

University of St. Thomas



Financial Statements
Fiscal Year Ended June 30, 2007
With Report of Independent Auditors

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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, 2007 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 of St. Thomas's 2006 financial statements, which were audited by other auditors whose report dated September 15, 2006, expressed an unqualified opinion on those statements. As discussed in Note 16 to the financial statements, the University adjusted its 2006 financial statements for the recognition of summer tuition revenue and related expenses. The other auditors reported on the financial statements before the restatement.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 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 2007 financial statements referred to above present fairly, in all material respects, the financial position of the University of St. Thomas as of June 30, 2007, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

We also audited the adjustments described in Note 16 that were applied to restate the 2006 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2006 financial statements of the University of St. Thomas other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2006 financial statements taken as a whole.

As discussed in Note 1 to the financial statements, in 2006, the University adopted the provisions of FASB Interpretation No. 47 (FIN-47), *Accounting for Conditional Asset Retirement Obligations*.



LarsonAllen LLP

Minneapolis, Minnesota
October 24, 2007



University of St. Thomas
Statement of Financial Position

As of June 30, 2007

(with comparative totals as of June 30, 2006)

Assets	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$1,594,628	\$889,410
Collateral held under securities lending agreement	48,008,924	33,028,810
Accounts receivable, net	9,649,817	9,324,020
Inventories, prepaid expenses, and other assets	7,035,150	6,669,003
Contributions receivable, net	89,119,759	84,147,493
Loans to students, net	4,565,740	4,618,066
Investments	436,700,119	384,426,814
Land, buildings, and equipment, net	327,765,546	325,042,100
Total assets	<u>\$924,439,683</u>	<u>\$848,145,716</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued liabilities	\$16,150,957	\$18,810,789
Collateral payable under securities lending agreement	48,008,924	33,028,810
Unearned tuition income	6,176,970	5,837,405
Deposits and other liabilities	10,162,827	8,903,292
Assets held in custody for others	6,970,124	5,425,735
Annuity obligations	5,144,841	5,756,660
Bonds payable	156,904,000	163,127,000
Advances from federal government for student loans	4,206,180	4,105,840
Total liabilities	<u>253,724,823</u>	<u>244,995,531</u>
Net assets		
Unrestricted:		
Operations	26,850,512	23,323,787
Long-term investment	211,479,879	175,611,236
Invested in plant	168,823,052	158,154,001
Total unrestricted	<u>407,153,443</u>	<u>357,089,024</u>
Temporarily restricted	66,998,958	64,648,810
Permanently restricted	196,562,459	181,412,351
Total net assets	<u>670,714,860</u>	<u>603,150,185</u>
Total liabilities and net assets	<u>\$924,439,683</u>	<u>\$848,145,716</u>

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

University of St. Thomas
Statement of Activities

For the year ended June 30, 2007
(with comparative totals for 2006)

	2007			2006
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues				
Tuition and fees	\$185,180,140			\$185,180,140
Less: student aid	(53,560,924)			(53,560,924)
Net tuition and fees	131,619,216			131,619,216
Sales and services of auxiliary enterprises	30,503,360			30,503,360
Private gifts and grants	7,635,299	\$12,431,792		20,067,091
Grants and contracts	5,245,829			5,245,829
Investment earnings used - endowment	7,927,460			7,927,460
Investment earnings used - non-endowment	2,985,321			2,985,321
Sales and services of educational departments	4,565,725			4,565,725
Other revenue	5,245,484			5,245,484
Net assets released from restrictions	11,483,379	(11,483,379)		
Total operating revenues	207,211,073	948,413		208,159,486
Operating expenditures				
<i>Instruction and other services</i>				
Instruction	97,989,323			97,989,323
Auxiliary enterprises	29,800,008			29,800,008
Student activities and services	16,999,997			16,999,997
Academic support	8,290,683			8,290,683
Libraries	8,053,708			8,053,708
Public service	1,067,072			1,067,072
Research	607,246			607,246
Total instruction and other services	162,808,037			162,808,037
<i>Management and general</i>				
General administration and support services	26,031,827			26,031,827
Development	4,845,574			4,845,574
Total management and general	30,877,401			30,877,401
Total operating expenditures	193,685,438			193,685,438
Net operating income	13,525,635	948,413		14,474,048
Non-operating activities				
Permanently restricted gifts			6,102,229	6,102,229
Investment earnings reinvested - endowment	22,344,878	3,306,735	7,142,879	32,794,492
Investment earnings reinvested - non-endowment	15,821,941			15,821,941
Loss on disposal of property and equipment	(1,479,155)			(1,479,155)
Net unrealized (loss) gain on interest rate exchange agreement	(148,880)			(148,880)
Loss on debt refinancing				
Change in donor-imposed restriction		(1,905,000)	1,905,000	
Net non-operating income	36,538,784	1,401,735	15,150,108	53,090,627
Net increase in net assets before cumulative effect of a change in accounting principle	50,064,419	2,350,148	15,150,108	67,564,675
Cumulative effect of a change in accounting principle				(2,702,449)
Net increase in net assets	50,064,419	2,350,148	15,150,108	65,676,313
Net assets, beginning of year before restatement	357,089,024	64,648,810	181,412,351	603,150,185
Restatement of prior year net assets				3,640,413
Net assets, beginning of year, restated	357,089,024	64,648,810	181,412,351	537,473,872
Net assets, end of year	\$407,153,443	\$66,998,958	\$196,562,459	\$670,714,860

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, 2007

(with comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Increase in net assets	\$67,564,675	\$65,676,313
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Cumulative effect of a change in accounting principle		2,702,449
Depreciation	15,567,038	11,246,964
Net realized and unrealized investment gains	(43,761,285)	(26,477,245)
Gifts of property and equipment	(2,094,323)	(304,926)
Contributions restricted for long-term investment	(3,708,299)	(8,820,533)
Interest and dividend income restricted for long-term investment	(1,781,160)	(545,003)
Noncash contributions of marketable securities	(6,614,717)	(15,275,827)
Increase in allowance for uncollectible pledges		1,000,000
Loss on disposal of land, buildings, and equipment	1,479,155	
<i>Change in operating assets and liabilities</i>		
<i>Decrease (increase) in operating assets</i>		
Accounts receivable, net	(325,797)	1,172,066
Contributions receivable	(4,972,266)	(16,815,844)
Other operating assets	(313,821)	(956,876)
<i>Increase (decrease) in operating liabilities</i>		
Accounts payable and accrued expenses	(506,410)	253,207
Other operating liabilities	2,632,010	1,960,724
Net cash provided by operating activities	23,164,800	14,815,469
Cash flows from investing activities		
Purchases of investments	(149,525,904)	(155,751,881)
Proceeds from sales and maturities of investments	147,628,601	164,641,540
Expenditures for land, buildings, and equipment	(19,828,738)	(38,749,700)
Proceeds from sale of land, buildings, and equipment		
Net cash used in investing activities	(21,726,041)	(29,860,041)
Cash flows from financing activities		
Proceeds from contributions restricted for endowment, and for land, buildings, and equipment	3,708,299	8,820,533
Proceeds from the issuance of bonds payable		51,160,000
Payments on bonds payable	(6,223,000)	(45,487,000)
Interest and dividend income restricted for long-term investment	1,781,160	545,003
Net cash (used) provided by financing activities	(733,541)	15,038,536
Net increase (decrease) in cash and cash equivalents	705,218	(6,036)
Cash and cash equivalents at beginning of year	889,410	895,446
Cash and cash equivalents at end of year	\$1,594,628	\$889,410
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$6,810,752	\$6,188,330
Building and equipment acquisitions included under accounts payable and accrued expenses	\$541,855	\$2,695,277
Equipment acquired through capital lease agreements	\$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, 2007

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 \$31,134,455 and \$33,541,920 at June 30, 2007 and 2006, respectively.

Accounts Receivable

Accounts receivable are stated at net realizable value. The allowance for doubtful accounts for the years ended June 30, 2007 and 2006 were \$1,092,436 and \$589,159, respectively.

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

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, 2007 and 2006, 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.

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.

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.

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

1. Summary of Significant Accounting Policies - continued

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 2007 and 2006.

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.

Advertising expense

Advertising expenditures are expensed as incurred. Advertising expense for the years ended June 30, 2007 and 2006 was \$905,366 and \$828,082, 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, 2007

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.

New Authoritative Pronouncements

In 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations". FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based upon the guidance in FIN 47, management of the University has determined that sufficient information was available to reasonable estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon initial adoption of FIN 47, the University recognized \$2,702,449 as the cumulative effect of a change in accounting principle within the Statement of Activities for the year ended June 30, 2006. As of June 30, 2006, \$239,635 of asset retirement costs, net of accumulated depreciation, have been included in property, plant and equipment and \$3,101,287 of conditional asset retirement obligations are included within deposits and other liabilities in the Statement of Financial Position. During the fiscal year ended June 30, 2007, the conditional asset retirement obligations increased to \$3,256,351 as a result of the accretion of interest of \$155,064.

Changes in management's assumptions regarding settlement dates and settlement methods could have a material effect on the liabilities recorded at June 30, 2007.

University of St. Thomas
Notes to Financial Statements
For the year ended June 30, 2007

1. Summary of Significant Accounting Policies - continued

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, 2006, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

2. Accounts Receivable

Accounts receivable consists of the following at June 30:

	<u>2007</u>	<u>2006</u>
Student accounts	\$7,980,534	\$7,776,027
Less: allowance for doubtful accounts	(1,092,436)	(589,159)
	<hr/> 6,888,098	<hr/> 7,186,868
Government grants receivable	835,955	775,842
Other	1,925,764	1,361,310
Total	<hr/> <u>\$9,649,817</u>	<hr/> <u>\$9,324,020</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>2007</u>	<u>2006</u>
In one year or less	\$10,026,153	\$8,885,541
Between one year and five years	32,657,323	25,822,079
More than five years	101,208,747	85,885,280
Total face value of pledges outstanding	<hr/> 143,892,223	<hr/> 120,592,900
Discount (to present value)	(48,952,464)	(30,625,407)
Allowance for uncollectible pledges	(5,820,000)	(5,820,000)
Contributions receivable	<hr/> <u>\$89,119,759</u>	<hr/> <u>\$84,147,493</u>

4. Investments

The following table summarizes the value of investments at June 30, 2007 and 2006:

	<u>2007</u>	<u>% of</u>	<u>2006</u>	<u>% of</u>
	<u>Market Value</u>	<u>Total</u>	<u>Market Value</u>	<u>Total</u>
Cash and cash equivalents	\$31,134,455	7.1%	\$33,541,920	8.7%
Equities-domestic	185,516,238	42.5%	183,174,450	47.6%
Equities-international	71,185,344	16.3%	32,671,990	8.5%
Fixed income securities-domestic	70,583,889	16.2%	62,117,110	16.2%
Fixed income securities-international	14,721,500	3.4%	9,053,330	2.4%
Real estate	25,668,885	5.9%	28,473,064	7.4%
Alternative and other investments	37,889,808	8.6%	35,394,950	9.2%
Total market value	<hr/> <u>\$436,700,119</u>	<hr/> 100.0%	<hr/> <u>\$384,426,814</u>	<hr/> 100.0%
Total cost	<hr/> <u>\$386,240,473</u>		<hr/> <u>\$351,908,679</u>	

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

4. Investments - continued

The components of investments and investment earnings are summarized below:

	<u>2007</u>	<u>2006</u>
Investments at beginning of year	\$384,426,814	\$351,563,401
<u>Endowment earnings</u>		
Investment income	9,483,835	6,431,469
Net realized and unrealized gain	31,238,117	19,074,294
Total endowment investment earnings	<u>40,721,952</u>	<u>25,505,763</u>
Less: withdrawn for operations	<u>7,927,460</u>	<u>7,843,691</u>
Net endowment earnings reinvested	32,794,492	17,662,072
<u>Non-endowment earnings</u>		
<i>Board designated</i>		
Investment income	4,532,772	3,182,582
Net realized and unrealized gains	10,131,057	6,577,813
Total investment earnings	<u>14,663,829</u>	<u>9,760,395</u>
Less: withdrawn for operations	<u>1,234,000</u>	<u>2,933,849</u>
Net earnings reinvested (withdrawn)	13,429,829	6,826,546
<i>Other non-endowment earnings</i>		
Investment income	1,751,322	1,304,198
Net realized and unrealized gain	2,392,111	825,138
Total investment earnings	<u>4,143,433</u>	<u>2,129,336</u>
Less: withdrawn for operations	<u>1,751,321</u>	<u>1,304,197</u>
Net earnings reinvested	<u>2,392,112</u>	<u>825,139</u>
Net non-endowment earnings reinvested (withdrawn)	15,821,941	7,651,685
Gifts	7,529,125	22,513,520
Withdrawals from construction escrow accounts	(3,334,525)	(10,777,218)
Investment management fees	(1,592,180)	(1,779,302)
Additions to investments held for others	1,544,388	226,390
Other (withdrawals), net	(489,936)	(2,633,734)
Net change in investments	<u>52,273,305</u>	<u>32,863,413</u>
Investments at end of year	<u>\$436,700,119</u>	<u>\$384,426,814</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>
Operating				
Investment earnings used - endowment	\$7,927,460			\$7,927,460
Investment earnings used - non-endowment	2,985,321			2,985,321
Operating investment earnings	<u>10,912,781</u>			<u>10,912,781</u>
Non-operating				
Investment earnings reinvested - endowment	22,344,878	3,306,735	7,142,879	32,794,492
Investment earn. reinvested - non-endowment	15,821,941			15,821,941
Non-operating investment earnings reinvested	<u>38,166,819</u>	<u>3,306,735</u>	<u>7,142,879</u>	<u>48,616,433</u>
Total investment earnings	<u>\$49,079,600</u>	<u>\$3,306,735</u>	<u>\$7,142,879</u>	<u>\$59,529,214</u>

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

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, 2007 and 2006, securities on loan totaled \$46,404,214 and \$32,483,787, respectively, that were secured by collateral with a market value of \$48,008,924 and \$33,028,810, 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.

5. Land, Buildings, and Equipment

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

	Estimated Useful Life (Years)	2007	2006
Land		\$37,939,024	\$37,719,024
Land improvements	15 - 20	6,577,046	6,288,664
Buildings	20 - 60	325,500,041	304,638,338
Equipment, library books, art objects	0 - 15	102,400,013	85,590,240
Cost of land, buildings, and equipment		472,416,124	434,236,266
Less: Accumulated depreciation		(147,710,310)	(131,422,696)
Land, buildings, and equipment, net of depreciation		324,705,814	302,813,570
Add: Construction-in-progress		3,059,732	22,228,530
Land, buildings, and equipment as reported		<u>\$327,765,546</u>	<u>\$325,042,100</u>

6. Bonds Payable

Bonds payable consists of the following at June 30:

	2007	2006
MHEFA Revenue Bonds, Series Six-I	\$37,420,000	\$38,860,000
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		
MHEFA Revenue Bonds, Series Five-Y	29,140,000	29,660,000
Payable through 2034, interest at 3% to 5.25%, uncollateralized, proceeds used for Selby Hall		
MHEFA Variable Rate Demand Revenue Bonds, Series Five-L	21,750,000	22,615,000
Payable through 2027, variable interest rate, 4% as of June 30, 2007, (note 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		
MHEFA Variable Rate Demand Revenue Bonds, Series Five-Z	18,000,000	18,800,000
Payable through 2029, variable interest rate, 4% as of June 30, 2007, (not to exceed 12%), collateralized by an irrevocable letter of credit, proceeds used for Schulze Hall of Entrepreneurship		

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

6. Bonds Payable - continued

	<u>2007</u>	<u>2006</u>
MHEFA Revenue Bonds, Series Five-T	15,995,000	18,510,000
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.		
MHEFA Variable Rate Demand Revenue Bonds, Series Six-H	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		
MHEFA Variable Rate Demand Revenue Bonds, Series Four-O	10,800,000	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		
MHEFA Variable Rate Demand Revenue Bonds, Series Five-C	10,000,000	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		
Note payable	975,000	975,000
Payable through 2012, interest at 5.0%, uncollateralized		
Dormitory Bonds, 1967	355,000	385,000
Payable through 2017, interest at 3.0%, collateralized by Brady Hall building and related net revenues		
Academic Building Bonds, 1969	169,000	222,000
Payable through 2009, interest at 3.0%, collateralized by O'Shaughnessy Educational Center building		
Total face value of long-term debt	<u>\$156,904,000</u>	<u>\$163,127,000</u>
Approximate market value of long-term debt	<u>\$157,000,000</u>	<u>\$163,100,000</u>

During fiscal year 2006, the University borrowed \$37,420,000 in order to effect legal defeasement of the University's Series 4A1, 4P and 4M series debt. The University placed the proceeds of this borrowing along with the funds from existing bond reserves into three separate escrow accounts to service the 4A1, 4P and 4M principal and interest until maturity. The escrow account is to be invested in direct obligations of the United States of America or other permitted investments that are expected to mature at such times and in such amounts sufficient to retire all the 4A1, 4P and 4M bonds upon maturity. The University estimates that the amounts on deposit will be sufficient to cover the debt service on these bonds and that defeasement will result in lower overall debt service payments to the University.

Interest expense was \$6,758,746 and \$6,241,042 for the years ended June 30, 2007, and 2006, respectively. Debt was also issued in 2006 to finance building construction.

The annual maturities for bonds payable at June 30, 2007, are as follows:

2008	\$8,110,000
2009	7,916,000
2010	7,008,000
2011	7,140,000
2012	7,380,000
Thereafter	119,350,000
	<u>\$156,904,000</u>

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

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, 2007. At June 30, 2007 and 2006, 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 asset of \$1,016,431 and \$1,165,311 as of June 30, 2007, and 2006, respectively.

Financial covenants of the Series Five-Z letter of credit may restrict the University from incurring additional indebtedness in excess of \$5 million in any fiscal year if, after giving effect to the incurrence of additional debt, the University's 1) ratio of unrestricted net assets to debt is less than 1:1, and 2) the ratio of Unrestricted Net Operating Income, as adjusted by interest and depreciation, to debt service is less than 1:1.

7. Temporarily Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Unrestricted outstanding donor pledges for education and general operations	\$42,021,761	\$38,377,183
Buildings and equipment	7,277,932	14,329,455
Instruction and other programs	8,920,934	6,964,809
Student financial aid	2,505,816	1,952,510
	<hr/>	<hr/>
	60,726,443	61,623,957
Annuity trust agreements	6,272,515	3,024,853
Total temporarily restricted net assets	<hr/> <u>\$66,998,958</u>	<hr/> <u>\$64,648,810</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>2007</u>	<u>2006</u>
<i>Purpose restrictions accomplished:</i>		
Unrestricted donor pledges received for education and general operations	\$3,099,817	\$14,047,008
Buildings and equipment	6,891,944	1,270,036
Instructional activities and student financial aid	883,956	519,546
Other	607,662	548,569
Total restrictions released	<hr/> <u>\$11,483,379</u>	<hr/> <u>\$16,385,159</u>

University of St. Thomas
Notes to Financial Statements
For the year ended June 30, 2007

8. Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	<u>2007</u>	<u>2006</u>
<i>Investment in perpetuity, the income from which is expendable to support:</i>		
Student financial aid	\$41,839,552	\$36,913,651
Instruction and other related activities	152,211,486	142,213,344
<i>Annuity trust agreements that will ultimately be used to establish permanent endowment funds</i>	2,511,421	2,285,356
Total permanently restricted net assets	<u>\$196,562,459</u>	<u>\$181,412,351</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>2007</u>	<u>2006</u>
Institutional revenue sources	\$47,236,918	\$40,778,582
Gifts, grants, and endowment earnings	6,324,006	5,750,388
Total student aid	<u>\$53,560,924</u>	<u>\$46,528,970</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 \$7,311,921 and \$7,135,571 for the years ended June 30, 2007 and 2006, respectively.

11. 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. Certain advertising and other income are subject to unrelated business income tax. Related to these activities, the University has net operating loss carryforwards of approximately \$5,590,000 at June 30, 2007 which expire in fiscal years 2008 through 2019. Valuation allowances have been established for the entire tax benefit associated with the loss carryforwards and consequently there is no impact on the attached financial statements.

12. Related Party Transactions

Pledges totaling \$70,562,673 and \$73,130,000 for the years ended June 30, 2007 and 2006 from Board of Trustee members are included in the Statement of Financial Position as Contributions Receivable.

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

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 27 years with options to renew at varying times:

Rent expense under operating leases:	<u>2007</u>	<u>2006</u>
Duplicating and other equipment	\$ 1,368,316	\$ 1,135,817
Parking space	835,314	840,729
Mass transit	592,203	536,668
Facilities	496,738	803,438
Other	111,744	100,718
Total	<u>\$ 3,404,315</u>	<u>\$ 3,417,370</u>

Assets recorded under capital leases:	<u>2007</u>
Equipment	\$ 11,156,956
Less Accumulated depreciation	(6,908,015)
	<u>\$ 4,248,941</u>

Minimum lease payment commitments as of June 30, 2007 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2008	\$ 1,919,622	\$ 1,969,900
2009	1,442,245	1,657,946
2010	327,060	1,541,446
2011	13,206	899,069
2012		847,690
Thereafter through 2034		25,775,650
Total future commitments	<u>3,702,133</u>	<u>32,691,701</u>
Less amount representing interest	(320,900)	
Present value of future minimum lease payments	<u>\$ 3,381,233</u>	<u>\$ 32,691,701</u>

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.

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, 2007 and 2006, the University had remaining capital call commitments of \$24,636,000 and \$18,459,000, 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.

University of St. Thomas
Notes to Financial Statements

For the year ended June 30, 2007

15. Change in Donor-imposed Restriction

The "Change in donor-imposed restriction" of \$1,905,000 as reported within the Statement of Activities for the fiscal year ended June 30, 2007, reflects a donor's wish to partially restore a temporarily restricted gift to permanently restricted net assets.

16. Restatement

In the year ended June 30, 2007, the University has restated the accounting for summer tuition revenue and expenses by following the unearned tuition income policy as described in Note 1.

The cumulative impact upon the Statement of Financial Position includes the following:

	As of June 30, 2006		
	As Originally Reported	Restatement	As Restated
<u>Assets</u>			
Inventories, prepaid expenses, and other assets	7,458,367	(789,364)	6,669,003
<u>Liabilities</u>			
Accounts payable and accrued liabilities	18,616,752	194,037	18,810,789
Unearned tuition income	10,908,270	(5,070,865)	5,837,405
<u>Net Assets - Unrestricted - Operations</u>	19,236,322	4,087,465	23,323,787

The above impact on net assets of \$4,087,465 includes a cumulative adjustment to net assets as of June 30, 2005 of \$3,640,413, in addition to restatement of the net increase in net assets for the year ended June 30, 2006 of \$447,052.

The effect of the restatement upon the net increase in net assets for the year ended June 30, 2007 was \$303,780.