

# University of St. Thomas



Financial Statements  
Fiscal Year Ended June 30, 2008  
With Report of Independent Auditors

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# LarsonAllen<sup>®</sup> LLP

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
University of St. Thomas  
Saint Paul, Minnesota

We have audited the accompanying statement of financial position of the University of St. Thomas as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2007 financial statements and, in our report, dated October 24, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the University of St. Thomas as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



LarsonAllen LLP

Minneapolis, Minnesota  
October 22, 2008

**University of St. Thomas**  
**Statement of Financial Position**

As of June 30, 2008

(with comparative totals as of June 30, 2007)

<b>Assets</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Cash and cash equivalents	\$8,961,964	\$1,594,628
Collateral held under securities lending agreement	35,399,738	48,008,924
Accounts receivable, net	9,159,128	9,649,817
Inventories, prepaid expenses, and other assets	6,968,048	7,035,150
Contributions receivable, net	93,960,973	89,119,759
Loans to students, net	4,938,131	4,565,740
Investments	433,383,500	436,700,119
Land, buildings, and equipment, net	328,039,756	327,765,546
<b>Total assets</b>	<b><u>\$920,811,238</u></b>	<b><u>\$924,439,683</u></b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$18,208,438	\$16,150,957
Collateral payable under securities lending agreement	35,399,738	48,008,924
Unearned tuition income	5,685,006	6,176,970
Deposits and other liabilities	17,479,018	10,162,827
Assets held in custody for others	6,366,707	6,970,124
Annuity obligations	4,326,468	5,144,841
Bonds payable	148,789,000	156,904,000
Advances from federal government for student loans	4,226,870	4,206,180
<b>Total liabilities</b>	<b><u>240,481,245</u></b>	<b><u>253,724,823</u></b>
<b>Net assets</b>		
<b>Unrestricted:</b>		
Operations	25,770,780	26,850,512
Long-term investment	198,388,088	211,479,879
Invested in plant	180,130,746	168,823,052
<b>Total unrestricted</b>	<b><u>404,289,614</u></b>	<b><u>407,153,443</u></b>
 <b>Temporarily restricted</b>	 68,943,608	 66,998,958
 <b>Permanently restricted</b>	 207,096,771	 196,562,459
<b>Total net assets</b>	<b><u>680,329,993</u></b>	<b><u>670,714,860</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$920,811,238</u></b>	<b><u>\$924,439,683</u></b>

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

**University of St. Thomas**  
**Statement of Activities**

For the year ended June 30, 2008  
(with comparative totals for 2007)

	2008			2007
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues</b>				
Tuition and fees	\$203,163,084			\$185,180,140
Less: student aid	(61,212,799)			(53,560,924)
Net tuition and fees	141,950,285			131,619,216
Sales and services of auxiliary enterprises	31,644,707			30,503,360
Private gifts and grants	14,185,456	\$10,328,261		20,067,091
Grants and contracts	3,973,862			5,245,829
Investment earnings used - endowment	7,251,370			7,927,460
Investment earnings used - non-endowment	2,799,763			2,985,321
Sales and services of educational departments	4,965,977			4,565,725
Other revenue	6,687,912			5,245,484
Net assets released from restrictions	7,576,534	(7,576,534)		
<b>Total operating revenues</b>	221,035,866	2,751,727		208,159,486
<b>Operating expenditures</b>				
<i><b>Instruction and other services</b></i>				
Instruction	100,192,380			97,989,323
Auxiliary enterprises	30,935,637			29,800,008
Student activities and services	18,251,046			16,999,997
Academic support	9,221,292			8,290,683
Libraries	8,407,764			8,053,708
Public service	1,350,255			1,067,072
Research	758,243			607,246
Total instruction and other services	169,116,617			162,808,037
<i><b>Management and general</b></i>				
General administration and support services	27,186,024			26,031,827
Development	5,680,523			4,845,574
Total management and general	32,866,547			30,877,401
<b>Total operating expenditures</b>	201,983,164			193,685,438
<b>Net operating income</b>	<b>19,052,702</b>	<b>2,751,727</b>		<b>14,474,048</b>
<b>Non-operating activities</b>				
Permanently restricted gifts			17,558,758	6,102,229
Investment earnings (withdrawn) reinvested - endowment	(11,368,532)	(807,077)	(5,432,459)	32,794,492
Investment earnings (withdrawn) reinvested - non-endowment	(6,889,241)			15,821,941
Loss on disposal of property and equipment	(88,247)			(1,479,155)
Net unrealized loss on interest rate exchange agreement	(1,769,825)			(148,880)
Gift to Center for Ethical Business Cultures	(1,800,686)			
Income tax			(1,591,987)	
<b>Net non-operating (loss) income</b>	<b>(21,916,531)</b>	<b>(807,077)</b>	<b>10,534,312</b>	<b>53,090,627</b>
<b>Net (decrease) increase in net assets</b>	<b>(2,863,829)</b>	<b>1,944,650</b>	<b>10,534,312</b>	<b>67,564,675</b>
<b>Net assets, beginning of year</b>	407,153,443	66,998,958	196,562,459	603,150,185
<b>Net assets, end of year</b>	<b>\$404,289,614</b>	<b>\$68,943,608</b>	<b>\$207,096,771</b>	<b>\$670,714,860</b>

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

**University of St. Thomas****Statement of Cash Flows**

For the year ended June 30, 2008

(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$9,615,133	\$67,564,675
<b><i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i></b>		
Depreciation	16,092,996	15,567,038
Net realized investment gains	(16,016,254)	(28,281,387)
Net unrealized investment losses (gains)	42,730,068	(15,479,898)
Gifts of property and equipment	(5,953,594)	(2,094,323)
Contributions restricted for long-term investment	(13,965,085)	(3,708,299)
Interest and dividend income restricted for long-term investment	(1,948,045)	(1,781,160)
Noncash contributions of marketable securities	(4,523,873)	(6,614,717)
Decrease in allowance for uncollectible pledges	(110,000)	
Loss on disposal of land, buildings, and equipment	88,247	1,479,155
<b><i>Change in operating assets and liabilities</i></b>		
<i>Decrease (increase) in operating assets</i>		
Accounts receivable, net	490,689	(325,797)
Contributions receivable	(4,731,214)	(4,972,266)
Other operating assets	(305,289)	(313,821)
<i>Increase (decrease) in operating liabilities</i>		
Accounts payable and accrued expenses	1,400,370	(506,410)
Other operating liabilities	5,423,127	2,632,010
<b>Net cash provided by operating activities</b>	<b>28,287,276</b>	<b>23,164,800</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(409,370,635)	(149,525,904)
Proceeds from sales and maturities of investments	390,497,313	147,628,601
Expenditures for land, buildings, and equipment	(9,857,448)	(19,828,738)
Proceeds from sale of land, buildings, and equipment	12,700	
<b>Net cash used in investing activities</b>	<b>(28,718,070)</b>	<b>(21,726,041)</b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for endowment, and for land, buildings, and equipment	13,965,085	3,708,299
Payments on bonds payable	(8,115,000)	(6,223,000)
Interest and dividend income restricted for long-term investment	1,948,045	1,781,160
<b>Net cash provided (used) by financing activities</b>	<b>7,798,130</b>	<b>(733,541)</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,367,336</b>	<b>705,218</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,594,628</b>	<b>889,410</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$8,961,964</b>	<b>\$1,594,628</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$5,866,357	\$6,810,752
Building and equipment acquisitions included under accounts payable and accrued expenses	\$1,198,966	\$541,855
Equipment acquired through capital lease agreements	\$3,840,976	\$11,156,956

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

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**1. Summary of Significant Accounting Policies**

**Organization**

Founded in 1885, the University of St. Thomas (the University) is a Catholic, diocesan university based in the Twin Cities of St. Paul and Minneapolis. The largest private university in Minnesota, St. Thomas offers bachelor's degrees in over 85 major fields of study and more than 45 graduate degree programs including master's, education specialist, juris doctor and doctorates.

**Basis of Presentation**

The accompanying statements of the University have been prepared on an accrual basis of accounting.

Net assets and related revenues and expenses are classified into the following three categories based upon the existence or absence of donor-imposed restrictions:

***Unrestricted net assets are free of donor-imposed restrictions.***

Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, and gains and losses that are not recorded in permanently or temporarily restricted net assets. Expenses are reported as decreases in unrestricted net assets.

***Temporarily restricted net assets are donor restricted but the restriction will expire.***

Temporarily restricted net assets generally include gifts, pledges, and investment income, which can be expended, but for which donor-imposed restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be expended, or time restrictions imposed by donors or implied by the nature of the gift (such as capital projects, pledges to be paid in the future, or life income funds).

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as "Net assets released from restrictions". However, if a restriction is fulfilled in the same fiscal year in which a contribution is received or restricted investment income is earned, the University reports the support (and related expense) as unrestricted.

***Permanently restricted net assets have restrictions that do not expire.***

Permanently restricted net assets generally represent the original value of gifts, trusts, and pledges which are permanently restricted by the donor. Generally the corpus (original gift) is invested in perpetuity and only the investment income is made available for program operations in accordance with the donor stipulations. In some instances, a portion of the investment income is added to the corpus and is reinvested in perpetuity as stipulated by the donor.

**Cash and Cash Equivalents (Cash)**

All highly liquid cash investments with an original maturity of three months or less when purchased by the University are considered to be cash equivalents.

Cash that is held for long-term investment is included in the Statement of Financial Position as investments. For example, cash held by endowment investment managers until suitable investment opportunities are identified, and cash held for the purchase of buildings and equipment, are reported as investments. Cash held for long-term investment totaled \$74,291,541 and \$31,134,455 at June 30, 2008 and 2007, respectively.

Cash held in bank accounts may at times exceed federally insured limits.

**Accounts Receivable**

Accounts receivable are stated at net realizable value. The allowance for doubtful accounts for the years ended June 30, 2008 and 2007 was \$1,092,436.

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**1. Summary of Significant Accounting Policies - continued**

**Inventories**

Inventories are recorded at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis. Inventories consist mainly of books and materials at the University bookstores.

**Contributions Receivable**

Pledges to give that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional promises are not included as support until such time as the conditions are substantially met.

**Investments**

Investments are stated at market value and include accrued income. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The University believes that these valuations are a reasonable estimate of fair value as of June 30, 2008 and 2007, but are subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for the investments existed.

Changes in fair value are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are generally determined using the average cost method. Gifts of investments in securities are recorded at fair value at the date of the gift.

**Land, Buildings, and Equipment**

Land, building, and equipment acquisitions are stated at cost if purchased, or fair value if gifted, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the related asset.

**Asset Retirement Obligations**

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University reduces ARO liabilities when the related obligations are settled.

As of June 30, 2008 and 2007, conditional asset retirement obligations, which are included within deposits and other liabilities in the Statement of Financial Position, totaled \$3,419,167 and \$3,256,351, respectively. During the fiscal years ended June 30, 2008 and 2007, the conditional asset retirement obligation increased by \$162,816 and \$155,064, respectively, as a result of the accretion of interest.

Changes in management's assumptions regarding settlement dates and settlement methods could have a material effect on the liabilities recorded at June 30, 2008.

**Unearned Tuition Income**

Unearned tuition income represents tuition received in advance for the summer term and other University programs to be held substantially after year-end. For summer session terms that begin before July 1 and end in the next fiscal year, tuition is recognized as revenue in the current fiscal year based upon that part of the term completed before July 1.

**Assets Held In Custody For Others**

Assets held in custody for others represents primarily investments that are held and administered by the University, but are owned by other non-profit organizations. These related investments are included within investments in the Statement of Financial Position.

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**1. Summary of Significant Accounting Policies - continued**

**Annuity Obligations**

Some contributions received, such as interests in charitable gift annuity contracts and charitable trusts, have donor imposed obligations to make payments to the donor or other beneficiaries. Annuity obligations arising from such gifts are established at the time of the contribution using life expectancy actuarial tables and are revalued annually. Actuarial gains and losses resulting from the annual revaluation of annuity obligations are reflected as temporarily or permanently restricted, consistent with the method used to initially record the contributions.

**Contributions**

Contributions received, including unconditional donor promises, are recognized as revenue when the University receives the donor's commitment. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances for uncollectible pledges.

Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Conditional promises are recorded when donor stipulations are substantially met.

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated asset must be used.

**Grants and contracts**

Revenue from government and private grants and contracts are recognized as they are earned in accordance with the agreements. Any funding received before it is earned is recorded as a liability.

**Endowment Spending Policy**

The University follows an endowment spending policy which authorizes spending of a percentage of the three year average market value of most endowment funds. This percentage is established annually for each endowment by the president of the University. The average aggregate spending rate approximated 5% in 2008 and 2007.

The intent of the spending policy is to provide a resource to fund expenditures in accordance with the donor's wishes and at the same time, increase endowment fund value as a protection against inflation. If endowment investment income received is not sufficient to support the spending policy distribution, funds may be withdrawn from investment return earned in prior years. If income is in excess of the spending policy distribution, the balance is reinvested in the endowment.

**Non-Operating Activities**

Non-operating activities reflect transactions of a long-term investment nature including:

- permanently restricted private gifts and grants which are invested in perpetuity,
- endowment investment earnings reinvested, and withdrawals above the spending policy,
- board designated non-endowment investment earnings reinvested, and withdrawals above the spending policy,
- other non-endowment investment gains or losses,
- reclassification of prior gifts among net asset categories due to changes in donor-imposed restrictions,
- nonrecurring fixed asset gains and losses,
- other transactions that are significant, nonrecurring, and are not accounted for as part of ongoing budgeted operations.

**Advertising expense**

Advertising expenditures are expensed as incurred. Advertising expense for the years ended June 30, 2008 and 2007 was \$892,890 and \$905,366, respectively.

**Functional Expenses**

Expenses are directly coded to programs or support services whenever possible. Expenses which are not directly identifiable by program or support service are allocated based on the best estimates of management.

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**1. Summary of Significant Accounting Policies - continued**

**Fair Value Disclosures**

The market values of receivables, accounts payable and accrued liabilities, unearned income, and bonds payable approximate their carrying values.

The fair value of bonds payable was determined using the present value of the future cash flows of debt service payments (see note 6). The discount rate used was based on the current rate on similar debt issues.

The determination of the fair value of loan fund receivables, which are federally sponsored student loans with U.S. Government mandated interest rates and repayment terms and subject to significant restrictions, could not be made without incurring excessive costs.

**Use of Estimates**

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

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values will occur in the near term and that such changes could materially affect the financial statements.

**Income taxes**

The University qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Minnesota law. However, any unrelated business income may be subject to taxation. The most significant areas that subject the University to unrelated business income tax (UBIT) include conferences and events, rental activities, gifts of alternative investments and other unrelated income.

**Deferred Income Taxes**

Deferred taxes on unrelated business income tax (UBIT) are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

**Prior Year Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**2. Accounts Receivable**

Accounts receivable consists of the following at June 30:

	<u>2008</u>	<u>2007</u>
Student accounts	\$7,493,864	\$7,980,534
Less: allowance for doubtful accounts	(1,092,436)	(1,092,436)
	<u>6,401,428</u>	<u>6,888,098</u>
Government grants receivable	761,434	835,955
Other	1,996,266	1,925,764
Total	<u>\$9,159,128</u>	<u>\$9,649,817</u>

**3. Contributions Receivable**

Unconditional promises to give are recognized at the estimated present value of the future cash flows net of allowances, in the following time frame:

	<u>2008</u>	<u>2007</u>
In one year or less	\$10,683,327	\$10,026,153
Between one year and five years	37,064,877	32,657,323
More than five years	96,690,150	101,208,747
Total face value of pledges outstanding	<u>144,438,354</u>	<u>143,892,223</u>
Discount (to present value)	(44,767,381)	(48,952,464)
Allowance for uncollectible pledges	(5,710,000)	(5,820,000)
Contributions receivable	<u>\$93,960,973</u>	<u>\$89,119,759</u>

**4. Investments**

The following table summarizes the value of investments at June 30, 2008 and 2007:

	<u>2008</u>	<u>% of</u>	<u>2007</u>	<u>% of</u>
	<u>Market Value</u>	<u>Total</u>	<u>Market Value</u>	<u>Total</u>
Cash and cash equivalents	\$74,291,541	17.1%	\$31,134,455	7.1%
Equities-domestic	159,135,000	36.7%	185,516,238	42.5%
Equities-international	11,356,000	2.6%	71,185,344	16.3%
Fixed income securities-domestic	69,727,000	16.1%	70,583,889	16.2%
Fixed income securities-international			14,721,500	3.4%
Real estate	26,687,736	6.2%	25,668,885	5.9%
Alternative and other investments	92,186,223	21.3%	37,889,808	8.6%
Total market value	<u>\$433,383,500</u>	<u>100.0%</u>	<u>\$436,700,119</u>	<u>100.0%</u>
Total cost	<u>\$426,945,868</u>		<u>\$386,240,473</u>	

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**4. Investments - continued**

The components of investments and investment earnings are summarized below:

	<u>2008</u>	<u>2007</u>
<b>Investments at beginning of year</b>	\$436,700,119	\$384,426,814
<b><u>Endowment earnings</u></b>		
Investment income	7,347,032	9,483,835
Net realized and unrealized (losses) gains	<u>(17,703,730)</u>	<u>31,238,117</u>
Total endowment investment (loss) earnings	(10,356,698)	40,721,952
Less: withdrawn for operations	<u>7,251,370</u>	<u>7,927,460</u>
Net endowment earnings (withdrawn) reinvested	(17,608,068)	32,794,492
<b><u>Non-endowment earnings</u></b>		
<b><i>Board designated</i></b>		
Investment income	3,116,343	4,532,772
Net realized and unrealized (losses) gains	<u>(7,260,985)</u>	<u>10,131,057</u>
Total investment (loss) earnings	(4,144,642)	14,663,829
Less: withdrawn for operations	<u>995,500</u>	<u>1,234,000</u>
Net earnings (withdrawn) reinvested	(5,140,142)	13,429,829
<b><i>Other non-endowment earnings</i></b>		
Investment income	1,804,263	1,751,322
Net realized and unrealized (losses) gains	<u>(1,749,099)</u>	<u>2,392,111</u>
Total investment earnings	55,164	4,143,433
Less: withdrawn for operations	<u>1,804,263</u>	<u>1,751,321</u>
Net earnings (withdrawn) reinvested	<u>(1,749,099)</u>	<u>2,392,112</u>
Net non-endowment earnings reinvested (withdrawn)	(6,889,241)	15,821,941
<b>Gifts</b>	22,405,000	7,529,125
<b>Withdrawals from construction escrow accounts</b>	(3,487)	(3,334,525)
<b>Investment management fees (Deductions) additions to investments held for others</b>	(1,714,149)	(1,592,180)
	(603,416)	1,544,388
<b>Other additions (withdrawals), net</b>	1,096,742	(489,936)
<b>Net change in investments</b>	<u>(3,316,619)</u>	<u>52,273,305</u>
<b>Investments at end of year</b>	<u>\$433,383,500</u>	<u>\$436,700,119</u>

**Investment earnings, as reflected in the Statement of Activities, are as follows:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating</b>				
Investment earnings used - endowment	\$7,251,370			\$7,251,370
Investment earnings used - non-endowment	2,799,763			2,799,763
Operating investment earnings	<u>10,051,133</u>			<u>10,051,133</u>
<b>Non-operating</b>				
Investment earnings withdrawn - endowment	(11,368,532)	(807,077)	(5,432,459)	(17,608,068)
Investment earn. withdrawn non-endowment	(6,889,241)			(6,889,241)
Non-operating investment earnings withdrawn	<u>(18,257,773)</u>	<u>(807,077)</u>	<u>(5,432,459)</u>	<u>(24,497,309)</u>
Total investment loss	<u>(\$8,206,640)</u>	<u>(\$807,077)</u>	<u>(\$5,432,459)</u>	<u>(\$14,446,176)</u>

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**4. Investments - continued**

The University participates in a securities lending program, whereby securities owned by the University and included in the University's investments are loaned to other institutions. The University requires that collateral from the borrower in an amount equal to approximately 102% of the market value of the loaned securities be placed with a third party trustee in the name of the University. As of June 30, 2008 and 2007, securities on loan totaled \$34,485,994 and \$46,404,214, respectively, that were secured by collateral with a market value of \$35,399,738 and \$48,008,924, respectively. The collateral received in connection with the security lending program and the obligation to return such collateral are reported as an asset and liability for financial statement purposes.

Investment managers are utilized to invest in individual securities on behalf of the University. In many cases, the University holds a partial interest in these pooled funds along with other investors. While the value of each of these pooled funds do not have a readily marketable value, the individual underlying assets are marketable securities, except for real estate and alternative investments separately disclosed above. Real estate and alternative investments are not readily marketable, and are carried at estimated fair values as provided by those investment managers. The University reviews and evaluates the values, and believes the valuation methods and assumptions used in determining the fair value of the real estate and alternative investments are reasonable.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values will occur in the near term and that such changes could materially affect the financial statements.

**5. Land, Buildings, and Equipment**

Land, buildings, and equipment and related accumulated depreciation at June 30 consist of the following:

	Estimated Useful Life (Years)	2008	2007
Land		\$37,939,024	\$37,939,024
Land improvements	15 - 20	6,726,836	6,577,046
Buildings	20 - 60	329,685,426	325,500,041
Equipment, library books, art objects	0 - 15	107,665,583	102,400,013
Cost of land, buildings, and equipment		482,016,869	472,416,124
Less: Accumulated depreciation		(158,669,692)	(147,710,310)
Land, buildings, and equipment, net of depreciation		323,347,177	324,705,814
Add: Construction-in-progress		4,692,579	3,059,732
Land, buildings, and equipment as reported		\$328,039,756	\$327,765,546

**6. Bonds Payable**

Bonds payable consists of the following at June 30:

	2008	2007
<b>MHEFA Revenue Bonds, Series Six-I</b>	\$35,635,000	\$37,420,000
Payable through 2023, interest at 4% to 5%, uncollateralized, proceeds used to advance refund Series 4P, 4M and 4A1, original proceeds used for Opus Hall, Morrison Hall and the Science and Engineering Center		
<b>MHEFA Revenue Bonds, Series Five-Y</b>	28,605,000	29,140,000
Payable through 2034, interest at 3% to 5.25%, uncollateralized, proceeds used for Selby Hall		
<b>MHEFA Variable Rate Demand Revenue Bonds, Series Five-L</b>	20,860,000	21,750,000
Payable through 2027, variable interest rate (not to exceed 15%), collateralized by an irrevocable letter of credit, proceeds used for School of Law building and Terrence Murphy Hall, the letter of credit is collateralized by the School of Law facility		

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**6. Bonds Payable - continued**

	<u>2008</u>	<u>2007</u>
<b>MHEFA Variable Rate Demand Revenue Bonds, Series Five-Z</b>	17,200,000	18,000,000
Payable through 2029, variable interest rate (not to exceed 12%), collateralized by an irrevocable letter of credit, proceeds used for Schulze Hall		
<b>MHEFA Revenue Bonds, Series Five-T</b>	13,440,000	15,995,000
Payable through 2014, interest at 2.75% to 4%, uncollateralized, proceeds used to refund Series Three-R1 and Three-R2, original bond proceeds used for Murray Herrick, dormitory, Terrence Murphy Hall, and other additions.		
<b>MHEFA Variable Rate Demand Revenue Bonds, Series Six-H</b>	12,300,000	12,300,000
Payable through 2032, variable interest rate (not to exceed 10%), collateralized by an irrevocable letter of credit, proceeds used for McNeely Hall		
<b>MHEFA Variable Rate Demand Revenue Bonds, Series Four-O</b>	10,040,000	10,800,000
Payable through 2021, variable interest rate (not to exceed 15%), collateralized by an irrevocable letter of credit, proceeds used for Science and Engineering Center and Morrison Hall		
<b>MHEFA Variable Rate Demand Revenue Bonds, Series Five-C</b>	9,295,000	10,000,000
Payable through 2025, variable interest rate (not to exceed 15%), collateralized by an irrevocable letter of credit, proceeds used for renovation of the John Roach Center for the Liberal Arts		
<b>Note payable</b>	975,000	975,000
Payable through 2012, interest at 5.0%, uncollateralized		
<b>Dormitory Bonds, 1967</b>	325,000	355,000
Payable through 2017, interest at 3.0%, collateralized by Brady Hall building and related net revenues		
<b>Academic Building Bonds, 1969</b>	114,000	169,000
Payable through 2009, interest at 3.0%, collateralized by O'Shaughnessy Educational Center building		
Total face value of long-term debt	<u>\$148,789,000</u>	<u>\$156,904,000</u>
Approximate market value of long-term debt	<u>\$149,600,000</u>	<u>\$157,000,000</u>

Interest expense was \$5,951,072 and \$6,758,746 for the years ended June 30, 2008, and 2007, respectively. Debt was also issued in 2007 to finance building construction.

As of June 30, 2008, the variable interest rate associated with the above variable debt issues was approximately 1.6%.

The annual maturities for bonds payable at June 30, 2008, are as follows:

2009	\$7,916,000
2010	7,003,000
2011	7,140,000
2012	7,380,000
2013	8,670,000
Thereafter	<u>110,680,000</u>
	<u>\$148,789,000</u>

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**6. Bonds Payable - continued**

The University has a line of credit of \$10,000,000 with interest generally at LIBOR plus .75% which expires on December 31, 2009. At June 30, 2008 and 2007, the University had no borrowings under the agreement.

In April 2003, the University entered into a forward interest rate swap agreement having a notional amount of \$20,800,000. This swap is utilized to reduce the volatility risk for a portion of the University's variable interest rate exposure on debt issues Series Four-O and Series Five-C. Under the swap agreement, the counter party will pay the University a variable interest rate equal to 67% of the three-month London Interbank Offered Rate (LIBOR) and the University will pay the counter party a fixed rate of 3.085% for a term of 12 years.

In February 2006, the University entered into a forward interest rate swap agreement having a notional amount of \$12,300,000. This swap is utilized to reduce the volatility risk for a portion of the University's variable interest rate exposure on debt issue Series Six-H. Under the swap agreement, the counter party will pay the University a variable interest rate equal to 67% of the three-month London Interbank Offered Rate (LIBOR) and the University will pay the counter party a fixed rate of 3.553% for a term of 26 years.

The University follows Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities", and subsequent amendments. The interest rate agreements are recorded at market value, and are recorded as an liability of \$753,394 as of June 30, 2008, and as an asset \$1,016,431 as of June 30, 2007.

**7. Temporarily Restricted Net Assets**

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

	<u>2008</u>	<u>2007</u>
Unrestricted outstanding donor pledges for education and general operations	\$39,697,417	\$42,021,761
Buildings and equipment	13,579,413	7,277,932
Instruction and other programs	7,833,928	8,920,934
Student financial aid	2,343,221	2,505,816
	<hr/>	<hr/>
	63,453,979	60,726,443
Annuity trust agreements	5,489,629	6,272,515
Total temporarily restricted net assets	<hr/> <u>\$68,943,608</u>	<hr/> <u>\$66,998,958</u>

Net assets were released from donor restrictions by incurring expenses which satisfied the restricted purpose or by the occurrence of other events specified by donors in the following manner:

	<u>2008</u>	<u>2007</u>
<b><i>Purpose restrictions accomplished:</i></b>		
Unrestricted donor pledges received for education and general operations	\$5,000,000	\$3,099,817
Buildings and equipment	1,497,353	6,891,944
Instructional activities and student financial aid	512,445	883,956
Other	566,736	607,662
Total restrictions released	<hr/> <u>\$7,576,534</u>	<hr/> <u>\$11,483,379</u>

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**8. Permanently Restricted Net Assets**

Permanently restricted net assets at June 30 are restricted to:

	<u>2008</u>	<u>2007</u>
<b><i>Investment in perpetuity, the income from which is expendable to support:</i></b>		
Student financial aid	\$44,423,997	\$41,739,232
Instruction and other related activities	160,266,942	152,311,805
<b><i>Annuity trust agreements that will ultimately be used to establish permanent endowment funds</i></b>	<u>2,405,832</u>	<u>2,511,422</u>
Total permanently restricted net assets	<u>\$207,096,771</u>	<u>\$196,562,459</u>

**9. Student Aid**

Student aid, as reported in the Statement of Activities as a reduction of tuition and fees, was funded from the following revenue sources:

	<u>2008</u>	<u>2007</u>
Institutional revenue sources	\$55,032,021	\$47,236,918
Gifts, grants, and endowment earnings	<u>6,180,778</u>	<u>6,324,006</u>
Total student aid	<u>\$61,212,799</u>	<u>\$53,560,924</u>

**10. Retirement Benefits**

Retirement benefits are provided for substantially all full-time employees through Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA/CREF) and Fidelity Investments. Under this 403(b) retirement plan, the University makes contributions of a defined percentage of covered payroll to TIAA/CREF and Fidelity Investments. Participants have the option to purchase individual annuities or to invest the contribution amount in various investment options. Contributions charged to unrestricted operations for these benefits were \$7,983,462 and \$7,311,921 for the years ended June 30, 2008 and 2007, respectively.

**11. Income taxes**

Income tax expense included in the Statement of Activities consists of the following:

	<u>2008</u>	<u>2007</u>
Current:		
Federal	-	-
State	-	-
Deferred	<u>\$1,591,987</u>	-
Total	<u>\$1,591,987</u>	

Temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and operating loss carryforwards that create deferred tax assets and liabilities are as follows:

Non-current asset:		
Net operating loss carryforwards	<u>\$2,288,035</u>	<u>\$2,504,618</u>
Deferred tax asset, before valuation allowance	2,288,035	2,504,618
Less: valuation allowance	-	(2,504,618)
Deferred tax asset	<u>\$2,288,035</u>	
Non-current liability:		
Unrealized gains	<u>\$3,880,022</u>	-
Deferred tax liability	<u>\$3,880,022</u>	

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**11. Income taxes - continued**

Deferred tax liabilities and deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The 2007 valuation allowance was established due to the uncertainty of the amount of future unrelated business income tax (UBIT), which is necessary to realize the benefits of the deferred tax assets. As of June 30, 2008, the University had federal and state net operating loss (NOL) carryforwards of approximately \$5,153,000 which will begin to expire in 2008.

Realization of the NOL carryforwards and other deferred tax temporary differences are contingent on future taxable income. The deferred tax asset was reviewed for expected utilization using a "more likely than not" approach by assessing the available positive and negative evidence surrounding its recoverability. During 2008, the University received a donated asset that has built-in appreciation subject to federal and state income tax of \$8,220,000. Based upon this expected tax liability along with the estimated taxable income to be generated by this asset, management has determined that the full amount of the deferred tax asset is more likely than not to be utilized. Accordingly, the valuation allowance of \$2,504,618 was released into income during 2008.

On July 1, 2007, the University adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income taxes," ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." As a result of the implementation of FIN 48, the University recognized no material adjustment in the liability for unrecognized income tax benefits and FIN 48 had no effect on net assets. The University recognizes accrued interest and penalties related to uncertain tax positions as expense. At June 30, 2008, the University had no accruals for the payment of income tax related interest or penalties. The University's federal and state tax returns are potentially open to examinations for the years 2004-2007.

**12. Related Party Transactions**

Pledges totaling \$79,198,000 and \$70,562,673 for the years ended June 30, 2008 and 2007 from Board of Trustee members are included in the Statement of Financial Position as Contributions Receivable.

The University and Center for Ethical Business Cultures (CEBC) have been affiliated since 1988. The relationship affirms the common educational mission of each organization concerning the development of ethical leadership within the business community. Under the affiliation agreement, the University contributes professional, administrative, and support services to CEBC, as well as office and classroom space. During the fiscal year ended June 30, 2008, a gift was made to an endowment which supports the Self-Assessment and Improvement Process (SAIP) Institute at the University. The SAIP Institute fosters ethically responsible business conduct. Through the generosity of the gift to the Institute, gifts totaling \$1,929,825 will be made by the University to CEBC over the next four years. The present value of these gifts of \$1,800,686 is reported in the Statement of Activities under non-operating activities.

**University of St. Thomas**  
**Notes to Financial Statements**

For the year ended June 30, 2008

**13. Leases**

The University has entered into both operating and capital leases for facilities, equipment, and vehicles. The lease terms generally range from one month to 26 years with options to renew at varying times:

<b>Rent expense under operating leases:</b>	<u>2008</u>	<u>2007</u>
Duplicating and other equipment	\$1,199,019	\$1,368,316
Parking space	867,853	835,314
Mass transit	612,227	592,203
Facilities	657,604	800,463
Other	122,969	111,744
Total	\$3,459,672	\$3,708,040

<b>Assets recorded under capital leases:</b>	<u>2008</u>
Equipment	\$10,373,600
Less Accumulated depreciation	(5,714,176)
	\$4,659,424

**Minimum lease payment commitments as of June 30, 2008 are as follows:**

	<u>Capital Leases</u>	<u>Operating Leases</u>
2009	\$2,651,344	\$2,130,110
2010	1,536,158	1,793,824
2011	723,677	1,102,823
2012	136,065	1,010,524
2013		862,953
Thereafter through 2034		25,942,398
Total future commitments	5,047,244	32,842,632
Less amount representing interest	(387,820)	
Present value of future minimum lease payments	\$4,659,424	\$32,842,632

The capital lease obligation is included within deposits and other liabilities in the Statement of Financial Position.

**14. Commitments and Contingencies**

In the normal course of operations, the University is subject to various claims and lawsuits. Additionally, amounts received and expended under various federal and state programs are subject to audit by government agencies. In management's opinion, the ultimate resolution of these contingencies would not have a significant adverse effect upon the overall financial position, operations, or cash flows of the University.

During 2008, the University entered into agreements with various parties in connection with the construction of a parking ramp with an estimated total cost of \$15.2 million.

The University is self insured with respect to certain medical and workers compensation costs. The University's stop loss insurance limits the University's liability to \$390,000 per incident and \$1,900,000 in aggregate per year.

At June 30, 2008 and 2007, the University had remaining capital call commitments of \$22,692,000 and \$24,636,000, respectively, with private equity managers. Typically, committed capital is drawn down by the private equity managers and invested over a several year period.

In connection with the issuance of certain bonds, the University entered into a redevelopment contract with the Minneapolis Community Development Agency (MCDA). Under terms of the contract, the University has committed to provide eight full-time (4 year) scholarships each year (for a maximum of 32 scholarships at any one time) to eligible students through 2017. The MCDA has provided the University a \$9.2 million Revenue Note, payment of which is contingent upon the receipt of certain tax revenues by the City of Minneapolis. The Revenue Note has not been recorded as an asset due to the contingent nature of the payments on the note by the MCDA. The Revenue Note shall terminate on February 1, 2016 without regard to any such amounts which may be unpaid at that time.