024)
(Increase) decrease in prepaids and inventories	576,166	(525,467)
Increase in accounts and annuities payable	3,018,559	79,010
Increase in deferred revenues	84,453	31,431
Net cash provided by operating activities	5,945,345	2,770,766
Cash Flows from Investing Activities		
Purchase of fixed assets and construction in progress, net of bond proceeds used	(3,425,062)	(3,107,881)
Proceeds from sale of assets	--	500
Purchase of investment securities	(17,436,338)	(12,801,125)
Sale of investment securities	20,616,711	9,173,256
Restricted bond proceeds for construction	--	(19,404,940)
Increase in student loans receivable	(28,618)	(19,317)
Net increase in bond reserve	(136,503)	(2,294,509)
Net cash used in investing activities	(409,810)	(28,454,016)

(continued)

See notes to financial statements

Statements of Cash Flows

(concluded)

Saint Martin's University
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(\$ 531,701)	(\$12,780,137)
Proceeds from bonds payable	--	36,000,000
Bond issuance costs	(5,607)	(458,732)
Cost of termination of interest rate swap	--	(152,000)
Contributions received restricted for long-term purposes	163,193	893,523
Funds received under annuity agreements	--	274,734
Payments made under annuity agreements	(6,477)	(83,136)
Net cash provided by (used in) financing activities	(380,592)	23,694,252
Net increase (decrease) in cash and cash equivalents	5,154,943	(1,988,998)
Cash and Cash Equivalents		
Beginning of year	5,691,637	7,680,635
End of year	\$10,846,580	\$ 5,691,637
Supplemental Schedule of Non-Cash Investing Activities		
Other Cash Flow Disclosure		
Interest paid	\$ 1,452,219	\$696,311
Restricted bond proceeds used for construction in progress additions	11,881,755	--

See notes to financial statements.

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies

Saint Martin's University (the University) is a nonprofit, charitable institution of higher learning, which operates in accordance with its Catholic and Benedictine heritage. The University was established in 1895 by the monks of the Saint Martin's Benedictine monastic community, who have continued to support the education institution.

Basis of Accounting

The University prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the University, and changes therein, are classified into the following three categories:

Unrestricted net assets represent expendable funds available to support the University's operations. Certain funds included in these amounts have been designated by the board of trustees to be utilized for various programs.

Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes or not available for use until a specific time. Temporarily restricted net assets include income derived from the donated assets, if specifically restricted by the donor.

Permanently restricted net assets consist of contributions with donor restrictions that stipulate the donated assets be maintained permanently but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Use of Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial position, and revenues and expenses for the period. Actual results could differ significantly from those estimates.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies *(continued)*

Cash and Cash Equivalents and Invested Cash

Demand deposit accounts (checking accounts) held at June 30, 2008 and 2007, are classified as "operating" cash on the accompanying statements of financial position. "Invested" cash consists of short-term, highly liquid investments that are readily convertible to known amounts of cash, including savings accounts, money market accounts, and short-term certificates of deposit.

The University maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts.

Tuition Revenues

Tuition revenues are recognized in the semester in which the class takes place. Deferred revenues represent primarily tuition from enrollment in summer school classes, which is attributable to the following fiscal year, and tuition deposits made by students in the current fiscal year that are to be used in following years.

Grant Revenues

Grant revenues are recognized when expenditures are made under reimbursement-type grants and when sufficient, verifiable evidence exists documenting that a promise was made by the donor for all other grants.

Inventories

Inventories are carried at the lower of cost (first-in, first-out) or market value.

Auxiliary Enterprises

Auxiliary enterprises consist of revenues and expenses relating to operation of the residence halls, food services and bookstore, and to the rental of facilities. Revenues from auxiliary enterprises are recorded at the time the related services are provided.

Contributed Services and Long-Lived Assets

The fair value of contributed services is recognized in the financial statements when the services received create or enhance nonfinancial assets, require specialized skills, which are provided by individuals possessing those skills, and would have been purchased if not donated. There were no significant contributed services received by the University for the years ended June 30, 2008 and 2007.

Contributions of long-lived assets are reported at fair value in the period received. It is the University's policy to record gifts of long-lived assets received without stipulation of how long the donated asset must be used as unrestricted support.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies *(continued)*

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. The majority of the contributions receivable are collected within a 12 month period, therefore no allowance for uncollectible accounts is recorded against those contributions. Amortization of discounts is recorded as additional contribution.

It is the University's policy to treat all temporarily restricted net assets received, whose restrictions expire within the current accounting period, as unrestricted.

Interest Rate Swap Agreement

The University has an interest rate swap agreement to convert variable rate debt to a fixed rate, as described in Note 5. The original swap agreement was terminated in June 2007, upon the final payment of the debt, to which the swap was attached. A new swap agreement was entered into during June 2007, related to the new bonds that were issued.

Federal Income Taxes

No provision for income taxes has been made in the financial statements since the University is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Fair Value of Financial Instruments

The University's financial instruments include cash and cash equivalents, invested cash, investments, receivables, accounts payable and accrued liabilities, including annuities payable, long-term borrowings and an interest rate swap. The University believes that the fair value of these financial instruments approximates their carrying value based on current market indicators, such as prevailing interest rates and exchange rates. It is not practical to estimate the fair value of student receivables and the liability for U.S. government grants refundable. The University recognizes the change in fair market value of derivative financial instruments on the statements of activities.

Student Accounts Receivable and Student Loans Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Student accounts receivable are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible and student loans receivable may be assigned to the Department of Education. Recoveries of student accounts receivable previously written off are recorded when received.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies *(continued)*

Student Accounts Receivable and Student Loans Receivable *(concluded)*

A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the last day of the semester. Interest is charged on all past-due accounts for students who are no longer enrolled in the University until the account is turned over to a collection agency. Late charges are charged on all student accounts receivable under a payment plan that is outstanding for more than 20 days after the due date.

After a student is no longer enrolled in an institution of higher education, and after a grace period, interest is charged on student loans receivable and recognized as it is charged. Late fees are charged if payments are not paid by the payment due date and recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance or cancellation of their student loans receivable based on eligibility requirements defined by the Department of Education.

Fundraising Costs

The University incurred fundraising costs of approximately \$567,178 and \$550,402 for the years ended June 30, 2008 and 2007, respectively, which are included in institutional support on the statements of activities.

Capitalized Interest

The University follows the policy of capitalizing interest as a component of fixed assets for self constructed projects. Interest incurred on funds used during construction, less interest earned on related interest bearing investments, is capitalized as a cost of construction.

For the year ended June 30, 2008, total interest cost incurred was approximately \$1,452,000, of which \$1,201,000 was charged to interest expense and \$251,000 was capitalized.

Implemented Accounting Principles

The University adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. The University files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to colleges include such matters as the following: the tax exempt status of each entity and various positions relative to potential sources of unrelated business taxable income (UBIT). UBIT is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies *(continued)*

Implemented Accounting Principles *(concluded)*

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption of FIN 48 as of June 30, 2008, there were no unrecognized tax benefits identified and recorded as a liability.

The University implemented the FASB Staff Position No. FAS 126-1, *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities*, which clarifies the definition of a public entity in certain accounting standards to include entities that are conduit bond obligors for conduit debt securities that are traded in a public market. The University met the criteria of a public entity as defined by the Staff Position; however, this determination did not have a material impact on the financial statements.

New Accounting Pronouncements

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It clarifies that 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 in the market in which the reporting entity transacts. This statement does not require any new fair value measurements but rather provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The University does not expect the adoption of this statement will have a material impact on its financial position, results of activities or cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring assets and liabilities differently without having to apply complex provisions of hedge accounting. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes. The statement is effective as of the beginning of the first fiscal year beginning after November 15, 2007, with earlier adoption permitted, provided the entity also elects the provisions of SFAS No. 157. The University does not expect the adoption of this statement will have a material impact on its financial position, results of activities or cash flows.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies *(concluded)*

New Accounting Pronouncements *(concluded)*

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1 (FSP 117), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, to provide guidance on net asset classification of donor-restricted endowment funds of a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP 117 addresses the accounting issues resulting from new guidelines in UPMIFA relating to historic-dollar-value threshold of endowment funds and also requires improved disclosures for both donor-restricted and board-designated endowment funds, whether or not the organization is subject to UPMIFA.

The University will be required to adopt FSP 117 in its 2009 annual financial statements. Management has not yet assessed the effect of FSP 117 on its financial statements

In August 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133*. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The University has not completed its analysis of the effects of this Statement and has not determined if it will have a material effect on its financial statements.

Note 2 - Investments

At June 30, 2008 and 2007, investments in equity securities that have readily determinable market values and all investments in debt securities are accounted for and reported at fair value. Investments received by gift are initially recorded at market value at the date the gift is received. Cash surrender value of life insurance is recorded at cost.

It is the University's policy to report gains and investment income that are limited to specific use by donor-imposed restrictions as increases in unrestricted net assets, if the restrictions are met in the same reporting period as the gains and investment income are recognized.

Dividends, interest and other investment income are reported in the period earned as increases in unrestricted net assets, unless donor-imposed restrictions limit the use of the assets, in which case they are reported as increases in temporarily or permanently restricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 2 - Investments *(concluded)*

Investment return comprises the following for the years ended June 30:

	2008	2007
Dividends and interest	\$1,653,381	\$ 768,813
Net realized losses on investments	(168,362)	(60,846)
Investment income	1,485,019	707,967
Net unrealized gains (losses) on investments	(691,949)	357,541
Total investment income	\$ 793,070	\$1,065,508

Investment income has been presented net of management fees. Management fees totaled \$35,596 and \$43,257 for the years ended June 30, 2008 and 2007, respectively.

Certain investments are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of value per unit at the beginning of the calendar quarter during which the transaction takes place.

The aggregate carrying amount of investments by major type at June 30 is as follows:

	2008	2007
Invested Cash		
Savings accounts	\$ 5,213,610	\$ 4,460,934
Money market funds	4,490,712	647,510
Total invested cash	9,704,322	5,108,444
Invested cash - bond proceeds designated for construction	7,523,185	19,404,940
Investments		
Common stocks	914,622	4,877,844
Mutual funds	892,303	832,496
Bonds	3,234,122	3,203,529
Cash surrender value of life insurance	807,100	773,220
Other	500	-
Total investments	5,848,647	9,687,089
Total invested cash and investments	\$23,076,154	\$34,200,473

The University invests in various investment securities, which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially impact the value of the investment securities held.

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 3 - Contributions Receivable

Contributions receivable that were recognized during 2008 related to funds that were raised to support planned improvements to existing buildings owned by the University. The Contributions receivable are expected to be collected at June 30, 2008 as follows:

	2008	2007
Within one year	\$1,158,263	\$251,000
1 to 5 years	1,949,483	--
Total contributions receivable	3,107,746	251,000
Less discount	170,362	--
Less allowance for uncollectible	257,000	--
Contributions receivable, net	\$2,680,384	\$251,000

Note 4 - Fixed Assets and Construction in Progress

Fixed assets are recorded at cost or, if donated, at fair market value at the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives of buildings and land improvements (15 to 50 years) and equipment (three to 15 years). Equipment retirements are removed from the records at the time of disposal.

Fixed assets comprise the following at June 30:

	2008	2007
Land improvements (see Note 6)	\$ 2,008,743	\$ 2,008,743
Buildings	41,823,874	41,723,924
Equipment	12,234,634	11,758,792
Total fixed assets	56,067,251	55,491,459
Less accumulated depreciation	19,546,674	17,576,325
Fixed assets, net	\$36,520,577	\$37,915,134

Construction in progress at June 30 consists of:

	2008	2007
Residence hall	\$11,255,766	\$869,925
Academic building	3,498,361	51,665
Recreation center	113,353	68,553
Other	736,842	5,446
Total construction in progress	\$15,604,322	\$995,589

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 4 - Fixed Assets and Construction in Progress *(concluded)*

At June 30, 2008, the construction of the new residence hall was approximately 86 percent complete and the remaining contract commitment totaled approximately \$1.7 million. The construction of the academic building was approximately 66 percent complete at June 30, 2008, and remaining contract commitments total approximately \$2,500,000.

Note 5 - Bonds and Other Payables

Bonds and other payables consist of the following at June 30:

	2008	2007
Saint Martin's University 2007 Washington Higher Education Facilities Authority Variable Rate Demand Revenue and Refunding Revenue bonds payable to Wells Fargo Bank, as trustee, issued June 28, 2007. The bonds will initially bear interest at the weekly interest rate. The interest rate is convertible from a weekly rate to a daily or fixed rate at the election of the University upon satisfaction of certain stated conditions. Interest shall be paid monthly on the first business day of each month as long as the bonds bear interest at the weekly or daily rate. Variable annual principal payments (\$510,000 in 2008) commenced on February 1, 2008 and extend through final maturity of the bonds on February 1, 2037. The bonds are secured by an irrevocable direct pay letter of credit issued by Key Bank in favor of the trustee totaling \$35,490,000 which shall be equal to the principal amount of the bonds outstanding plus an amount equal to 37 days of accrued interest. Unless extended the letter of credit is set to expire on June 22, 2010. Additionally, the University has pledged a security interest in the unrestricted revenues, gains and other support for collateral for the bonds.	\$35,490,000	\$36,000,000
Total bonds payable	35,490,000	36,000,000
Payables to St. Martin's Abbey (see Note 7)	723,481	745,182
Total bonds and other payables	\$36,213,481	\$36,745,182

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 5 - Bonds and Other Payables *(concluded)*

The payables mature as follows for future years ending June 30:

2009	\$ 549,000
2010	585,000
2011	622,000
2012	654,000
2013	697,000
Thereafter	33,106,481
Total	\$36,213,481

On June 28, 2007, Washington Higher Education Facilities Authority, pursuant to an Indenture of Trust, dated June 1, 2007, between the Authority and Wells Fargo Bank, National Association, as trustee, issued \$36,000,000 of tax-exempt variable rate demand bonds to provide funds to the University for purposes of: 1) refund the following bonds: a) Revenue Bonds (Saint Martin's College) Series 1995C (the "Series 1995 Bonds"), b) Variable Rate Demand Revenue Bonds (Saint Martin's College Project), Series 2002 (the "Series 2002 Bonds"), and c) Revenue Bond (Streamlined Tax-Exempt Placement Program: Saint Martin's College Project), Series 2005 (the "Series 2005 Bonds"); 2) finance the construction and equipping of facilities on the University's campus in Lacey, Washington (the "Nonprofit Facilities"); 3) reimburse the University for predevelopment and capital costs expended for the Nonprofit Facilities; 4) fund a debt service reserve fund; and 5) pay the costs of issuing the Bonds (collectively, the "Project").

The interest rate was 4.75 percent at June 30, 2008. Issuance costs, aggregating \$464,338 have been capitalized and are being amortized over the 30-year life of the bonds at \$15,478 per year. Accumulated amortization at June 30, 2008, totaled \$15,478, and there was no accumulated amortization at June 30, 2007.

The Bond issuance costs associated with the previous bond issues that were paid off during 2007 were fully expensed during the year ended June 30, 2007 resulting in amortization expense of \$278,165.

The University's credit agreement associated with the issuance of the bonds contains several ratio and covenant requirements. Requirement includes maintenance of a minimum amount of liquid assets, minimum debt service ratio and minimum expendable resources to debt ratio.

The University entered into an interest rate swap agreement, effective August 1, 2007, with Key Bank (the Bank) effectively changing the University's interest rate exposure on its floating rate note (5.32 percent at the date of the agreement) to a fixed interest rate of 4.3 percent per annum. The interest rate swap agreement matures February 2037. The fair value of the swap agreement was (\$3,870,214) at June 30, 2008, and is reported as a liability at June 30, 2008, on the statements of financial position. The change in fair market value of the swap agreement is reflected on the statements of activities.

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 6 - Pension Plan

The University has a defined contribution money purchase pension plan under Internal Revenue Code Section 403(b). The plan covers all regular employees, working at least 1,000 hours per year, who have completed one year of service with the University and reached 21 years of age. The University makes quarterly contributions to various mutual fund investments selected by its employees from specific funds approved by the University. The contribution rate was 8 percent of compensation for the years ended June 30, 2008 and 2007, for a total contribution of \$566,003 and \$514,501, respectively.

Note 7 - Related-Party Transactions

Related-Party Leases

St. Martin's Abbey (the Abbey) holds title to and is landlord for all real estate associated with the University's campus. It has been the policy and practice of the Abbey to allow the University to utilize the real estate for purposes of operating an institution of higher education.

At various times, the Abbey has entered into lease agreements with the University for the use of the premises under and surrounding certain buildings located on the University's campus. The lease agreements are generally long term in nature and provide for renewal options at the conclusion of the original lease term. Additionally, by specific provision of the lease documents, an annual rent for the lease period is not required to be paid by the University. Management has determined that the fair value of the contribution of such land to the University, at the date of the underlying lease, was not material to the financial statements and, as such, has not recorded the land as a donation.

During the years 1993 through 1996, the Abbey, as owner of the property known as Saint Martin's Campus, developed and constructed new potable and storm water, and sanitary and irrigation systems necessary to meet current and anticipated future needs of both the Abbey and the University. This construction was done in three phases: Phase I - domestic water; Phase II - sanitary sewer and wastewater; and Phase III - irrigation.

Payables to St. Martin's Abbey

The University's allocated share of costs under the three phases represents the purchase of leasehold improvements from the Abbey.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 7 - Related-Party Transactions *(concluded)*

Payables to St. Martin's Abbey *(concluded)*

Notes payable due to the Abbey for the University's share of infrastructure costs are as follows:

	2008	2007
Note payable, dated October 19, 1994, for Phase I and Phase II costs, with monthly payments of \$5,220, including interest at 7.5 percent per annum; due June 1, 2024; unsecured.	\$582,787	\$600,980
Note payable, dated October 22, 1996, for Phase III costs, with monthly payments of \$1,184, including interest at 7.5 percent per annum; due September 1, 2026; unsecured.	140,694	144,202
Total related-party notes payable	\$723,481	\$745,182

Related-Party Other

For the years ended June 30, 2008 and 2007, the University received various gifts from the Abbey totaling \$358,975 and \$204,873, respectively. As of June 30, 2008 and 2007, the University had accounts receivable from the Abbey of \$12,377 and \$16,711 and accounts payable to the Abbey of \$33,393 and \$31,330, respectively.

Note 8 - U.S. Government Grants Refundable

U.S. government grants refundable represent refundable advances made by the federal government under the University's Perkins Federal Direct Loan Program. There were no advances under the program during 2008 or 2007.

Note 9 - Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2008	2007
Scholarships and fellowships	\$2,182,125	\$2,468,540
Split-interest agreements	163,375	227,756
Plant	3,407,888	294,123
Other	496,142	504,371
Total	\$6,249,530	\$3,494,790

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2008 and 2007

Note 9 - Temporarily Restricted and Permanently Restricted Net Assets *(concluded)*

Permanently restricted net assets as of June 30, 2008 and 2007, represent the original corpus of the endowment gifts. The income available from these investments in perpetuity is restricted for the following purposes:

	2008	2007
Endowment scholarships	\$6,362,436	\$6,168,366
Other	470,626	489,015
Total	\$6,833,062	\$6,657,381

Note 10 - Board-Designated Unrestricted Net Assets

During the year ended June 30, 2004, the board committed to using designated unrestricted net assets to fund construction of the new dormitory, Spangler Hall. This required a reclassification of \$4,500,000 board-designated funds from "Endowment/Scholarships" to "Maintenance of Plant." The board intends to restore the amount reclassified from Endowment/Scholarships in full over 20 years.

Note 11 - Split-Interest Agreements

Some donors enter into trusts or other arrangements, under which the University receives benefits that are shared with other beneficiaries. The University either receives distributions during the agreement's term, or it receives all or a portion of the assets remaining at the end of the term. Assets received under trusts are recorded at fair value in the investment account and totaled \$1,407,525 and \$1,285,161 at June 30, 2008 and 2007, respectively. Of this amount, \$361,874 and \$305,860 relate to charitable gift annuities at June 30, 2008 and 2007, respectively. The related receivable or liability is calculated based on the life expectancy of the beneficiary or the term of the agreement, discounted at the applicable federal rate per the IRS tables. At June 30, 2008 and 2007, liabilities under the charitable trusts are reported as annuities payable, totaling \$785,834 and \$813,929, respectively. Of this amount, \$231,897 and \$167,206 relate to charitable gift annuities at June 30, 2008 and 2007, respectively.

Note 12 - Contingency

During the year there were allegations of inappropriate behavior by a monastery community member against former students of the former St. Martin's High School. Two separate lawsuits have been filed. The cases are in the research stage as of year end. There is no certainty of any outcome of these suits or if these suits will indeed go to trial.