Report of Independent Auditors
and Financial Statements for

Saint Martin's University

June 30, 2013 and 2012

MOSS-ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Saint Martin's University

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Martin's University (the University), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Yakima, Washington
September 30, 2013

	June 30, 2013	2012
ASSETS		
Cash and cash equivalents		
Operating cash	$ 2,000,579	$ 1,574,982
Investment cash	3,365,917	4,965,839
Total cash and cash equivalents	5,366,496	6,540,821
Prepaids and inventories	321,988	274,309
Student accounts receivable, net of allowance of $289,169 in 2013 and $253,994 in 2012	1,876,718	1,696,291
Gate loan receivable, net of allowance of $347,026 in 2013 and $334,252 in 2012	116,330	129,104
Student loans receivable - Perkins Loan Program	1,040,373	1,018,541
Contributions receivable, net	591,209	4,507,651
Other receivables	332,490	373,835
Investments	14,684,068	12,725,739
Bond issuance costs, net	371,471	386,949
Bond reserve	2,567,007	2,566,732
Fixed assets, net	59,930,071	59,497,796
	$ 87,198,221	$ 89,717,768
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,727,833	$ 3,424,048
Deferred revenues	1,336,536	1,248,126
Line of credit	-	2,774,235
Annuities payable	1,104,993	1,040,962
Related-party notes payable	586,937	618,474
Governmental grants refundable	972,178	972,178
Interest rate swap payable	9,203,180	12,203,040
Bonds payable	32,520,000	33,185,000
Total liabilities	48,451,657	55,466,063
NET ASSETS		
Unrestricted	20,029,574	17,663,755
Unrestricted - designated	4,936,147	4,343,748
Total unrestricted	24,965,721	22,007,503
Restricted		
Temporarily	3,781,618	3,890,193
Permanently	9,999,225	8,354,009
Total net assets	38,746,564	34,251,705
Total liabilities and net assets	$ 87,198,221	$ 89,717,768

SAINT MARTIN'S UNIVERSITY
STATEMENT OF ACTIVITIES

	Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Tuition and fees	$ 40,457,137	$ -	$ -	$ 40,457,137
Less scholarship allowance	(15,724,889)	-	-	(15,724,889)
	24,732,248	-	-	24,732,248
Government grants and contracts	19,640	-	-	19,640
Contributions	1,134,258	1,904,794	1,408,656	4,447,708
Contributions from related party	25,200	200,000	-	225,200
Auxiliary enterprises	4,978,084	-	-	4,978,084
Investment income and realized gains	548,809	1,457,591	-	2,006,400
Unrealized gain (loss) on investments, net	(33,594)	(257,820)	-	(291,414)
Other sources	840,548	-	-	840,548
Change in value of split-interest agreements	10,173	-	-	10,173
	32,255,366	3,304,565	1,408,656	36,968,587
Net assets released from restrictions	2,671,680	(2,671,680)	-	-
	34,927,046	632,885	1,408,656	36,968,587
EXPENSES				
Program expenses				
Instruction	11,408,551	-	-	11,408,551
Research	14,725	-	-	14,725
Student services	6,848,152	-	-	6,848,152
Auxiliary enterprises	4,155,451	-	-	4,155,451
Support expenses				
Academic	4,130,518	-	-	4,130,518
Institutional	8,916,191	-	-	8,916,191
	35,473,588	-	-	35,473,588
OTHER				
Unrealized gain on interest rate swap	2,999,860	-	-	2,999,860
CHANGE IN NET ASSETS	2,453,318	632,885	1,408,656	4,494,859
NET ASSETS, beginning of year	22,007,503	3,890,193	8,354,009	34,251,705
RECLASSIFICATION OF NET ASSETS	504,900	(741,460)	236,560	-
NET ASSETS, end of year	$ 24,965,721	$ 3,781,618	$ 9,999,225	$ 38,746,564

See accompanying notes.

	Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Tuition and fees	$ 38,731,301	$ -	$ -	$ 38,731,301
Less scholarship allowance	(14,162,269)	-	-	(14,162,269)
	24,569,032	-	-	24,569,032
Government grants and contracts	19,048	-	-	19,048
Contributions	5,658,291	63,250	124,281	5,845,822
Contributions from related party	3,000	157,060	-	160,060
Auxiliary enterprises	4,572,921	-	-	4,572,921
Investment income and realized gains	453,076	664,963	-	1,118,039
Unrealized gain on investments, net	162,825	(793,704)	-	(630,879)
Other sources	603,410	-	-	603,410
Change in value of split-interest agreements	(163,025)	-	-	(163,025)
	35,878,578	91,569	124,281	36,094,428
Net assets released from restrictions	1,118,182	(1,118,182)	-	-
	36,996,760	(1,026,613)	124,281	36,094,428
EXPENSES				
Program expenses				
Instruction	10,682,133	-	-	10,682,133
Research	22,699	-	-	22,699
Student services	6,018,145	-	-	6,018,145
Auxiliary enterprises	4,149,539	-	-	4,149,539
Support expenses				
Academic	3,880,071	-	-	3,880,071
Institutional	8,341,611	-	-	8,341,611
	33,094,198	-	-	33,094,198
OTHER				
Unrealized loss on interest rate swap	(3,848,254)	-	-	(3,848,254)
CHANGE IN NET ASSETS	54,308	(1,026,613)	124,281	(848,024)
NET ASSETS, beginning of year	21,953,195	4,916,806	8,229,728	35,099,729
NET ASSETS, end of year	$ 22,007,503	$ 3,890,193	$ 8,354,009	$ 34,251,705

See accompanying notes.

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,494,859	$ (848,024)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,877,489	2,764,787
Unrealized loss on investments, net	291,414	630,879
Bad debt expense	128,333	131,744
Contributions restricted for long-term purposes	(1,408,656)	(124,281)
Loss on disposal of fixed assets	18,031	-
Cash surrender value of life insurance	(305)	(230)
Change in fair value of interest rate swap	(2,999,860)	3,848,254
Change in cash due to changes in assets and liabilities		
Student accounts receivable	(308,760)	(262,289)
Contributions receivable	3,916,442	(2,786,762)
Other receivables	54,119	(123,189)
Prepaids and inventories	(47,679)	(31,128)
Accounts payable and accrued expenses and annuities payable	(706,388)	1,199,566
Deferred revenues	88,410	99,830
Net cash from operating activities	6,397,449	4,499,157
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(3,312,317)	(6,559,314)
Purchase of investments	(16,525,995)	(10,327,374)
Sale of investments	14,276,557	9,458,101
Change in student loans receivable - Perkins Loan Program	(21,832)	(22,301)
Net change in bond reserve	(275)	(68,747)
Net cash from investing activities	(5,583,862)	(7,519,635)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and other payables	(696,537)	(654,265)
Proceeds from line of credit	2,211,740	2,774,235
Payments on line of credit	(4,985,975)	-
Contributions received restricted for long-term purposes	1,408,656	124,281
Increase in liability for new annuity agreement	176,249	-
Change in value/payments in annuity agreements	(102,045)	(163,025)
Net cash from financing activities	(1,987,912)	2,081,226
CHANGE IN CASH AND CASH EQUIVALENTS	(1,174,325)	(939,252)
CASH AND CASH EQUIVALENTS, beginning of year	6,540,821	7,480,073
CASH AND CASH EQUIVALENTS, end of year	$ 5,366,496	$ 6,540,821
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,612,387	$ 1,735,693

Note 1 – Organizational Background

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 main campus is located on 300+ acres in Lacey, WA. Extension campuses are located at the Joint Fort Lewis McChord (JBLM) base near Tacoma, WA and Centralia. 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.

Note 2 – Summary of Significant Accounting Policies

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.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Demand deposit accounts (checking accounts) held at June 30, 2013 and 2012 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 to date.

Student loans receivable and student accounts 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. The allowance for doubtful accounts represents the University's best estimate of the amount of probable credit losses in the University's existing accounts receivable and student loans receivable. 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 United States Department of Education (USDE). Recoveries of student accounts receivable previously written off are recorded when received. 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 USDE.

Note 2 – Summary of Significant Accounting Policies (continued)

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 5. 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 bonds are considered a Level 2 within the fair value hierarchy as described in Note 11. The interest rate swap (used for purposes other than trading) is carried at fair value and is the estimated amount the University would receive or pay 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. These investments are categorized as Level 2 in the fair value hierarchy (see Note 5). 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.

Fair value measurements – The *Fair Value Measurements and Disclosures Topic* of the Financial Accounting Standards Board's (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 5 for additional information.

Interest rate swap – 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 11.

Deferred compensation – A clause in the University President's contract entitles him to one year's compensation at the completion of a 5-year term, starting in 2011. As of June 30, 2013 and 2012, the value of the accrued president's deferred compensation was $88,000 and $44,000, respectively. The liability is included in accounts payable on the statement of financial position.

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 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, 2013 and 2012. In addition, the University has no material unrelated business income subject to tax at June 30, 2013 and 2012.

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 prior to June 30, 2010.

Note 2 – Summary of Significant Accounting Policies (continued)

Financial statement presentation – 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 – Unrestricted net assets represent expendable funds available to support the University's operations and are resources not subject to donor-imposed restrictions.

Certain funds included in these amounts have been designated by the board of trustees to be utilized for various programs.

Temporarily restricted net assets – 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 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 – Permanently restricted net assets consist of contributions with donor restrictions that stipulate the donated assets be maintained permanently but may 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.

Tuition and fees – Student tuition and fees are recorded as revenue on a ratable basis over the term of instruction. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the USDE. Disbursements under each program are subject to disallowance by the USDE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the USDE. 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.

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, 2013 and 2012.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2013 and 2012.

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 after one year 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.

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.

Expense allocation – The cost of operations and maintenance of the physical plant including depreciation and interest cost related to plant has been allocated to functional expense categories based on each functional expense category's percent of total expenses.

Fundraising costs – The University incurred fundraising costs of approximately $520,000 and $570,000 for the years ended June 30, 2013 and 2012, respectively, which are included in institutional support on the statements of activities. The related revenue from these activities is recorded in other sources.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are to be issued.

The University has evaluated subsequent events through September 30, 2013, which is the date the financial statements are to be issued.

Note 3 – Student Loans and Student Accounts Receivable

Student loans receivable represents loans from the Perkins loan fund that are generally payable with interest between 3.00% and 5.00% over approximately 11 years following University attendance. Principal payments, interest, and losses due to cancellation are shared by the University and the U.S. government in proportion to their share of funds provided. The program provides for cancellation of loans if the student is employed in certain occupations following graduation. Losses from employment cancellations are absorbed in full by the U.S. government. At June 30, 2013 and 2012, student loans funded through the Perkins loan program were $1,040,373 and $1,018,541, respectively.

The availability of funds for loans under the Perkins program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $972,178 at June 30, 2013 and 2012 are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

	1-60 Days	60-90 Days	90+ Days	Total Past Due
June 30, 2013	$ 37,264	$ 24,111	$ 53,053	$ 114,428
June 30, 2012	27,971	29,362	17,922	75,255

Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Student accounts receivable policy is that tuition and fees are due by the first day of the semester. Students and their families are offered monthly payment plans through Tuition Management Systems (TMS) and, in some cases, through the University itself. Amounts owed through either TMS or the University are recorded as student accounts receivable. A reserve for bad debts is calculated each year. For 2013, historical trends over several prior years were used to calculate an average percentage of the allowance for doubtful accounts. This percentage was applied to the current balance of student accounts to determine the allowance. For 2012, it was assumed 100% of the accounts on the books for less than 60 days would be collectible, 75% of those on the books between 60 and 90 days would be collectible, and 65% of those on the books more than 90 days would be collectible. Per the University's policy, an account with an established payment plan is defined as past due when any scheduled payment is more than two weeks late.

	1-60 Days	60-90 Days	90+ Days	Total Past Due
June 30, 2013	$ 1,988	$ 111,808	$ 554,317	$ 668,113
June 30, 2012	909	16,280	422,374	439,563

Note 4 – Investments

At June 30, 2013 and 2012, 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.

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

	2013	2012
Invested cash		
Savings accounts	$ 2,654,444	$ 3,639,178
Money market funds	711,473	1,326,661
	3,365,917	4,965,839
Investments		
Mutual funds	9,856,824	1,423,192
Common stocks	4,533,938	6,934,472
Certificates of Deposit	281,078	-
Cash surrender value of life insurance	12,228	11,923
Bonds	-	4,356,152
	14,684,068	12,725,739
	$ 18,049,985	$ 17,691,578

During 2013, the University moved their investments to a new custodian which invests in mutual funds rather than bonds.

The University also maintains a bond reserve investment totaling $2,567,007 and $2,566,732 at June 30, 2013 and 2012, 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.

Investment income has been presented net of management fees. Management fees totaled $55,255 and $52,694 for the years ended June 30, 2013 and 2012, respectively.

Note 5 – Fair Value Measurements

Fair value is defined 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. Fair value also establishes a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at June 30, 2013 and 2012.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. In certain cases where Level 1 inputs are not available, investments are classified within Level 2 of the hierarchy. There were no Level 3 investments as of June 30, 2013 or June 30, 2012.

Common stock: Common stock is valued at the closing price reported on the active markets on which the individual securities are traded.

Mutual funds: Shares of mutual funds are valued at the net asset value (NAV) of shares held by the Plan and are valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit: Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer

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 that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

Note 5 – 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, 2013			
	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 stock				
U.S. marketable equities	$ 3,182,454	$ 3,182,454	$ -	$ -
Global market equities	1,351,483	1,351,483	-	-
Equity mutual funds				
Small cap funds	143,895	143,895	-	-
Mid cap funds	652,420	652,420	-	-
Large cap funds	1,257,408	1,257,408	-	-
Real estate	55,187	55,187	-	-
Other	44,540	44,540	-	-
International funds	2,145,059	2,145,059	-	-
Fixed income mutual funds				
Debt funds	4,958,667	4,958,667	-	-
Asset allocation funds	599,649	599,649	-	-
Certificates of Deposit	281,078	-	281,078	-
	$ 14,671,840	$ 14,390,762	$ 281,078	$ -
Liability				
Interest rate swap	$ 9,203,180	$ -	$ 9,203,180	$ -

Note 5 – Fair Value Measurements (continued)

	Fair Value Measurements as of June 30, 2012			
	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 stock				
U.S. marketable equities	$ 6,400,254	$ 6,400,254	$ -	$ -
Global market equities	534,217	534,217	-	-
Equity mutual funds				
Small cap funds	146,605	146,605	-	-
Mid cap funds	84,717	84,717	-	-
Large cap funds	511,916	511,916	-	-
Real estate	88,570	88,570	-	-
International funds	135,738	135,738	-	-
Fixed income mutual funds	455,646	455,646	-	-
Bonds				
U.S. Treasury bonds	949,202	-	949,202	-
Federal government agency	350,515	-	350,515	-
Corporate bonds	3,056,436	-	3,056,436	-
	$ 12,713,816	$ 8,357,663	$ 4,356,153	$ -
Liability				
Interest rate swap	$ 12,203,040	$ -	$ 12,203,040	$ -

Cash surrender value of life insurance of $12,228 and $11,923 for the years ended June 30, 2013 and 2012, respectively, are not included above, as it is carried at cost.

Note 6 – Contributions Receivable

Contributions receivable, which are unconditional promises to give, are summarized as follows at June 30:

	2013	2012
Contributions to be collected		
In one year or less	$ 393,392	$ 3,990,500
Between one year and five years	204,639	530,845
	598,031	4,521,345
Less discount	6,822	13,694
Net contributions receivable	$ 591,209	$ 4,507,651

Management believes all balances are collectible, and therefore no allowance for doubtful accounts is necessary.

Note 7 – 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 related to the construction of a new engineering building. Conditions were met during the year ended June 30, 2012 and the pledge was recognized as contribution revenue.

Note 8 – Fixed Assets

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 (3 to 15 years). Equipment retirements are removed from the records at the time of disposal.

Fixed assets comprise the following at June 30:

	2013	2012
Land improvements	$ 3,577,329	$ 3,526,731
Buildings	72,012,307	64,846,905
Equipment	16,163,284	14,940,998
Construction in progress	59,815	5,253,298
	91,812,735	88,567,932
Less accumulated depreciation	31,882,664	29,070,136
	$ 59,930,071	$ 59,497,796

Construction commitments – During the 2011 fiscal year, the University entered into a contract for construction of the engineering building. Construction in progress for both years related to the engineering building. The project was completed during the 2013 fiscal year. As of June 30, 2013, there were no outstanding construction commitments.

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. Interest of $132,000 and zero was capitalized for the years ended June 30, 2013 and 2012, respectively.

Note 9 – Line of Credit

During the year ended June 30, 2012, the University entered into a non-revolving line of credit agreement with U.S. Bank with a maximum advancement of $5,000,000 for use in constructing the engineering building. The line of credit included interest at 3% plus one month LIBOR rate collateralized by a leasehold deed of trust on the engineering building. During the year ended June 30, 2013, the engineering building was completed and placed into service and the outstanding balance was paid down to zero. The line of credit expired June 30, 2013.

Note 10 – Annuities Payable

Assets received under trusts are recorded at fair value in the investment account and totaled $1,546,583 and $1,539,967 at June 30, 2013 and 2012, respectively. Of these amounts, $876,980 and $611,628 relate to charitable gift annuities at June 30, 2013 and 2012, 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, 2013 and 2012, liabilities under the charitable trusts are reported as annuities payable, totaling $1,104,993 and $1,040,962, respectively. Of these amounts, $709,228 and $565,787 relate to charitable gift annuities at June 30, 2013 and 2012, respectively.

The University's unrestricted net assets meet the minimum amount required to issue annuities in the state of Washington.

Note 11 – Bonds and Other Payables

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

	2013	2012
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. 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 ($625,000 in 2012 and $665,000 in 2013) 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, 2014. Additionally, the University has pledged a security interest in the unrestricted revenues, gains, and other support for collateral for the bonds.	$ 32,520,000	$ 33,185,000
Payable to St. Martin's Abbey (Note 16).	586,937	618,474
	$ 33,106,937	$ 33,803,474

Note 11 – Bonds and Other Payables (continued)

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, 2013:

2014	$ 32,554,000
2015	37,000
2016	39,000
2017	43,000
2018	46,000
Thereafter	387,937
	$ 33,106,937

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:

2014	$ 739,000
2015	787,000
2016	834,000
2017	883,000
2018	936,000
Thereafter	28,927,937
	$ 33,106,937

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 0.15% and 0.18% at June 30, 2013 and 2012, respectively. Issuance costs, aggregating $464,338, have been capitalized and are being amortized over the 30-year life. Accumulated amortization totaled $92,867 and $77,389 at June 30, 2013 and 2012, respectively.

The University's credit agreement, associated with the issuance of the bonds, contains several ratio and covenant requirements. Requirements include cash flow coverage and liquidity ratios.

The University entered into an interest swap agreement with US Bank, with a fixed interest rate of 4.965% per annum. The interest rate swap agreement matures July 2025. The fair value of the swap agreement was a liability of $9,203,180 and $12,203,040 at June 30, 2013 and 2012, respectively.

Note 11 – Bonds and Other Payables (continued)

As discussed previously, 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 the borrowing term. The swap is recorded on the statements of financial position as an 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 statement of activities for the years ended June 30:

	2013	2012
Interest expense	$ 1,630,000	$ 1,610,488
Unrealized (gains) losses on interest rate swap	(2,999,860)	3,848,254
	$ (1,369,860)	$ 5,458,742

As of June 30, 2013 and 2012, the total notional amount of the University's pay-fixed, receive-variable interest rate swap was $32,520,000 and $33,185,000, respectively.

Note 12 – Government Grants Refundable

Government grants refundable represent refundable advances made by the federal government under the University's Perkins Federal Loan Program. There were no new advances under the program during the years ended June 30, 2013 and 2012.

Note 13 – Temporarily Restricted and Permanently Restricted Net Assets

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

	2013	2012
Scholarships and fellowships	$ 2,598,343	$ 2,581,576
Investment in plant	871,961	988,583
Other	311,314	320,034
	$ 3,781,618	$ 3,890,193

Permanently restricted net assets as of June 30, 2013 and 2012 represent the original corpus of the endowment gifts. The funds are restricted for the following purposes:

	2013	2012
Endowment scholarships	$ 9,661,558	$ 7,883,381
Other	337,667	470,628
	$ 9,999,225	$ 8,354,009

Note 14 – 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. A transfer of $54,308 was made during the year ended June 30, 2013.

Note 15 – 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.

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.

Note 15 – Endowment Fund and Net Asset Classification (continued)

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

	Unrestricted	Temporarily Restricted*	Permanently Restricted	Total
2013				
Donor-restricted endowment funds	$ -	$ 2,232,741	$ 9,999,225	$ 12,231,966
Board-designated endowment\ scholarship funds	2,887,793	-	-	2,887,793
Total funds	$ 2,887,793	$ 2,232,741	$ 9,999,225	$ 15,119,759
2012				
Donor-restricted endowment funds	$ -	$ 1,716,237	$ 8,354,009	$ 10,070,246
Board-designated endowment\ scholarship funds	2,603,604	-	-	2,603,604
Total funds	$ 2,603,604	$ 1,716,237	$ 8,354,009	$ 12,673,850

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Endowment net assets, beginning of year	$ 2,603,604	$ 1,716,237	$ 8,354,009	$ 12,673,850
Investment return				
Investment income	255,661	1,333,334	-	1,588,995
Net depreciation, realized and unrealized	(80,347)	(79,931)	-	(160,278)
	175,314	1,253,403	-	1,428,717
Interest on Quasi-endowment loan payment	252,450	(252,450)	-	-
Quasi-endowment loan payment	54,308	-	-	54,308
	306,758	(252,450)	-	54,308
Transfer from Annuity	-	-	236,560	236,560
Contributions	10,000	-	1,408,656	1,418,656
Expenditures appropriated	(207,883)	(484,449)	-	(692,332)
Endowment net assets, end of year	$ 2,887,793	$ 2,232,741	$ 9,999,225	$ 15,119,759

Note 15 – Endowment Fund and Net Asset Classification (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012				
Endowment net assets, beginning of year	$ 2,053,141	$ 2,308,549	$ 8,229,728	$ 12,591,418
Investment return				
Investment income	28,239	149,898	-	178,137
Net appreciation (depreciation), realized and unrealized	6,543	(297,407)	-	(290,864)
	34,782	(147,509)	-	(112,727)
Interest on Quasi-endowment loan payment	252,450	(252,450)	-	-
Quasi-endowment loan payment	454,471	-	-	454,471
	706,921	(252,450)	-	454,471
Contributions	10,200	-	124,281	134,481
Expenditures appropriated	(201,440)	(192,353)	-	(393,793)
Endowment net assets, end of year	$ 2,603,604	$ 1,716,237	$ 8,354,009	$ 12,673,850

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, 2013 and 2012, 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.

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.

Note 15 – Endowment Fund and Net Asset Classification (continued)

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year 5% 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. By 2017, the spending percentage will be reduced to 4% by reducing it by 25 basis points per year. The amount of the distribution in 2013 was 4.75%. 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% 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.

Note 16 – 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.

Payables to St. Martin's Abbey

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 the 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.

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

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

	2013	2012
Note payable, dated October 19, 1994, for Phase I and Phase II costs, with monthly payments of $5,220 including interest at 7.5% per annum, due June 1, 2024, unsecured.	$ 468,314	$ 494,753
Note payable, dated October 22, 1996, for Phase III costs, with monthly payments of $1,184 including interest at 7.5% per annum, due September 1, 2026,	118,623	123,721
	$ 586,937	$ 618,474

Note 16 – Related-Party Transactions (continued)

Related-Party – Other

For the years ended June 30, 2013 and 2012, the University received various gifts from the Abbey totaling $225,200 and $160,060, respectively. As of June 30, 2013 and 2012, the University had accounts receivable from the Abbey of $24,255 and $38,927.

Members of the University's Board of Trustees and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

Note 17 – Pension Plan

The University has a defined contribution 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 contribution rate was 8% as of June 30, 2013 and 2012, resulting in total contributions for 2013 of $815,135 and for 2012 of $832,693.

Note 18 – Commitments and Contingencies

Regulation and litigation – The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

As of June 30, 2013 and 2012, the University is not currently involved in legal proceedings arising in the ordinary course of operations. In the opinion of management, there are no matters that will materially affect the University's financial position.