

Saint Martin's University

Financial Report
June 30, 2011

Saint
Martin's
University

**Financial
Report**

June 30
2011

Contents

Independent Auditor's Report on Financial Statements 1

Financial Statements

Statements of Financial Position.....2-3

Statement of Activities - 2011 4

Statement of Activities - 20105-6

Statements of Cash Flows7-8

Notes to Financial Statements9-28

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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2011 and 2010, dated October 5, 2011, and October 15, 2010, 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

Tacoma, Washington
October 5, 2011

**Financial
Statements**

Statements of Financial Position

Saint Martin's University
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents:		
Operating cash	\$ 2,383,609	\$ 796,963
Invested cash	5,096,464	6,641,638
Total cash and cash equivalents	7,480,073	7,438,601
Student accounts receivable - net of allowance (2011 - \$244,046; 2010 - \$196,429)	1,540,080	1,386,099
Gate loan receivable - net of discount (2011 - \$359,918; 2010 - \$345,969)	103,438	117,387
Student loans receivable - Perkins Loan Program	996,240	998,021
Contributions receivable - net	1,720,889	1,742,158
Other receivables	301,978	438,428
Investments	12,487,119	9,503,856
Inventories	6,202	4,473
Prepaid expenses	236,979	233,322
Bond issuance costs - net	417,905	417,905
Bond reserve	2,497,985	2,567,101
Fixed assets - net	55,672,313	57,115,517
Total assets	\$83,461,201	\$81,962,868

See notes to financial statements.

	2011	2010
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,446,619	\$ 2,749,854
Deferred revenues	1,148,296	941,536
Annuities payable	981,850	744,855
Bonds payable	33,810,000	34,405,000
Related-party notes payable	647,739	674,896
Interest rate swap	8,354,786	9,521,483
Governmental grants refundable	972,178	972,178
Total liabilities	48,361,468	50,009,802
Commitments and Contingency	--	--
Net Assets		
Unrestricted:		
Undesignated	2,459,793	1,414,505
Investment in plant	15,661,701	15,832,290
Designated:		
Endowment/scholarships	1,800,691	1,826,684
Scholarships	308,307	353,701
Maintenance of plant	678,415	950,398
Other	1,044,292	1,121,150
Total unrestricted	21,953,199	21,498,728
Restricted:		
Temporarily	4,916,806	2,503,430
Permanently	8,229,728	7,950,908
Total net assets	35,099,733	31,953,066
Total liabilities and net assets	\$83,461,201	\$81,962,868

Statement of Activities

Saint Martin's University
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	\$34,551,863	\$ --	\$ --	\$34,551,863
Scholarship allowance	(13,530,349)	--	--	(13,530,349)
Total tuition and fees - net of scholarship allowance	21,021,514	--	--	21,021,514
Governmental grants and contracts	2,694,857	--	--	2,694,857
Contributions	857,422	1,079,128	278,820	2,215,370
Contributions from related party	2,850	355,337	--	358,187
Auxiliary enterprises	4,226,296	--	--	4,226,296
Investment income and realized gains	310,369	403,566	--	713,935
Unrealized gains on investments - net	160,065	1,170,504	--	1,330,569
Other sources	949,867	--	--	949,867
Other revenues:				
Change in value of split-interest agreement	(173,138)	--	--	(173,138)
Total revenues, gains and other support before net assets released from restrictions	30,050,102	3,008,535	278,820	33,337,457
Net assets released from restrictions	595,159	(595,159)	--	--
Total revenues, gains and other support	30,645,261	2,413,376	278,820	33,337,457
Expenses				
Program expenses:				
Instruction	10,041,674	--	--	10,041,674
Research	27,555	--	--	27,555
Student services	5,554,762	--	--	5,554,762
Auxiliary enterprises	3,843,784	--	--	3,843,784
	19,467,775	--	--	19,467,775
Support expenses:				
Academic	3,526,656	--	--	3,526,656
Institutional	8,363,056	--	--	8,363,056
	11,889,712	--	--	11,889,712
Total operating expenses	31,357,487	--	--	31,357,487
Nonoperating Revenues				
Unrealized gains on interest rate swap	1,166,697	--	--	1,166,697
Change in net assets	454,471	2,413,376	278,820	3,146,667
Net Assets at June 30, 2010	21,498,728	2,503,430	7,950,908	31,953,066
Net assets at June 30, 2011	\$21,953,199	\$4,916,806	\$8,229,728	\$35,099,733

See notes to financial statements.

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 (losses) 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
Nonoperating and other expenses				
Unrealized losses on interest rate swap	(\$ 3,067,707)	\$ --	\$ --	(\$ 3,067,707)
Change in donor intent	--	581,796	(581,796)	--
Total nonoperating and other expenses	(3,067,707)	581,796	(581,796)	(3,067,707)
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 <i>(Note 14)</i>	(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.

Statements of Cash Flows

Saint Martin's University
 Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$3,146,667	(\$2,370,412)
Adjustments:		
Depreciation	2,679,895	2,588,619
Unrealized (gains) losses on investments - net	(1,330,569)	177,582
Bad debt expense	184,322	130,058
Contributions restricted for long-term purposes	(699,572)	(294,534)
Cash surrender value of life insurance	(298)	(30,847)
Donated stock	--	(214,200)
Loss on disposal of assets	38,541	42,066
Change in fair value of interest rate swap	(1,166,697)	3,067,707
Bond issuance cost amortization	--	15,478
Changes in operating assets and liabilities:		
Increase in student receivables	(324,354)	(517,050)
Decrease in contributions receivable	21,269	303,222
Increase in loan receivable	--	(961)
(Increase) decrease in other receivables	136,450	(97,436)
Increase in prepaids and inventories	(5,386)	(15,750)
Decrease in accounts payable and accrued expenses and annuities payable	(118,102)	(402,893)
Increase in deferred revenues	206,760	31,650
Net cash provided by operating activities	2,768,926	2,412,299
Cash Flows from Investing Activities		
Purchase of fixed assets and construction in progress	(1,275,232)	(2,441,901)
Proceeds from sale of assets	--	16,083
Purchase of investment securities	(8,315,807)	(9,084,958)
Sale of investment securities	6,663,411	8,903,822
Decrease in student loans receivable - Perkins Loan Program	1,781	84,697
Net decrease in bond reserve	69,116	11,012
Net cash used in investing activities	(2,856,731)	(2,511,245)

(continued)

See notes to financial statements.

Statements of Cash Flows

(concluded)

Saint Martin's University
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(\$ 622,157)	(\$ 585,200)
Contributions received restricted for long-term purposes	699,572	294,534
Increase in liability for new annuity agreement	225,000	- -
Payments made under annuity agreements	(173,138)	(82,457)
Net cash provided by (used in) financing activities	129,277	(373,123)
Net increase (decrease) in cash and cash equivalents	41,472	(472,069)
Cash and Cash Equivalents		
Beginning of year	7,438,601	7,910,670
End of year	\$7,480,073	\$7,438,601
Supplemental Disclosure of Non-Cash Investing Activities		
Restricted bond proceeds used for construction in progress additions	\$- -	\$652,003
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$1,771,328	\$1,824,242

See notes to financial statements.

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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, expenses, gains and losses 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 on the statements of activities as net assets released from restriction.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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

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, 2011 and 2010, 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 and believes the credit risk related to these deposits is minimal.

Tuition and Fees Revenues

Tuition and fees revenues and related scholarships that reduce available tuition and fees revenues 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.

Governmental Grants and Contracts Revenues

Governmental grants and contracts 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 and contracts.

Auxiliary Enterprises

Auxiliary enterprises consist of revenues and expenses relating to operation of the residence halls, food services and bookstore, and 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, 2011 and 2010.

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, 2011 and 2010.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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

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 were received. Amortization of discounts is recorded as an 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 6.

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 it currently has no uncertain tax benefits to record as a liability at June 30, 2011 and 2010.

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. Generally, forms 990 and 990T filed by the University are no longer subject to examination for fiscal years ended June 30, 2008, and prior.

Fair Value of Financial Instruments

The carrying values of cash, cash equivalents, bond reserves, receivables, accounts payables and accrued liabilities, including deferred revenues, annuities payable and related-party notes payable, are reasonable estimates of their fair value due to discounting or the short-term nature and terms of these financial instruments. Investments are recorded at fair value as discussed in Note 13. The fair value of bonds payable approximates 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 bonds payable. 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. The University recognizes the change in fair market value of the interest rate swap on the statements of activities. It is not practical to estimate the fair value of student receivables and the liability for governmental grants refundable, as these loans are subject to restrictions on interest rates and transferability.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 13 for additional information.

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 \$406,000 and \$562,000 for the years ended June 30, 2011 and 2010, 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. No interest was capitalized for the years ended June 30, 2011 and 2010.

Subsequent Events

The management of the University has evaluated subsequent events for potential recognition and disclosure through October 5, 2011, the date the financial statements were available to be issued.

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 2 - Investments

At June 30, 2011 and 2010, 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:

	2011	2010
Dividends and interest	\$ 856,118	\$1,371,654
Net realized gains (losses) on investments	(142,183)	55,270
Investment income	713,935	1,426,924
Net unrealized gains (losses) on investments	1,330,569	(177,582)
Total investment income	\$2,044,504	\$1,249,342

Investment income has been presented net of management fees. Management fees totaled \$67,086 and \$43,829 for the years ended June 30, 2011 and 2010, 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)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 2 - Investments (concluded)

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

	2011	2010
Invested Cash		
Savings accounts	\$ 3,683,427	\$ 2,741,021
Money market funds	1,413,037	3,900,617
Total invested cash	5,096,464	6,641,638
Investments		
Common stocks	6,614,841	4,322,611
Mutual funds	1,468,047	936,423
Bonds	4,392,538	4,233,427
Cash surrender value of life insurance	11,693	11,395
Total investments	12,487,119	9,503,856
Total invested cash and investments	\$17,583,583	\$16,145,494

The University also maintains a bond reserve investment totaling \$2,497,985 and \$2,567,101 at June 30, 2011 and 2010, 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.

Note 3 - Contributions Receivable

Contributions receivable recognized during 2010 and 2011 related to funds that were raised to support planned improvements to existing buildings owned by the University. Contributions receivable are expected to be collected at June 30 as follows:

	2011	2010
Within one year	\$ 806,069	\$ 781,396
1 to 5 years	940,723	983,300
Total contributions receivable	1,746,792	1,764,696
Less discount	25,903	22,538
Contributions receivable - net	\$1,720,889	\$1,742,158

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 4 - Conditional Contributions

During the year ended June 30, 2011, the University received conditional pledges totaling \$4,500,000, contingent on the University meeting certain conditions as it relates to the construction of a new engineering building. These conditions were not met at June 30, 2011. Subsequent to year-end, the University began construction on the new engineering building. These pledges will be recognized when the stated conditions are substantially met.

Note 5 - 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:

	2011	2010
Land improvements (<i>Note 8</i>)	\$ 3,526,731	\$ 3,526,731
Buildings	64,083,798	64,083,798
Equipment	13,995,895	13,250,535
Construction in progress	439,279	- -
Total fixed assets	82,045,703	80,861,064
Less accumulated depreciation	26,373,390	23,745,547
Fixed assets - net	\$55,672,313	\$57,115,517

Construction in progress at June 30, 2011, consisted of the engineering building and residence hall renovations. There was no construction in progress at June 30, 2010.

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 6 - Bonds and Other Payables

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

	2011	2010
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 (\$595,000 in 2011) 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.	\$33,810,000	\$34,405,000
Payables to St. Martin's Abbey (<i>Note 8</i>)	647,739	674,896
Total bonds and other payables	\$34,457,739	\$35,079,896

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 on the stated terms of the bonds and the letter of credit agreement at June 30, 2011:

Years Ending June 30		
2011		\$ 654,000
2012		697,000
2013		33,106,739
Total		\$34,457,739

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 6 - Bonds and Other Payables *(continued)*

A summary of the approximate annual maturities of the bonds and other payables, assuming the debt is paid as agreed, for future years ending June 30 is as follows:

2012	\$ 654,000
2013	697,000
2014	739,000
2015	787,000
2016	834,000
Thereafter	30,746,739
Total	\$34,457,739

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 0.13 percent at June 30, 2011. Issuance costs, aggregating \$464,338, have been capitalized and are being amortized over the 30-year life. Accumulated amortization totaled \$46,433 at June 30, 2011 and 2010.

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 swap agreement with US Bank, with a fixed interest rate of 4.965 percent per annum. The interest rate swap agreement matures July 2025. The fair value of the swap agreement was a liability of \$8,354,786 and \$9,521,483 at June 30, 2011 and 2010, respectively.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 6 - Bonds and Other Payables (concluded)

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 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 on the statements of activities for the years ended June 30:

	2011	2010
Swap settlements (included in interest expense)	\$1,767,891	\$1,447,853
Unrealized (gains) losses on interest rate swap	(1,166,697)	3,067,707
Net expense	\$ 601,194	\$4,515,560

As of June 30, 2011, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was approximately \$34 million.

Note 7 - 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 3 percent from July 1, 2010 through October 31, 2010, and 8 percent from November 1, 2010 through June 30, 2011, and 5.5 percent of compensation for the year ended June 30 2010, resulting in total contributions for 2011 of \$535,211 and for 2010 of \$418,150.

Note 8 - 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 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.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 8 - Related-Party Transactions *(concluded)*

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:

	2011	2010
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.	\$519,288	\$542,055
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.	128,451	132,841
Total related-party notes payable	\$647,739	\$674,896

Related-Party Other

For the years ended June 30, 2011 and 2010, the University received various gifts from the Abbey totaling \$358,187 and \$406,600, respectively. As of June 30, 2011 and 2010, the University had accounts receivable from the Abbey of \$0 and \$49,168 and accounts payable to the Abbey of \$24,472 and \$42,959, respectively.

Note 9 - 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, 2011 and 2010.

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 10 - Temporarily Restricted and Permanently Restricted Net Assets

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

	2011	2010
Scholarships and fellowships	\$2,916,883	\$1,924,915
Plant	1,395,242	- -
Other	604,681	578,515
Total	\$4,916,806	\$2,503,430

Permanently restricted net assets as of June 30, 2011 and 2010, represent the original corpus of the endowment gifts. The income available from these investments in perpetuity is restricted for the following purposes:

	2011	2010
Endowment scholarships	\$7,759,102	\$7,480,282
Other	470,626	470,626
Total	\$8,229,728	\$7,950,908

Note 11 - 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 12 - Split-Interest Agreements

Assets received under trusts are recorded at fair value in the investment account and totaled \$1,640,661 and \$1,287,624 at June 30, 2011 and 2010, respectively. Of these amounts, \$657,235 and \$385,139 relate to charitable gift annuities at June 30, 2011 and 2010, 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, 2011 and 2010, liabilities under the charitable trusts are reported as annuities payable, totaling \$981,850 and \$744,855, respectively. Of these amounts, \$479,929 and \$265,500 relate to charitable gift annuities at June 30, 2011 and 2010, respectively.

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 13 - Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value as 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.

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, 2011, 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:

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 13 - Fair Value Measurements *(continued)*

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 flows. Level 2 securities would include U.S. Treasury bonds, federal government agency bonds, and corporate bonds where values are based on similar securities.

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 held certain private equities that did not have a readily determinable fair value. As such, they were classified as Level 3 investments. The University had valued these investments at the most recent selling price as of the year ended June 30, 2010. There were no private equities held as of the year ended June 30, 2011.

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 University is not readily determinable. As such, the interest rate swap is classified as a Level 2 financial instrument.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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, 2011, 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	\$ 6,269,074	\$6,269,074	\$ --	\$--
Global market equities	345,767	345,767	--	--
Equity mutual funds:				
Small cap funds	164,814	164,814	--	--
Mid cap funds	97,115	97,115	--	--
Large cap funds	496,135	496,135	--	--
Real estate	96,294	96,294	--	--
International funds	172,013	172,013	--	--
Fixed income mutual funds	441,676	441,676	--	--
Bonds:				
U.S. Treasury bonds	821,203		821,203	--
Federal government agency	1,177,190		1,177,190	--
Corporate bonds	2,394,145		2,394,145	--
Total assets	\$12,475,426	\$8,082,888	\$4,392,538	\$--
Liability				
Interest rate swap	\$8,354,786	\$--	\$8,354,786	\$--

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

Note 13 - Fair Value Measurements *(continued)*

	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	\$--

Cash surrender value of life insurance of \$11,693 and \$11,395 for the years ended June 30, 2011 and 2010, respectively, are not included above, as it is carried at cost.

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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
Balance, July 1, 2010	\$216,259
Total losses included in change in net assets	(2,059)
Sale of stock received as pledge payment	(214,200)
Balance, June 30, 2011	\$ --
Balance, July 1, 2009	\$ 34,180
Total losses included in change in net assets	(32,121)
Stock received as pledge payment	214,200
Balance, June 30, 2010	\$216,259

The University did not make any transfers in or out of Level 1 or Level 2 during the year ended June 30, 2011.

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 100 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)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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
2011				
Donor-restricted endowment funds	\$ --	\$2,560,999	\$8,229,728	\$10,790,270
Board-designated endowment funds	1,800,691	--	--	1,800,691
Total funds	\$1,800,691	\$2,560,999	\$8,229,728	\$12,591,418
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

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

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
Endowment net assets, beginning of year	\$1,826,684	\$1,624,580	\$7,950,908	\$11,402,172
Investment return:				
Investment income	28,402	151,830	--	180,232
Net appreciation (realized and unrealized)	135,891	1,162,958	--	1,298,849
Total investment return	164,293	1,314,788	--	1,479,081
Contributions	21,000	--	278,820	299,820
Expenditures appropriated	(211,286)	(378,369)	--	(589,655)
Endowment net assets, end of year	\$1,800,691	\$2,560,999	\$8,229,728	\$12,591,418
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

(continued)

Notes to Financial Statements

Saint Martin's University
June 30, 2011 and 2010

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 were deemed prudent by the board of trustees. At June 30, 2011 and 2010, 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 University 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 University'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.