Saint Martin's University

Financial Report
June 30, 2010

Saint

Martin's

University

Financial

Report

June 30

2010

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McGladrey

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, 2010 and 2009, 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 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 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, 2010 and 2009, 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.

As described in Note 14 of the financial statements, during the year ended June 30, 2009, the University adopted Financial Accounting Standards Board guidance on endowments of not-for-profit organizations related to net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the related enhanced disclosures. During the year ended June 30, 2010, the University became subject to state UPMIFA laws and reclassified net assets accordingly.

In accordance with *Government Auditing Standards,* we have also issued our reports for the years ended June 30, 2010 and 2009, dated October 15, 2010, and October 12, 2009, respectively, on our consideration of **Saint Martin's University's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

McGladrey & Pullen, LLP

Olympia, Washington
October 15, 2010

McGladrey

Independent Auditor's Report on Financial Statements

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

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McGladrey & Pullen, LLP

Olympia, Washington
October 15, 2010

Financial Statements

Statements of Financial Position

Saint Martin's University
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents:		
Operating cash	$ 796,963	$ 55,549
Invested cash	6,641,638	7,855,121
Total cash and cash equivalents	**7,438,601**	**7,910,670**
Student accounts receivable - net of allowance (2010 and 2009: $196,429 and $137,767)	1,386,099	999,107
Gate loan receivable - net of discount (2010 and 2009: $345,969 and $346,930)	117,387	116,426
Student loans receivable - Perkins Loan Program	998,021	1,082,718
Contributions receivable	1,742,158	2,045,380
Other receivables	438,428	340,992
Invested cash - bond proceeds designated for construction	- -	652,003
Investments	9,503,856	9,255,255
Inventories	4,473	137,401
Prepaid expenses	233,322	84,644
Bond issuance costs - net	417,905	433,383
Bond reserve	2,567,101	2,578,113
Construction in progress	- -	3,376,390
Fixed assets - net	57,115,517	53,291,991
Total assets	**$81,962,868**	**$82,304,473**

See notes to financial statements.

	2010	2009
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,749,854	$ 3,225,598
Deferred revenues	941,536	909,886
Annuities payable	744,855	754,461
Bonds payable	34,405,000	34,965,000
Related-party notes payable	674,896	700,096
Interest rate swap	9,521,483	6,453,776
U.S. Government grants refundable	972,178	972,178
Total liabilities	**50,009,802**	**47,980,995**
Commitments and Contingency	**- -**	**- -**
Net Assets		
Unrestricted:		
Undesignated	1,414,505	1,019,452
Investment in plant	15,832,290	18,164,857
Designated:		
Endowment/scholarships	1,826,684	1,511,236
Scholarships	353,701	290,977
Maintenance of plant	950,398	926,371
Other	1,121,150	1,534,551
Total unrestricted	**21,498,728**	**23,447,444**
Restricted:		
Temporarily	2,503,430	3,801,456
Permanently	7,950,908	7,074,578
Total net assets	**31,953,066**	**34,323,478**
Total liabilities and net assets	**$81,962,868**	**$82,304,473**

Statement of Activities

Saint Martin's University
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	$31,266,588	$ - -	$ - -	$31,266,588
Scholarship allowance	(11,767,215)	- -	- -	(11,767,215)
Total tuition and fees - net of scholarship allowance	**19,499,373**	**- -**	**- -**	**19,499,373**
Governmental grants and contracts	2,264,821	- -	- -	2,264,821
Contributions	1,933,595	46,150	294,534	2,274,279
Contributions from related party	166,583	240,016	- -	406,599
Auxiliary enterprises	3,972,263	- -	- -	3,972,263
Investment income and realized gains	523,843	903,081	- -	1,426,924
Unrealized gains (losses) on investments - net	16,379	(193,961)	- -	(177,582)
Other sources	429,641	- -	- -	429,641
Other revenues:				
Change in value of split-interest agreement	(82,456)	- -	- -	(82,456)
Total revenues, gains and other support before net assets released from restrictions	**28,724,042**	**995,286**	**294,534**	**30,013,862**
Net assets released from restrictions	1,897,486	(1,897,486)	- -	- -
Total revenues, gains and other support	**30,621,528**	**(902,200)**	**294,534**	**30,013,862**
Expenses				
Program expenses:				
Instruction	9,769,789	- -	- -	9,769,789
Research	66,048	- -	- -	66,048
Student services	4,833,604	- -	- -	4,833,604
Auxiliary enterprises	3,764,909	- -	- -	3,764,909
	18,434,350	**- -**	**- -**	**18,434,350**
Support expenses:				
Academic	3,090,216	- -	- -	3,090,216
Institutional	7,792,001	- -	- -	7,792,001
	10,882,217	**- -**	**- -**	**10,882,217**
Total operating expenses	**29,316,567**	**- -**	**- -**	**29,316,567**
Income (loss) from operations	**1,304,961**	**(902,200)**	**294,534**	**697,295**

(continued)

See notes to financial statements.

Statement of Activities

(concluded)

Saint Martin's University
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses *(concluded)*				
Nonoperating activity:				
Unrealized loss on interest rate swap	$ 3,067,707	$ - -	$ - -	$ 3,067,707
Total nonoperating activity	**3,067,707**	**- -**	**- -**	**3,067,707**
Change in donor intent	**- -**	**581,796**	**(581,796)**	**- -**
Change in net assets before cumulative effect of change in accounting principle	**(1,762,746)**	**(1,483,996)**	**876,330**	**(2,370,412)**
Cumulative effect of change in accounting principle *(Note 14)*	(185,970)	185,970	- -	- -
Change in net assets	**(1,948,716)**	**(1,298,026)**	**876,330**	**(2,370,412)**
Net Assets at June 30, 2009	23,447,444	3,801,456	7,074,578	34,323,478
Net assets at June 30, 2010	**$21,498,728**	**$2,503,430**	**$7,950,908**	**$31,953,066**

See notes to financial statements.

Statement of Activities

Saint Martin's University
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	$29,466,412	$ - -	$ - -	$29,466,412
Scholarship allowance	(10,950,032)	- -	- -	(10,950,032)
Total tuition and fees - net of scholarship allowance	**18,516,380**	**- -**	**- -**	**18,516,380**
Governmental grants and contracts	1,774,107	- -	- -	1,774,107
Contributions	1,833,579	550,615	230,957	2,615,151
Contributions from related party	232,204	- -	10,559	242,763
Auxiliary enterprises	4,859,175	- -	- -	4,859,175
Investment income and realized gains (losses)	181,995	(6,241)	- -	175,754
Unrealized gains on investments - net	164,913	137,661	- -	302,574
Other sources	491,111	- -	- -	491,111
Other revenues:				
Change in value of split-interest agreement	(4,399)	- -	- -	(4,399)
Total revenues, gains and other support before net assets released from restrictions	**28,049,065**	**682,035**	**241,516**	**28,972,616**
Net assets released from restrictions	3,130,109	(3,130,109)	- -	- -
Total revenues, gains and other support	**31,179,174**	**(2,448,074)**	**241,516**	**28,972,616**
Expenses				
Program expenses:				
Instruction	9,891,824	- -	- -	9,891,824
Research	128,606	- -	- -	128,606
Student services	4,474,041	- -	- -	4,474,041
Auxiliary enterprises	4,854,894	- -	- -	4,854,894
	19,349,365	**- -**	**- -**	**19,349,365**
Support expenses:				
Academic	3,109,481	- -	- -	3,109,481
Institutional	7,135,456	- -	- -	7,135,456
	10,244,937	**- -**	**- -**	**10,244,937**
Total operating expenses	**29,594,302**	**- -**	**- -**	**29,594,302**
Income (loss) from operations	**1,584,872**	**(2,448,074)**	**241,516**	**(621,686)**

(continued)

See notes to financial statements.

Statement of Activities

(concluded)

Saint Martin's University
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses *(concluded)*				
Nonoperating expense:				
Unrealized loss on interest rate swap	$ 2,583,562	$ - -	$ - -	$ 2,583,562
Change in net assets	**(998,690)**	**(2,448,074)**	**241,516**	**(3,205,248)**
Net Assets at June 30, 2008	24,446,134	6,249,530	6,833,062	37,528,726
Net assets at June 30, 2009	**$23,447,444**	**$3,801,456**	**$7,074,578**	**$34,323,478**

See notes to financial statements.

Statements of Cash Flows

Saint Martin's University
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	($2,370,412)	($ 3,205,248)
Adjustments:		
Depreciation	2,588,619	2,256,555
Unrealized (gains) losses on investments - net	177,582	(302,574)
Bad debt expense	130,058	611,728
Contributions restricted for long-term purposes	(294,534)	(122,174)
Cash surrender value of life insurance	(30,847)	(33,916)
Donated stock	(214,200)	- -
Loss on disposal of assets	42,066	77,144
Change in fair value of interest rate swap	3,067,707	2,583,562
Bond issuance cost amortization	15,478	15,477
Changes in operating assets and liabilities:		
(Increase) decrease in student receivables	(517,050)	32,157
Decrease in contributions receivable	303,222	391,496
Increase in loan receivable	(961)	- -
(Increase) decrease in other receivables	(97,436)	121,305
(Increase) decrease in prepaids and inventories	(15,750)	2,375
Decrease in accounts and annuities payable	(402,893)	(1,868,783)
Increase in deferred revenues	31,650	25,106
Net cash provided by operating activities	**2,412,299**	**584,210**
Cash Flows from Investing Activities		
Purchase of fixed assets and construction in progress, net of bond proceeds used	(2,441,901)	(20,999)
Proceeds from sale of assets	16,083	15,000
Purchase of investment securities	(9,084,958)	(18,719,213)
Sale of investment securities	8,903,822	15,429,692
Decrease in student loans receivable	84,697	49,376
Net decrease in bond reserve	11,012	59,727
Net cash used in investing activities	**(2,511,245)**	**(3,186,417)**

(continued)

See notes to financial statements.

Statements of Cash Flows

(concluded)

Saint Martin's University
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	($ 585,200)	($ 548,385)
Contributions received restricted for long-term purposes	294,534	122,174
Funds received under annuity agreements	- -	101,670
Payments made under annuity agreements	(82,457)	(9,162)
Net cash used in financing activities	**(373,123)**	**(333,703)**
Net decrease in cash and cash equivalents	**(472,069)**	**(2,935,910)**
Cash and Cash Equivalents		
Beginning of year	7,910,670	10,846,580
End of year	**$7,438,601**	**$ 7,910,670**
Supplemental Disclosure of Non-Cash Investing Activities		
Restricted bond proceeds used for construction in progress additions	$652,003	$6,871,182
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$1,824,242	$1,811,882

See notes to financial statements.

Saint Martin's University
June 30, 2010 and 2009

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. This classification also includes accumulated net investment income in excess of the original value of donor-restricted investments unless such income is explicitly restricted by the donor to be added to the endowment corpus.
>
> 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 or losses on donor-restricted endowment investments are reported as increases or decreases in temporarily restricted net assets until appropriated by the board of trustees. Gains and losses on nonendowment 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.

(continued)

Saint Martin's University
June 30, 2010 and 2009

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

Change in Donor Intent

During the year ended June 30, 2010, a donor requested a change in the intent of their donation to create an endowment for scholarships resulting in a reclassification of $581,796 from temporarily restricted to permanently restricted 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.

Cash and Cash Equivalents

Demand deposit accounts (checking accounts) held at June 30, 2010 and 2009, 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 with an original maturity of three months or less.

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 and related scholarships that reduce available tuition revenue are recognized over the term of the related course offering. 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.

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.

(continued)

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

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, 2010 and 2009.

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. There were no significant contributions of long-lived assets received by the University for the years ended June 30, 2010 and 2009.

Contributions

Contributions, including unconditional promises to give, are recorded when it has been determined that there is a legal right to the contribution, and the actual amount to be received has been determined. 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 appropriate interest rates applicable to the years in which the promises are to be received. Subsequent to new guidance related to fair value measurements, the discount rate used for the present value calculation is based upon the estimated rate a market participant would demand, which is assumed to approximate the rate the University earns on its investments. 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 maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The University's specific goal is to lower (where possible) the cost of its borrowed funds. The University has an interest rate swap agreement to convert variable rate debt to a fixed rate, as described in Note 5.

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). Additionally, the University has done an assessment of any uncertain tax positions as required under Financial Accounting Standards Board's (FASB) accounting standard on Accounting for Uncertainty in Income Taxes (ASC 740), and has determined they currently have no uncertain tax benefits to record as a liability at June 30, 2010 and 2009.

Forms 990 and 990T filed by the University are subject to examinations by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by the University are no longer subject to examination for the fiscal years ended June 30, 2006, and prior.

(continued)

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

Fair Value of Financial Instruments

The estimated fair values of the University's short-term financial instruments, including cash, cash equivalents, invested cash, receivables, accounts payables and accrued liabilities arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Investments are recorded at fair value as discussed in Note 13. The fair value of long-term borrowings approximate their carrying value as it is based on current rates offered to the University for similar debt of the same remaining maturities and, additionally, the University considers its creditworthiness in determining the fair value of the long-term borrowing. The interest rate swap (used for purposes other than trading) is carried at fair value and is the estimated amount the University would receive to terminate the swap agreement at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the University for liabilities. It is not practical to estimate the fair value of student receivables and the liability for U.S. government grants refundable as these loans are subject to restrictions on interest rates and transferability. The University recognizes the change in fair market value of derivative 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.

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 $562,269 and $631,752 for the years ended June 30, 2010 and 2009, respectively, which are included in institutional support on the statements of activities.

(continued)

Saint Martin's University
June 30, 2010 and 2009

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

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, 2010, total interest cost incurred was approximately $1,794,000 of which the entire amount was charged to interest expense. For the year ended June 30, 2009, total interest cost incurred was approximately $1,855,000, of which the entire amount was charged to interest expense. No interest was capitalized for the years ended June 30, 2010 and 2009.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to be consistent with the presentation in 2010, with no impact on total net assets or changes in total net assets.

Implemented Accounting Pronouncements

In August 2008, the FASB issued accounting guidance on 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 (ASC 958-205-45), 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). The guidance 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 adopted the disclosure requirement of this guidance during 2009. UPMIFA was enacted in Washington State in May 2009 and is required to be implemented as of July 1, 2009. The University adopted the accounting requirements of UPMIFA as of July 1, 2009. See Note 14 for the disclosures and effect of adopting UPMIFA.

In August 2008, the FASB issued accounting guidance on Disclosures about Derivative Instruments and Hedging Activities (ASC 815-10-65). This guidance requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This guidance encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The University adopted the guidance for the year ended June 30, 2010, and the required disclosures are presented in Note 5.

Saint Martin's University
June 30, 2010 and 2009

Note 2 - Investments

At June 30, 2010 and 2009, 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 fair value at the date the gift is received. Cash surrender value of life insurance is recorded at cost.

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 donor-restricted endowment investments are reported as increases or decreases in temporarily restricted net assets until appropriated by the board of trustees. Gains and losses on other 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.

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

	2010	2009
Dividends and interest	$1,371,654	$511,430
Net realized gains (losses) on investments	55,270	(335,676)
Investment income	**1,426,924**	**175,754**
Net unrealized gains (losses) on investments	(177,582)	302,574
Total investment income	**$1,249,342**	**$478,328**

Investment income has been presented net of management fees. Management fees totaled $43,829 and $35,395 for the years ended June 30, 2010 and 2009, 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.

(continued)

Saint Martin's University
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Note 2 - Investments *(concluded)*

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

	2010	2009
Invested Cash		
Savings accounts	$ 2,741,021	$ 5,798,746
Money market funds	3,900,617	2,056,375
Total invested cash	**6,641,638**	**7,855,121**
Invested Cash - Bond Proceeds Designated for Construction	**- -**	**652,003**
Investments		
Common stocks	4,322,611	4,508,916
Mutual funds	936,423	777,203
Bonds	4,233,427	3,127,614
Cash surrender value of life insurance	11,395	841,016
Other	- -	506
Total investments	**9,503,856**	**9,255,255**
Total invested cash and investments	**$16,145,494**	**$17,762,379**

The University also maintains a bond reserve investment totaling $2,567,101 and $2,578,113 at June 30, 2010 and 2009, respectively. These funds are invested in an interest-bearing deposit account and are carried at cost.

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.

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Note 3 - Contributions Receivable

Contributions receivable that were recognized during 2010 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 as follows:

	2010	2009
Within one year	$ 781,396	$1,240,426
1 to 5 years	983,300	902,999
Total contributions receivable	**1,764,696**	**2,143,425**
Less discount	22,538	98,045
Less allowance for uncollectible	- -	- -
Contributions receivable, net	**$1,742,158**	**$2,045,380**

Note 4 - Fixed Assets and Construction in Progress

Land improvements, buildings and equipment with a cost greater than $2,500 or more and a useful life of one year are recorded at cost or, if donated, at fair 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:

	2010	2009
Land improvements *(Note 7)*	$ 3,526,731	$ 2,008,743
Buildings	64,083,798	59,864,482
Equipment	13,250,535	12,601,464
Total fixed assets	**80,861,064**	**74,474,689**
Less accumulated depreciation	23,745,547	21,182,698
Fixed assets, net	**$57,115,517**	**$53,291,991**

Construction in progress at June 30, 2009, consisted of a recreation center and soccer field in the amount of $1,964,195 and $1,412,195, respectively. There was no construction in progress at June 30, 2010.

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Note 5 - Bonds and Other Payables

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

	2010	2009
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 ($560,000 in 2010) commenced February 1, 2008, and extend through final maturity of the bonds February 1, 2037. The bonds are secured by an irrevocable direct pay letter of credit issued by US Bank in favor of the trustee totaling $34,753,763, 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 June 15, 2013. Additionally, the University has pledged a security interest in the unrestricted revenues, gains and other support for collateral for the bonds.	$34,405,000	$34,965,000
Payables to St. Martin's Abbey *(Note 7)*	674,896	700,096
Total bonds and other payables	**$35,079,896**	**$35,665,096**

In the event the University is unsuccessful in renewing the letter of credit, the following is a summary of the annual maturities of the bonds and other payables, based upon the stated terms of the bonds and the letter of credit agreement at June 30, 2010:

Years Ending June 30	
2011	$ 622,000
2012	654,000
2013	33,803,896
Total	**$35,079,896**

It is management's intention to renew the letter of credit. A summary of the annual maturities of the bonds and other payables, assuming renewal of the letter of credit, is as follows for future years ending June 30:

2011	$ 622,000
2012	654,000
2013	697,000
2014	739,000
2015	784,000
Thereafter	31,583,896
Total	**$35,079,896**

(continued)

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

On June 28, 2007, Washington Higher Education Facilities Authority (the 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 the following purposes: 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 .48 percent at June 30, 2010. Issuance costs, aggregating $464,338 have been capitalized and are being amortized over the 30-year life. Accumulated amortization totaled $46,133 and $30,955 at June 30, 2010 and 2009, respectively.

The University's credit agreement associated with the issuance of the bonds contains several ratio and covenant requirements. Requirements include maintenance of a minimum amount of liquid assets, minimum debt service ratio and a debt service reserve fund.

The University entered into an interest rate swap agreement, effective August 1, 2007, with KeyBank effectively changing the University's interest rate exposure on its floating LIBOR 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 was set to mature in February 2037. In June 2010, the University terminated the interest rate swap agreement with KeyBank and entered into an interest swap agreement with US Bank with a fixed interest rate of 4.965 percent per annum. The interest rate swap agreement matures in July 2025. The fair value of the swap agreement was a liability of $9,521,483 and $6,453,776 at June 30, 2010 and 2009, respectively.

As discussed above, the University has entered into interest rate swap agreements to hedge the University's exposure to interest rate risk related to its variable rate bonds. The University's specific goal is to lower (where possible) the cost of its borrowed funds over borrowing term. Although the University believes its interest rate swap agreement is an economic hedge, it has not been designated as a hedge for accounting purposes and it is recorded on the statements of financial position as interest rate swap at its fair market value, with changes in fair value recognized in current period change in unrestricted net assets. The following amounts have been included in the statements of activities for the years ended June 30:

	2010	2009
Swap settlements (included in interest expense)	$1,447,853	$1,125,584
Unrealized loss on interest rate swap	3,067,707	2,583,562
Net loss	**$4,515,560**	**$3,709,146**

As of June 30, 2010, the total notional amount of the University's pay fixed, receive variable interest rate swap was approximately $34 million.

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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 5.5 and 8.0 percent of compensation for the years ended June 30, 2010 and 2009, respectively, for total contributions of $418,150 and $463,026, 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.

Notes payable due to the Abbey for the University's share of infrastructure costs at June 30 are as follows:

	2010	2009
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.	$542,055	$563,182
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.	132,841	136,914
Total related-party notes payable	**$674,896**	**$700,096**

(continued)

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

Related-Party Other

For the years ended June 30, 2010 and 2009, the University received various gifts from the Abbey totaling $406,600 and $242,763, respectively. As of June 30, 2010 and 2009, the University had accounts receivable from the Abbey of $49,168 and $21,676 and accounts payable to the Abbey of $42,959 and $552, 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 new advances under the program during the years ended June 30, 2010 and 2009.

Note 9 - Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets are subject to the following donor restrictions at June 30:

	2010	2009
Scholarships and fellowships	$1,924,915	$2,078,641
Plant	- -	1,277,658
Other	578,515	445,157
Total	**$2,503,430**	**$3,801,456**

Permanently restricted net assets as of June 30, 2010 and 2009, represent the original corpus of the endowment gifts. The income available from these investments in perpetuity is restricted for the following purposes:

	2010	2009
Endowment scholarships	$7,480,282	$6,603,952
Other	470,626	470,626
Total	**$7,950,908**	**$7,074,578**

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

Assets received under trusts are recorded at fair value in the investment account and totaled $1,287,624 and $1,225,786 at June 30, 2010 and 2009, respectively. Of this amount, $385,139 and $381,045 relate to charitable gift annuities at June 30, 2010 and 2009, 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, 2010 and 2009, liabilities under the charitable trusts are reported as annuities payable, totaling $744,855 and $754,461, respectively. Of this amount, $265,500 and $308,709 relate to charitable gift annuities at June 30, 2010 and 2009, respectively.

Note 12 - Contingency

In 2008, 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 were filed where the University has been specifically named along with other parties. The cases were resolved through the court in May 2010 and July 2010, respectively.

Note 13 - Fair Value Measurements

Effective July 1, 2008, the University adopted new accounting guidance related to fair value measurements, which provides a framework for measuring fair value under generally accepted accounting principles.

Under this new guidance, 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. In determining fair value, the University uses various methods, including market, income and cost approaches. Based on these approaches, the University often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the University is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange.

Level 2: Financial assets and liabilities are valued using inputs such as quoted prices for similar assets, or inputs that are observable, either directly or indirectly.

Level 3: Financial assets and liabilities are valued using pricing inputs which are unobservable for the assets, or inputs that reflect the reporting entity's own assumptions about the assumptions or those that market participants would use in pricing the asset.

(continued)

Note 13 - Fair Value Measurements *(continued)*

The fair value measurement level within the 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.

For the fiscal year ended June 30, 2010, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities and mutual funds.

If quoted market prices are not available, then fair values are estimated by the University's investment manager using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. Treasury bonds, Federal government agency bonds, and corporate bonds where values are based on similar securities.

An evaluation of the level classifications was performed in 2010 and certain 2009 financial assets and liabilities were reclassified to be consistent with the presentation in 2010.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. The University holds certain private equities that do not have a readily determinable fair value. As such, they are classified as level 3 investments. The University has valued these investments at the most recent selling price as of the years ended June 30, 2010 and 2009, respectively.

Interest Rate Swap

The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable-rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve. The creditworthiness of the issuer and the University is not readily determinable. As such, the interest rate swap is classified as a level 3 financial instrument.

(continued)

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Note 13 - Fair Value Measurements *(continued)*

The following presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy for the years ended June 30.

	Fair Value Measurements as of June 30, 2010 Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments				
Common stocks:				
U.S. marketable equities	$4,026,599	$3,810,340	$ - -	$216,259
Global market equities	296,012	296,012	- -	- -
Equity mutual funds:				
Small cap funds	103,084	103,084	- -	- -
Mid cap funds	65,606	65,606	- -	- -
Large cap funds	342,909	342,909	- -	- -
Real estate	107,786	107,786	- -	- -
International funds	109,543	109,543	- -	- -
Fixed income mutual funds	207,495	207,495	- -	- -
Bonds:				
U.S. Treasury bonds	903,625	- -	903,625	- -
Federal government agency	561,522	- -	561,522	- -
Corporate bonds	2,768,280	- -	2,768,280	- -
Total assets	**$9,492,461**	**$5,042,775**	**$4,233,427**	**$216,259**
Liability				
Interest rate swap	**$9,521,483**	**$- -**	**$- -**	**$9,521,483**

(continued)

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Note 13 - Fair Value Measurements *(continued)*

	Fair Value Measurements as of June 30, 2009 Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments				
Common stocks:				
U.S. marketable equities	$3,219,144	$3,184,964	$ - -	$34,180
Global market equities	1,290,278	1,290,278	- -	- -
Equity mutual funds:				
Small cap funds	82,436	82,436	- -	- -
Mid cap funds	49,949	49,949	- -	- -
Large cap funds	360,418	360,418	- -	- -
Real estate	51,415	51,415	- -	- -
International funds	62,528	62,528	- -	- -
Fixed income mutual funds	170,457	170,457	- -	- -
Bonds:				
U.S. Treasury bonds	54,775	- -	54,775	- -
Corporate bonds	3,072,839	- -	3,072,839	- -
Total assets	**$8,414,239**	**$5,252,445**	**$3,127,614**	**$34,180**
Liability				
Interest rate swap	**$6,453,776**	**$- -**	**$- -**	**$6,453,776**

Cash surrender value of life insurance of $11,395 and $841,016 for the years ended June 30, 2010 and 2009, respectively, are not included above as it is carried at cost.

(continued)

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Note 13 - Fair Value Measurements *(concluded)*

The following summarizes the changes in assets and liabilities measured at fair value on a recurring basis which the University has utilized Level 3 inputs to determine fair value for the years ended June 30:

	Private Equity Securities	**Interest Rate Swap**
Balance, July 1, 2009	$ 34,180	$6,453,776
Total losses (unrealized) included in change in net assets	(32,121)	3,067,707
Stock received as pledge payment	214,200	- -
Balance, June 30, 2010	**$216,259**	**$9,521,483**
Balance, July 1, 2008	$ 85,200	$3,870,214
Total losses (unrealized) included in change in net assets	(69,356)	2,583,562
Stock received as pledge payment	96,250	- -
Donated stock	65,750	- -
Write off of private equity stock	(143,664)	- -
Balance, June 30, 2009	**$ 34,180**	**$6,453,776**

Note 14 - Endowment Fund and Net Asset Classification

The University's endowments consist of various donor restricted endowment funds and funds designated as quasi endowments, by the board of trustees.

The University's endowment consists of approximately 103 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, 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.

(continued)

Note 14 - Endowment Fund and Net Asset Classification *(continued)*

Interpretation of Relevant Law

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature 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 permanently restricted net assets (a) the original value of gifts donated to the 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the State of Washington in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

Endowment net asset composition by type of fund as of June 30:

	Unrestricted	**Temporarily Restricted***	**Permanently Restricted**	**Total**
2010				
Donor-restricted endowment funds	$ - -	$1,624,580	$7,950,908	$ 9,575,488
Board-designated endowment funds	1,826,684	- -	- -	1,826,684
Total funds	**$1,826,684**	**$1,624,580**	**$7,950,908**	**$11,402,172**
2009				
Donor-restricted endowment funds	$ - -	$1,100,658	$7,074,578	$8,175,236
Board-designated endowment funds	1,511,236	- -	- -	1,511,236
Total funds	**$1,511,236**	**$1,100,658**	**$7,074,578**	**$9,686,472**

* These funds consist of accumulated earnings available to fund future scholarships.

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Note 14 - Endowment Fund and Net Asset Classification *(continued)*

Changes in endowment net assets for the fiscal year ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2010				
Endowment net assets, beginning of year	$1,511,236	$1,100,658	$7,074,578	$ 9,686,472
Net asset classification based on change in accounting principle	(185,970)	185,970	- -	- -
Endowment net assets after reclassification	**1,325,266**	**1,286,628**	**7,074,578**	**9,686,472**
Investment return:				
Investment income	260,323	117,733	- -	378,056
Net appreciation (realized and unrealized)	115,095	519,977	- -	635,072
Total investment return	**375,418**	**637,710**	**- -**	**1,013,128**
Contributions	126,000	- -	294,534	420,534
Expenditures appropriated	- -	(299,758)	- -	(299,758)
Other changes:				
Change in donor intent	- -	- -	581,796	581,796
Endowment net assets, end of year	**$1,826,684**	**$1,624,580**	**$7,950,908**	**$11,402,172**
2009				
Endowment net assets, beginning of year	$ 572,847	$1,173,916	$6,833,062	$8,579,825
Investment return:				
Investment income	239,848	179,532	- -	419,380
Net appreciation (realized and unrealized)	104,154	123,758	- -	227,912
Total investment return	**344,002**	**303,290**	**- -**	**647,292**
Contributions	767,660	- -	241,516	1,009,176
Expenditures appropriated	(173,273)	(376,548)	- -	(549,821)
Endowment net assets, end of year	**$1,511,236**	**$1,100,658**	**$7,074,578**	**$9,686,472**

(continued)

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Note 14 - Endowment Fund and Net Asset Classification *(concluded)*

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies, should they occur, would be the result of unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. At June 30, 2010 and 2009, the University had no such deficiencies to be reported in unrestricted net assets.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce appropriate results while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 16 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 15 - Subsequent Event

In preparing the financial statements, the University has evaluated events and transactions for potential recognition of disclosure through October 15, 2010, the date of issuance. Subsequent to year-end, the University received pledges totaling approximately $4,000,000 to fund the construction of a new engineering building. $3,500,000 of the pledges is contingent on the University meeting certain conditions.