

# University of St. Thomas

Financial Statements as of and for the  
Years Ended June 30, 2008 and 2007, and  
Independent Auditors' Report

# UNIVERSITY OF ST. THOMAS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
the University of St. Thomas:

We have audited the accompanying balance sheets of the University of St. Thomas (the "University") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 8, 2008

# UNIVERSITY OF ST. THOMAS

## BALANCE SHEETS AS OF JUNE 30, 2008 AND 2007

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	2008	2007
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 6,907,068	\$ 2,838,628
STUDENT ACCOUNTS AND OTHER RECEIVABLES — Net of allowance for doubtful accounts of \$121,307 and \$150,632 in 2008 and 2007, respectively	613,816	436,419
PLEDGES RECEIVABLE — Net	8,147,154	3,140,071
PREPAYMENTS AND OTHER ASSETS	2,414,151	2,433,315
NOTES AND LOANS RECEIVABLE	607,141	466,426
INVESTMENTS	52,407,486	56,754,883
CASH RESTRICTED UNDER DEBT COVENANTS	58,197	58,592
CASH AND INVESTMENTS RESTRICTED FOR INVESTMENT IN LAND, BUILDING AND EQUIPMENT	693,703	894,988
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>98,555,490</u>	<u>97,639,844</u>
TOTAL	<u>\$ 170,404,206</u>	<u>\$ 164,663,166</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable	\$ 2,309,279	\$ 3,417,197
Accrued liabilities	3,004,832	3,031,084
Deferred revenues	318,195	249,431
U.S. government grants refundable	563,948	563,948
Bonds and loans payable	<u>42,706,027</u>	<u>43,499,561</u>
Total liabilities	<u>48,902,281</u>	<u>50,761,221</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS:		
Unrestricted	70,523,271	71,388,536
Temporarily restricted	7,427,956	6,291,194
Permanently restricted	<u>43,550,698</u>	<u>36,222,215</u>
Total net assets	<u>121,501,925</u>	<u>113,901,945</u>
TOTAL	<u>\$ 170,404,206</u>	<u>\$ 164,663,166</u>

See notes to financial statements.

# UNIVERSITY OF ST. THOMAS

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Tuition and fees	\$ 38,581,744	\$	\$	\$ 38,581,744
Less student aid	<u>(7,561,034)</u>			<u>(7,561,034)</u>
Tuition and fees — net	31,020,710			31,020,710
Endowment earnings used for current operations	2,133,365			2,133,365
Government and private grants	1,120,627	55,638		1,176,265
Gifts and donations	7,229,524	3,492,961		10,722,485
Auxiliary operations	2,810,059			2,810,059
Commercial real estate rental	2,496,994			2,496,994
Other income	700,728			700,728
Net assets released from restrictions	<u>709,052</u>	<u>(709,052)</u>		
Total operating revenues	<u>48,221,059</u>	<u>2,839,547</u>		<u>51,060,606</u>
<b>OPERATING EXPENSES:</b>				
Instruction	19,863,089			19,863,089
Library	1,767,322			1,767,322
Academic support	1,383,609			1,383,609
Student services	5,787,607			5,787,607
Institutional support	7,458,596			7,458,596
Institutional advancement	2,554,450			2,554,450
Auxiliary operations	5,453,712			5,453,712
UST Realty Company	<u>2,699,743</u>			<u>2,699,743</u>
Total operating expenses	<u>46,968,128</u>			<u>46,968,128</u>
<b>CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<u>1,252,931</u>	<u>2,839,547</u>		<u>4,092,478</u>
<b>NONOPERATING:</b>				
Gifts and donations			7,368,990	7,368,990
Endowment losses in excess of amounts designated for current operations — net	(3,713,144)			(3,713,144)
Reinvestment of endowment losses under terms of endowment			(148,344)	(148,344)
Net assets released from restrictions for long-term purposes	1,621,235	(1,621,235)		
Other	<u>(26,287)</u>	<u>(81,550)</u>	<u>107,837</u>	
<b>CHANGES IN NET ASSETS FROM NONOPERATING ACTIVITIES</b>	<u>(2,118,196)</u>	<u>(1,702,785)</u>	<u>7,328,483</u>	<u>3,507,502</u>
<b>CHANGES IN NET ASSETS</b>	(865,265)	1,136,762	7,328,483	7,599,980
<b>NET ASSETS:</b>				
Beginning of year	<u>71,388,536</u>	<u>6,291,194</u>	<u>36,222,215</u>	<u>113,901,945</u>
End of year	<u>\$ 70,523,271</u>	<u>\$ 7,427,956</u>	<u>\$ 43,550,698</u>	<u>\$ 121,501,925</u>

See notes to financial statements.

# UNIVERSITY OF ST. THOMAS

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Tuition and fees	\$37,954,115	\$ -	\$ -	\$ 37,954,115
Less student aid	<u>(6,447,615)</u>			<u>(6,447,615)</u>
Tuition and fees — net	31,506,500	-	-	31,506,500
Endowment earnings used for current operations	1,795,836			1,795,836
Government and private grants	1,294,432	179,989		1,474,421
Gifts and donations	4,235,097	868,125		5,103,222
Auxiliary operations	2,694,838			2,694,838
Commercial real estate rental	1,109,792			1,109,792
Other income	985,786			985,786
Net assets released from restrictions	<u>1,001,779</u>	<u>(1,001,779)</u>		<u>-</u>
Total operating revenues	<u>44,624,060</u>	<u>46,335</u>	<u>-</u>	<u>44,670,395</u>
<b>OPERATING EXPENSES:</b>				
Instruction	19,407,306			19,407,306
Library	1,672,306			1,672,306
Academic support	1,099,317			1,099,317
Student services	5,360,153			5,360,153
Institutional support	7,033,264			7,033,264
Institutional advancement	2,684,048			2,684,048
Auxiliary operations	5,410,491			5,410,491
UST Realty Company	<u>1,203,383</u>			<u>1,203,383</u>
Total operating expenses	<u>43,870,268</u>	<u>-</u>	<u>-</u>	<u>43,870,268</u>
<b>CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<u>753,792</u>	<u>46,335</u>	<u>-</u>	<u>800,127</u>
<b>NONOPERATING:</b>				
Gifts and donations			1,721,806	1,721,806
Endowment earnings in excess of amounts designated for current operations — net	4,626,472			4,626,472
Reinvestment of endowment earnings under terms of endowment			1,087,796	1,087,796
Net assets released from restrictions for long-term purposes	1,822,356	(1,822,356)		-
Other	<u>(179,971)</u>	<u>169,971</u>	<u>10,000</u>	<u>-</u>
<b>CHANGES IN NET ASSETS FROM NONOPERATING ACTIVITIES</b>	<u>6,268,857</u>	<u>(1,652,385)</u>	<u>2,819,602</u>	<u>7,436,074</u>
<b>CHANGES IN NET ASSETS</b>	7,022,649	(1,606,050)	2,819,602	8,236,201
<b>NET ASSETS:</b>				
Beginning of year	<u>64,365,887</u>	<u>7,897,244</u>	<u>33,402,613</u>	<u>105,665,744</u>
End of year	<u>\$71,388,536</u>	<u>\$ 6,291,194</u>	<u>\$36,222,215</u>	<u>\$113,901,945</u>

See notes to financial statements.

# UNIVERSITY OF ST. THOMAS

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 7,599,980	\$ 8,236,201
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,707,566	4,395,314
Amortization related to bond financing	57,021	40,512
Bad debt expense	43,512	96,350
Gifts and donations restricted for long-term purposes	(7,328,482)	(2,819,602)
Net realized and unrealized (gain) loss on investments	3,061,117	(6,308,418)
Changes in operating assets and liabilities:		
Student accounts and other receivables	(220,908)	(48,688)
Pledges receivable — net	(5,007,082)	891,165
Prepayments and other assets	(33,774)	(212,220)
Notes and loans receivable	(140,715)	89,099
Accounts payable and accrued liabilities	(1,223,092)	560,376
Deferred revenues	68,764	(74,349)
Net cash provided by operating activities	<u>1,583,907</u>	<u>4,845,740</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale/maturities of investments	2,463,429	2,125,128
Purchases of investments	(1,177,148)	(8,131,895)
Purchases of property, plant, and equipment	(5,534,292)	(22,924,891)
Change in cash restricted for investment in land, building, and equipment	<u>201,285</u>	<u>1,660,407</u>
Net cash used in investing activities	<u>(4,046,726)</u>	<u>(27,271,251)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Gifts and donations restricted for long-term purposes	7,328,482	2,819,602
Proceeds from UST Realty loan	-	17,650,000
Proceeds from Northern Trust loan	1,562,000	-
Repayment of bonds and loans payable	(2,359,618)	(2,879,760)
Change in cash restricted under debt covenants	<u>395</u>	<u>(14,444)</u>
Net cash provided by financing activities	<u>6,531,259</u>	<u>17,575,398</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,068,440	(4,850,113)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>2,838,628</u>	<u>7,688,741</u>
End of year	<u>\$ 6,907,068</u>	<u>\$ 2,838,628</u>
CASH PAID FOR INTEREST	<u>\$ 2,255,689</u>	<u>\$ 1,952,788</u>
NONCASH TRANSACTION — Property purchases in accounts payable	<u>\$ 88,922</u>	<u>\$ 301,367</u>

See notes to financial statements.

# UNIVERSITY OF ST. THOMAS

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The University of St. Thomas (the “University”) was founded in 1947 by the Congregation of St. Basil (“Basilian Fathers”). The University is incorporated as a Texas nonprofit corporation and is governed by an independent Board of Directors. A comprehensive university, educating both undergraduate and graduate students, the University enjoys a national reputation for academic excellence and a diverse student body.

Located near Houston’s museum district, one of the city’s most attractive areas, and minutes from a thriving downtown cultural district, the University offers both undergraduate and graduate degree programs. Over 90% of the faculty members hold the highest degree in their discipline. The students are predominantly Texan; however, many of them come from other states and from 57 foreign countries. High acceptance rates for graduate school, law school, and allied health professions and medical school reflect strong academic undergraduate preparation.

During the year ended June 30, 2007, UST Realty Company was formed to acquire commercial real estate property. It is a wholly owned subsidiary of the University. For additional information, refer to Note 4.

**Basis of Accounting** — The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The University’s resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

*Unrestricted* — Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

*Temporarily Restricted* — Temporarily restricted net assets are net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

*Permanently Restricted* — Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets. In addition, some donors may require that all of the earnings be added to the corpus until certain stipulations are met. Such assets include the University’s permanent endowment funds.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed contribution stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted net assets are reported as net assets released from restrictions. Temporarily restricted contributions received and expended during the same fiscal year are recorded as unrestricted revenues and expenses in the statement of activities.

**Cash and Cash Equivalents** — The University considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents invested for long-term purposes are included in investments.

**Cash Restricted Under Debt Covenants** — Amounts held on deposit with trustees as collateral for bonds are classified as cash restricted under debt covenants on the balance sheet.

**Cash and Investments Restricted for Investment in Land, Building, and Equipment** — Amounts received from donors for use in capital programs are classified as cash and investments restricted for investment in land, building, and equipment on the balance sheet.

**Contributions** — Contributions received, including unconditional promises to give (pledges), are recorded as revenues in the period received at their discounted present values and are amortized into income on an effective yield basis. The University's policy regarding the recording of pledges is to include all pledges greater than \$10,000.

**Investments and Endowment Spending Policy** — The estimated fair value of investments is based on quoted market prices, except for certain alternative assets for which quoted market prices are not available. The estimated fair value of these alternative assets is based on the most recent valuations provided by the external investment managers. The University reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Endowment income, including realized and unrealized gains or losses on investments, is recognized in the appropriate net asset category according to the existence or absence of donor-imposed restrictions. Endowment funds, which consist primarily of marketable securities, are pooled for investment management purposes. Income from investments is allocated to each endowment based upon the relative market value and the type of endowment. The endowment spending policy provides for an endowment income distribution equal to 5.00% based on a three-year moving average of the endowment assets, excluding pledges receivable. Sources of this distribution for each restricted endowment fund, in the order utilized, are (a) earned income as traditionally defined (interest and dividends), (b) reinvested earned income from prior years, and (c) capital gains where not prohibited by the gift document. Sources of this distribution for the unrestricted general endowment fund, in the order utilized, are (a) earned income as traditionally defined (interest and dividends) and (b) capital gains.

The revenues from applying this endowment spending rate policy are recorded in the operating revenues section in the statements of activities. Any difference between actual total endowment return, including realized and unrealized gains and losses, and the endowment spending rate is recorded in the nonoperating section of the statements of activities.

**Risks and Uncertainties** — Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the balance sheet.

**Auxiliary Operations** — Auxiliary operations consist primarily of student housing facilities, dining services, and other student services.

**Concentrations of Credit Risk** — The University is subject to concentrations of credit risk relating primarily to cash, marketable securities, and receivables. The University's cash deposits are held in major financial institutions. Marketable securities consist primarily of corporate stocks, which could subject the University to losses in the event of a general downturn in the stock markets. The University has reduced its risk relating to common stock through diversification into investments in a variety of industries. The University's receivables from students are monitored for potential losses, and an allowance for doubtful accounts is established based on the age of unpaid accounts and the University's experience. Pledges receivable represent unconditional promises to give and are monitored by the University for potential losses.

**Tax Status** — The University has received from the Internal Revenue Service a determination letter of exemption from federal income tax under Section 501 (c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for such taxes. UST Realty Company has the same tax status, and accordingly, no provision has been made for federal income taxes. The University adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), effective for its fiscal year ended June 30, 2008. FIN 48 requires that the University recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the University's tax exempt status, unrelated business activities taxable income and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits. As of June 30, 2008, the University's tax years 2005 to 2008 remain subject to examination.

**Operating Measure** — The operating activities of the University include all current income and expenses, including unrestricted and temporarily restricted gifts and donations. Nonoperating activities reflect gifts and donations of a permanent nature to be used by the University to generate a return that will support operations and release of temporary restrictions on net assets to be used for long-term purposes.

**Use of Estimates in the Preparation of Financial Statements** — 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.

**Property, Plant, and Equipment** — Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation, less accumulated depreciation. Plant and equipment are depreciated over the estimated useful lives of the assets using the straight-line method ranging from 5 to 50 years. Upon retirement or sale, the University removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in income.

**Long-Lived Assets** — At each balance sheet date, the University evaluates the carrying amount of its long-lived assets. In the event that facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment is required, the estimated future undiscounted cash flows associated with an asset would be compared to the asset's carrying amount to determine if a write-down to market value or cash flow value is required.

**Compensated Absences** — As of June 30, 2008, the University had an obligation relating to its employees' rights to receive compensation for future absences. This obligation is attributable to

employees' services already rendered. The employees are allowed to carry forward up to two years of compensated absences earned but unused at the end of the fiscal year. However, at termination an employee will be paid up to one year of compensated absences earned and not used. The liability for compensated absences is included in accrued liabilities in the accompanying balance sheet.

**U.S. Government Grants Refundable** — Advances made from government agencies to the University are classified as refundable advances.

**Grants, Gifts and Donations** — Government grants and private gifts and donations include amounts received in the unrestricted and temporarily restricted net asset categories. Upon expiration of the restrictions, the applicable gift and grant revenue is reclassified from the temporarily restricted net asset category to the unrestricted net asset category.

**Functional Expenses** — Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to program and supporting activities based upon the square footage of utilized facilities. Interest costs are allocated to program and supporting activities based upon the use of the funds borrowed.

## 2. PLEDGES RECEIVABLE

Pledges receivable are expected to be realized at June 30, 2008 and 2007, in the following periods:

	<b>2008</b>	<b>2007</b>
Less than one year	\$ 623,650	\$ 1,088,982
Between one and five years	6,660,788	1,311,215
More than five years	<u>1,801,706</u>	<u>1,127,347</u>
Gross pledges	9,086,144	3,527,544
Less present value discount	<u>(938,990)</u>	<u>(387,473)</u>
Net pledges receivable	<u>\$ 8,147,154</u>	<u>\$ 3,140,071</u>

Net pledges receivable at June 30, 2008 and 2007, included pledges with the following restrictions:

	<b>2008</b>	<b>2007</b>
Gifts to the capital campaign for construction of plant	\$ 2,554,129	\$ 1,316,287
Gifts to the capital campaign — undesignated	393,563	665,183
Gifts restricted for un-budgeted activities	1,393,385	868,787
Gifts to endowment for general and scholarship purposes	<u>3,806,077</u>	<u>289,814</u>
Total	<u>\$ 8,147,154</u>	<u>\$ 3,140,071</u>

### 3. INVESTMENTS

Endowment investments at June 30, 2008 and 2007, consisted of the following:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Equities	\$ 30,153,566	\$ 22,664,280	\$ 31,949,756	\$ 19,727,243
U.S. government and agency securities and corporate bonds	9,625,806	9,487,509	8,962,120	8,954,426
Alternative investments	7,706,908	7,701,126	7,198,423	6,696,477
Temporary cash and short term investments	<u>4,921,206</u>	<u>4,921,206</u>	<u>8,644,584</u>	<u>8,644,584</u>
Total	<u>\$ 52,407,486</u>	<u>\$ 44,774,121</u>	<u>\$ 56,754,883</u>	<u>\$ 44,022,730</u>

Investment return and its classification in the statements of activities for the years ended June 30, 2008 and 2007, was as follows:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 1,767,597	\$	\$ (148,344)	\$ 1,619,253
Net realized and unrealized gains	(3,347,376)			(3,347,376)
Endowment earnings used for current operations	<u>(2,133,365)</u>	<u>_____</u>	<u>_____</u>	<u>(2,133,365)</u>
Endowment earnings in excess of amounts designated for current operations — net	<u>\$ (3,713,144)</u>	<u>\$ _____</u>	<u>\$ (148,344)</u>	<u>\$ (3,861,488)</u>
	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 381,972	\$ -	\$ 1,087,796	\$ 1,469,768
Net realized and unrealized gains	6,040,336			6,040,336
Endowment earnings used for current operations	<u>(1,795,836)</u>	<u>_____</u>	<u>_____</u>	<u>(1,795,836)</u>
Endowment earnings in excess of amounts designated for current operations — net	<u>\$ 4,626,472</u>	<u>\$ -</u>	<u>\$ 1,087,796</u>	<u>\$ 5,714,268</u>

Investment return was reported net of custodial and investment advisory fees of \$330,064 and \$316,510 for the years ended June 30, 2008 and 2007, respectively.

The following table is a summary of investments where cost basis exceeds fair market value at June 30, 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. equities	\$ 1,017,830	\$ 24,117	\$ 13,556,550	\$ 1,585,338	\$ 14,574,380	\$ 1,609,455
Mortgage-backed securities	138,369	2,123			138,369	2,123
Other	<u>130,974</u>	<u>4,009</u>	<u>4,872,102</u>	<u>158,487</u>	<u>5,003,075</u>	<u>162,496</u>
Total	<u>\$ 1,287,173</u>	<u>\$ 30,249</u>	<u>\$ 18,428,652</u>	<u>\$ 1,743,825</u>	<u>\$ 19,715,824</u>	<u>\$ 1,774,074</u>

At June 30, 2008, the University's investment program contained 31 securities whose fair market value was below cost. Of these, 6 were fixed-income securities, including U.S. government and agency obligations. The balance comprised primarily equity securities. The fair market value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions, and changes in the market outlook for various industries. The University's investment program holds a total of 104 securities, with a net unrealized loss of \$5,098,791

#### 4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2008 and 2007, consisted of the following:

	<b>2008</b>	<b>2007</b>
Buildings and improvements	\$ 89,537,891	\$ 86,675,769
Machinery and equipment	17,548,277	16,955,354
Furniture and fixtures	1,388,757	1,320,961
Library books	10,279,653	9,916,036
Software	<u>3,394,344</u>	<u>3,394,344</u>
Total	122,148,922	118,262,464
Less accumulated depreciation	<u>(44,391,291)</u>	<u>(39,736,050)</u>
Net depreciable plant and equipment	77,757,631	78,526,414
Construction-in-progress	1,157,069	789,794
Land	<u>19,640,790</u>	<u>18,323,636</u>
Property, plant, and equipment — net	<u>\$ 98,555,490</u>	<u>\$ 97,639,844</u>

On February 1, 2007, UST Realty Company, a wholly owned subsidiary of the University of St. Thomas, purchased two commercial office buildings and a retail center with an associated parking garage, all contiguous to the University's campus. The University intends to lease the office space to commercial tenants. The acquisition was financed through a loan with JP Morgan Chase Bank.

## 5. BONDS AND LOANS PAYABLE

Bonds and loans payable at June 30, 2008 and 2007, consisted of the following:

	2008	2007
Wallis County Higher Education Facilities Corporation revenue and refunding bonds, interest rates ranging from 6.120% to 8.930%, annual principal payments ranging from \$285,000 to \$750,000 with interest due semiannually, maturity dates from 2008 to 2021, collateralized by revenues	\$ 6,600,000	\$ 6,865,000
Building bonds bearing interest at 3%, annual principal payments ranging from \$29,000 to \$42,000 with interest due semiannually, maturity dates from 2008 to 2019, collateralized by first mortgages on buildings, first liens on net revenues from operation of the buildings, marketable securities, and cash on deposit with trustees	433,000	462,000
Crawford Educational Facilities Corporation Higher Education Revenue Bonds, interest rates ranging from 3.250% to 5.375%, annual principal payments ranging from \$395,000 to \$2,095,000 with interest due semiannually, maturity dates from 2008 to 2027, collateralized by revenues	18,585,000	18,965,000
JP Morgan Chase real estate and equity loan, UST Realty Company, balance due February 1, 2010, quarterly interest at adjusted LIBOR rate plus .40% or .50%	14,238,103	15,664,240
Milford Higher Education Facilities Corporation Tax Exempt Loan, quarterly interest payments at 3.09%, quarterly principal payments of \$62,500 through 2013	1,375,000	1,625,000
Northern Trust Bank loan, monthly interest and principal payment of \$9,079, final payment on May 5, 2018 of all principal and accrued interest not yet paid	<u>1,552,519</u>	<u>-</u>
Subtotal	42,783,622	43,581,240
Less discount on issuance of Crawford Educational Facilities Corporation Higher Education Revenue Bonds	<u>(77,595)</u>	<u>(81,679)</u>
Total	<u>\$ 42,706,027</u>	<u>\$ 43,499,561</u>

Total interest expense incurred on bonds and loans payable for the years ended June 30, 2008 and 2007, was \$2,250,003 and \$1,947,536, respectively.

Future principal maturities of bonds and loans payable at June 30, 2008, were as follows:

<b>Years Ending June 30</b>	
2009	\$ 2,520,392
2010	13,785,287
2011	1,098,221
2012	1,143,202
2013	1,159,910
Thereafter	<u>23,076,610</u>
 Total	 <u>\$42,783,622</u>

In June 2004, the University established a revolving credit line of \$1,000,000 bearing an interest rate at prime minus 1% or adjusted LIBOR plus 2%. This credit line expired in June 2006 and was subsequently reestablished. It expired in June 2007 and was not renewed.

## 6. NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007, consisted of the following:

	<b>2008</b>	<b>2007</b>
Restricted for operating activities	\$ 6,812,982	\$ 4,275,332
Restricted for investment in land, building, and equipment	<u>614,974</u>	<u>2,015,862</u>
 Total temporarily restricted net assets	 <u>\$ 7,427,956</u>	 <u>\$ 6,291,194</u>

Permanently restricted net assets consisted of endowment assets restricted for general and scholarship purposes of \$43,550,698 and \$36,222,215 as of June 30, 2008 and 2007, respectively. During 2008 and 2007, based on clarification of donor intent, management reclassified net assets amounting to \$107,837 and \$179,971, respectively.

## 7. RETIREMENT BENEFITS

The University has a defined contribution plan, which is available to all benefit eligible employees. Employees may contribute up to 25% (including University matching contributions, if any) of annual compensation, subject to statutory limitations, to (i) individual annuity plans from several insurance companies and (ii) a selected group of mutual funds managed by a third-party administrator. The University makes matching contributions equal to 6% of annual compensation for employees with at least one year of continuous service with the University. The University's contribution expense for fiscal year 2008 and 2007 was \$873,771 and \$816,263, respectively.

During 2004, the University implemented a retiree medical plan for retired employees with 20 years of service who have reached the age of 60 and are not yet eligible for Medicare. The monthly benefit is the current average employer cost for medical insurance. During 2007, the Board of Directors terminated the plan due to a lack of employee enrollment since its inception. A liability of \$206,500 was reversed.

## 8. COMMITMENTS AND CONTINGENCIES

The University is subject to the oversight of the U.S. Department of Education relating to student financial aid and other agencies relating to grant programs. Management believes that the University is in substantial compliance with the terms of these programs and findings, if any, resulting from such oversight, would not have a material adverse impact on the University's financial statements.

## 9. RELATED-PARTY TRANSACTIONS

Related-party transactions include pledges receivable and other receivables due from the Basilian Fathers, who nominate at least one-third of the Board of Directors of the University. Included within pledges receivable is \$100,000 and \$200,000 due from them at June 30, 2008 and 2007, respectively.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, as amended by SFAS No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, requires disclosure of fair value information about financial instruments for which it is practical to estimate that value. As of June 30, 2008 and 2007, management estimates that (i) the carrying amounts of cash and cash equivalents, cash restricted under debt covenants, cash restricted for investment in land, building, and equipment, student accounts and other receivables, prepayments, accounts payable, accrued liabilities, deferred revenues, and U.S. government grants refundable approximate fair values because of the short maturity of these instruments; (ii) the fair value of the University's investments in marketable securities is based upon the quoted market price on the last business day of the fiscal year; (iii) the fair value of the University's alternative investments is based on values provided by the funds' manager; and (iv) based on borrowing rates currently available with similar terms and average maturities, bonds and loans payable with carrying values of \$42,783,622 have fair values of approximately \$44,522,959 at June 30, 2008.

## 11. FUTURE RENTAL REVENUE

The following is a schedule of future minimum rental receipts due under operating leases that have initial or remaining non-cancellable lease terms after June 30, 2008.

Year ending June 30:	
2009	\$ 2,492,408
2010	1,628,741
2011	1,030,640
2012	249,281
2013	138,750
Thereafter	176,800
Total minimum lease receipts	<u>\$ 5,716,620</u>

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