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UNIVERSITY OF ST. FRANCIS

Financial Statements and Independent Auditor's Report

May 31, 2018 and 2017

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University of St. Francis
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May 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
University of St. Francis
Joliet, Illinois

Report on Financial Statements

We have audited the accompanying financial statements of University of St. Francis (the University), which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of St. Francis as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Sikich LLP

Naperville, Illinois
October 4, 2018

Financial Statements

University of St. Francis

Statements of Financial Position

May 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 3,593,672	$ 5,930,177
Investments	9,839,187	4,603,959
Student accounts receivable, net of allowance of $1,580,000 in 2018 and $1,500,000 in 2017	2,740,233	2,880,615
Other receivables	225,404	3,305,074
Prepaid expenses and other assets	413,095	387,443
Contributions receivable, net of allowance of $107,800 in 2018 and $121,900 in 2017	2,333,429	2,753,625
Real estate held for investment	1,430,325	1,319,500
Restricted cash and investments	1,306,289	8,421,547
Student loans receivable, net of allowance of $50,000	1,483,074	1,470,729
Interest rate swap agreements	692,859	24,463
Property and equipment, net of accumulated depreciation of $43,496,454 in 2018 and $39,682,227 in 2017	62,460,738	55,626,303
Beneficial interest in perpetual trust	2,451,186	2,428,262
Investments restricted to endowment	11,620,005	11,310,019
Total Assets	$ 100,589,496	$ 100,461,716
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 918,868	$ 2,025,711
Accrued expenses	2,673,914	3,141,741
Deferred revenue	4,063,090	4,115,851
Capital lease obligations	1,072,749	820,778
Other liabilities	1,283,214	1,329,167
Bonds and note payable, net of unamortized debt issuance costs of $543,952 in 2018 and $568,930 in 2017	37,934,048	38,831,070
U.S. Government student loan funds	967,650	997,427
Total liabilities	48,913,533	51,261,745
Net Assets		
Unrestricted	35,688,833	33,405,318
Temporarily restricted	6,727,629	6,790,422
Permanently restricted	9,259,501	9,004,231
Total net assets	51,675,963	49,199,971
Total Liabilities and Net Assets	$ 100,589,496	$ 100,461,716

See accompanying Notes to Financial Statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Tuition and fees	$ 62,321,115	$ -	$ -	$ 62,321,115
Less scholarships and aid	(20,302,875)	-	-	(20,302,875)
Net tuition and fees	42,018,240	-	-	42,018,240
Contributions	1,262,034	370,817	232,345	1,865,196
Grants and contracts	544,203	45,661	-	589,864
Distribution from trusts held by others	-	136,391	-	136,391
Investment return	291,893	383,660	-	675,553
Auxiliary enterprises	3,923,267	-	-	3,923,267
Other income	1,218,520	-	-	1,218,520
Net assets released from restrictions	1,215,280	(1,215,280)	-	-
Total revenues, gains, and other support	50,473,437	(278,751)	232,345	50,427,031
Expenses				
Instruction	18,545,408	-	-	18,545,408
Academic support	6,981,980	-	-	6,981,980
Student services	9,078,439	-	-	9,078,439
Auxiliary enterprises	4,192,465	-	-	4,192,465
Total educational program services	38,798,292	-	-	38,798,292
Institutional support	8,591,817	-	-	8,591,817
Fundraising	696,872	-	-	696,872
Total expenses	48,086,981	-	-	48,086,981
Change in Net Assets Before Other Revenues (Expenses)	2,386,456	(278,751)	232,345	2,340,050
Other Revenues (Expenses)				
Loss on disposals of property	(984,246)	-	-	(984,246)
Unrealized investment gain	211,765	215,958	-	427,723
Change in fair value of interest rate swap agreements	668,396	-	-	668,396
Change in value of split-interest agreements	1,144	-	22,925	24,069
Total other revenues (expenses)	(102,941)	215,958	22,925	135,942
Changes in Net Assets	2,283,515	(62,793)	255,270	2,475,992
Net Assets, Beginning of Year	33,405,318	6,790,422	9,004,231	49,199,971
Net Assets, End of Year	$ 35,688,833	$ 6,727,629	$ 9,259,501	$ 51,675,963

See accompanying Notes to Financial Statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Tuition and fees	$ 62,652,999	$ -	$ -	$ 62,652,999
Less scholarships and aid	(20,144,854)	-	-	(20,144,854)
Net tuition and fees	42,508,145	-	-	42,508,145
Contributions	672,698	1,209,640	202,649	2,084,987
Grants and contracts	698,190	45,000	-	743,190
Distribution from trusts held by others	-	144,381	-	144,381
Investment return	340,848	420,291	-	761,139
Auxiliary enterprises	4,126,457	-	-	4,126,457
Other income	1,084,050	-	-	1,084,050
Net assets released from restrictions	1,880,548	(1,875,548)	(5,000)	-
Total revenues, gains, and other support	51,310,936	(56,236)	197,649	51,452,349
Expenses				
Instruction	17,416,479	-	-	17,416,479
Academic support	7,356,380	-	-	7,356,380
Student services	9,445,972	-	-	9,445,972
Auxiliary enterprises	4,052,118	-	-	4,052,118
Total educational program services	38,270,949	-	-	38,270,949
Institutional support	8,669,383	-	-	8,669,383
Fundraising	704,302	-	-	704,302
Total expenses	47,644,634	-	-	47,644,634
Change in Net Assets Before Other Revenues (Expenses)	3,666,302	(56,236)	197,649	3,807,715
Other Revenues (Expenses)				
Loss on disposals of property	(589,290)	-	-	(589,290)
Unrealized investment gain	420,498	531,509	-	952,007
Unrealized loss on real estate held for investment	(177,000)	-	-	(177,000)
Change in fair value of interest rate swap agreements	620,734	-	-	620,734
Change in value of split-interest agreements	(3,150)	-	121,226	118,076
Total other revenues (expenses)	271,792	531,509	121,226	924,527
Changes in Net Assets	3,938,094	475,273	318,875	4,732,242
Net Assets, Beginning of Year	29,467,224	6,315,149	8,685,356	44,467,729
Net Assets, End of Year	$ 33,405,318	$ 6,790,422	$ 9,004,231	$ 49,199,971

See accompanying Notes to Financial Statements.

University of St. Francis

Statements of Cash Flows

Years Ended May 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 2,475,992	$ 4,732,242
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,108,731	3,493,473
Loss on diposals of property	984,246	589,290
Bad debt expense	182,000	(119,473)
Change in contributions receivable discount	(56,158)	(76,210)
Perkins loans cancellations and adjustments	15,329	27,350
Net realized and unrealized gains on investments	(639,033)	(1,171,444)
Change in beneficial interest in perpetual trust	(22,924)	(121,226)
Change in fair value of interest rate swap agreements	(668,396)	(620,735)
Actuarial loss on annuity obligations	1,144	3,150
Noncash contributions	(185,917)	(475,036)
Contributions restricted for long-term investment	(232,345)	(202,649)
Contributions restricted for acquisition of long-lived assets	(55,107)	(1,656,971)
Changes in operating assets and liabilities		
Student accounts receivable	(55,688)	2,389,181
Other receivables	3,079,670	(1,938,512)
Prepaid expenses	(25,652)	80,555
Contributions receivable	490,424	765,081
Accounts payable	(968,186)	868,469
Accrued expenses	(467,827)	267,544
Deferred revenue	(52,761)	(501,123)
Other liabilities	83,458	108,392
Net cash provided by operating activities	7,991,000	6,441,348
Cash Flows from Investing Activities		
Purchases of property and equipment	(11,761,790)	(11,530,688)
Proceeds from sale of property and equipment	128,746	246,003
Purchases of investments	(8,221,878)	(10,400,652)
Proceeds from sales and maturities of investments	3,331,967	10,627,884
Decrease in cash and investments restricted for student loans, scholarships, and long-lived asset purchases	7,139,080	7,561,733
Advances of student loans	(184,000)	(231,813)
Principal payments received on student loans	156,326	157,872
Net cash used in investing activities	(9,411,549)	(3,569,661)

(This statement is continued on the following page.)

University of St. Francis

Statements of Cash Flows (continued)

Years Ended May 31, 2018 and 2017

	2018	2017
Cash Flows from Financing Activities		
Payments on capital lease obligations	$ (246,359)	$ (160,098)
Payments on bonds and notes payable	(922,000)	(902,000)
Proceeds from draw on line of credit	-	(2,000,000)
Payments on annuities payable	(5,272)	(5,272)
Increase in U.S. Government student loan funds	(29,777)	(46,225)
Proceeds from contributions restricted for long-term investment	232,345	202,649
Proceeds from contributions restricted for acquisition of long-lived assets	55,107	1,352,939
Net cash used in financing activities	(915,956)	(1,558,007)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,336,505)	1,313,680
Cash and Cash Equivalents, Beginning of Year	5,930,177	4,616,497
Cash and Cash Equivalents, End of Year	$ 3,593,672	$ 5,930,177
Supplemental Cash Flows Information		
Interest paid	$ 985,354	$ 957,597
Property and equipment purchases included in accounts payable	84,426	223,083
Noncash contribution of property	110,825	-
Equipment acquired by capital lease	498,330	491,690

See accompanying Notes to Financial Statements.

Note 1 — Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

University of St. Francis (the University) is a private, not-for-profit, Catholic university rooted in the liberal arts and sciences located in Joliet, Illinois, and is comprised of the Colleges of Arts & Sciences, Business & Health Administration, and Education and the Cecily and John Leach College of Nursing. The University is a welcoming community of learners challenged by Franciscan values and charism that strives for academic excellence in all programs, preparing women and men to contribute to the world through service and leadership. The University's revenues and other support are derived principally from tuition and fees, auxiliary revenue, contributions, and federal and state grants. The University also maintains a campus in Albuquerque, New Mexico, which offers graduate degree programs in both physician assistant studies and nursing (family nurse practitioner). In addition, the University operates adult undergraduate and graduate studies programs at various locations across the United States of America.

Use of Estimates

The preparation of financial statements in accordance 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 revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2018 and 2017, cash equivalents consisted primarily of money market funds.

At May 31, 2018 and 2017, the University's cash accounts exceeded federally insured limits by approximately $5,121,380 and $5,876,091, respectively. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

Cash and cash equivalents awaiting longer-term investing are considered part of investments in the accompanying financial statements.

Student Accounts and Loans Receivable

Student accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds plus any accrued and unpaid interest. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Tuition and fees are generally due at the beginning of the term unless the student has established a payment plan. Student accounts that do not have an established payment plan are considered past due after the second published due date (this date varies, but is approximately two to three weeks after classes begin). A late fee

Note 1 — Nature of Operations and Summary of Significant Accounting Policies (Continued)

Student Accounts and Loans Receivable (Continued)

is charged to all accounts not paid in full or enrolled in a payment plan by that date. In addition, accounts with balances due from a prior term bear interest at 1% per month. Charges that are past due without any payments for approximately three consecutive months are considered delinquent. Delinquent accounts are sent to collections and subsequently written off based on individual credit evaluation and specific circumstances of the student.

Student loans receivable consist of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amounts. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Loans that are past due for at least one payment are considered delinquent. Interest is accrued on loans with a delinquent balance greater than nine months. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Restricted Cash and Investments

The balance of the Federal Perkins Loan revolving fund, consisting of cash awaiting to be loaned to students, is maintained in a separate, restricted bank account. In addition, contributions restricted for long-lived asset purchases, any unspent bond proceeds, and a significant grant received for future scholarship awards are displayed as a component of restricted cash and investments.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at fair value. Alternative investment funds are valued using an estimated net asset value (NAV). Investment return includes dividend, interest, and other investment income; and realized and unrealized gains and losses on investments carried at fair value. Investment return is reflected in the statements of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated annually to the individual endowments based on the relationship of the beginning of the year fair value of the interest of each endowment to the total fair value of the pooled investments accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Note 1 — Nature of Operations and Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

The following estimated useful lives are being used by the University:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Leasehold improvements	3-20 years
Equipment, furniture, and fixtures	3-25 years
Administrative computer software	10 years
Library books	15 years
Motor vehicles	3-15 years

Property and equipment is capitalized when its purchase price is greater than $2,500 and it has a useful life of more than two years. In addition, furniture and equipment items that are part of a group purchase with a useful life greater than two years may also be capitalized even though individually the items may fall under the $2,500 threshold.

Split-Interest Agreements

The University is the beneficiary of two trusts, the corpuses of which are not controlled by the management of the University. In the absence of donor-imposed conditions, the University recognizes its beneficial interest in a trust as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits.

The University also administers charitable gift annuities. Assets transferred to the University under these agreements are recorded at fair value. Contribution revenue was recognized at the date that each annuity was established, after recording a liability for the present value of the estimated future payments to be made to the beneficiary.

Deferred Revenue

Deferred revenue consists primarily of student tuition, housing, and other fees received or billed that are nonrefundable prior to the beginning of an academic term. Revenue from prepaid tuition and summer courses is deferred and recognized over the periods to which the revenue relates.

Net Assets

The accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Note 1 — Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Unrestricted net assets include general and board-designated net assets of the University and are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. The unrestricted net assets of the University may be used at the discretion of management to support the University's purposes and operations.

Temporarily Restricted net assets are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets.

Permanently Restricted net assets are subject to donor-imposed restrictions that the contribution be maintained in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets for general or specific purposes. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. Such assets include primarily the University's permanent endowment.

Tuition and Fees

Student tuition and fees are recorded as revenue during the year the related academic services are rendered.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment, and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Note 1 — Nature of Operations and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions

In addition to receiving cash contributions, the University receives in-kind contributions of investments, auction items for fundraising events, and property from various donors. It is the policy of the University to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended May 31, 2018 and 2017, $222,080 and $129,208, respectively, was received in in-kind contributions.

Grants and Contracts

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Auxiliary Enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliary enterprises consist of residence halls, dining facilities, conference services, and the University bookstore. Auxiliary enterprise revenues and expenses are reported in the accompanying statements of activities in unrestricted net assets. Auxiliary enterprises revenue is recognized as the University provides the goods and services.

Advertising Costs

The University uses advertising to promote its various programs. The production costs of advertising are expensed the first time the advertising takes place. Advertising expenses for the years ended May 31, 2018 and 2017 were $677,926 and $557,626, respectively.

Note 1 — Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income Taxes

The University is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. federal jurisdiction. In addition, the Internal Revenue Service has determined that the University is not a private foundation within the meaning of Section 509(a) of the IRC.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Depreciation, interest, facilities operations and maintenance, insurance, and utilities expenses have been allocated among the educational program, institutional support, and fundraising categories based on the square footage of the space utilized by the different University departments. Certain employee benefit expenses have been allocated among the same categories based on the number of benefits-eligible employees in the different University departments.

New Accounting Standards

FASB has issued ASU 2014-09, *Revenue from Contracts with Customers*, as amended by ASU 2015-14, which supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and will expand disclosures about revenue. ASU 2014-09, as amended, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018, and interim periods within the annual period beginning after December 15, 2019. The University is currently assessing the impact of this new standard.

FASB has issued ASU No. 2016-02, *Leases* (Topic 842) to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, and requires a modified retrospective approach to adoption. The University is currently assessing the impact of this new standard.

FASB has issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The University is currently assessing the impact of this new standard.

Note 2 — Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2018	2017
Due within one year	$ 609,386	$ 470,057
Due in one to five years	1,946,833	2,573,876
Due after five years	27,500	30,000
	2,583,719	3,073,933
Less		
Present value discount at 2%	(142,490)	(198,408)
Allowance for uncollectible contributions	(107,800)	(121,900)
	$ 2,333,429	$ 2,753,625

Note 3 — Investments and Investment Return

Investments at May 31 consisted of the following:

	2018	2017
Cash and money market funds	$ 5,202,188	$ 529,429
Common and preferred stocks	5,454,701	4,916,789
U.S. Treasury notes	1,336,405	979,441
U.S. Government agency mortgage-backed securities	173,510	178,915
Corporate bonds	1,667,433	2,057,951
Equity mutual funds	4,806,610	4,900,369
Fixed income mutual funds	2,774,074	2,486,257
Fixed income exchange-traded funds	628,763	588,079
Alternative strategy mutual funds	599,921	449,982
Alternative investment funds	121,876	7,248,313
Real estate held for investment	1,430,325	1,319,500
	$ 24,195,806	$ 25,655,025

The University's alternative investments fund held at Net Asset Value (NAV) have unfunded commitments of zero and a 30-day redemption period.

Note 3 — Investments and Investment Return (Continued)

Investments are reflected in the statements of financial position as follows:

	2018	2017
Restricted cash and investments	$ 1,306,289	$ 8,421,547
Investments	9,839,187	4,603,959
Real estate held for investment	1,430,325	1,319,500
Investments restricted to endowment	11,620,005	11,310,019
	$ 24,195,806	$ 25,655,025

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income (net of expenses of $86,291 and $84,615 in 2018 and 2017, respectively)	$ 464,243	$ 364,702
Realized gain on investments reported at fair value	211,310	396,437
Net investment return	675,553	761,139
Unrealized gain on investments reported at fair value	427,723	952,007
Unrealized loss on real estate held for investment reported at fair value	-	(177,000)
	$ 1,103,276	$ 1,536,146

Cash and investments are restricted for the following at May 31:

	2018	2017
Student loans	$ 38,970	$ 64,326
Long-lived asset purchases	-	7,182,119
Scholarships	1,145,443	1,108,907
Deferred compensation	121,876	66,195
	$ 1,306,289	$ 8,421,547

Note 4 — Student Loans Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan Program. These loan amounts represent 1.33% and 1.37% of total assets as of May 31, 2018 and 2017, respectively. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Of these amounts, as of May 31, 2018 and 2017, $732,521 and $788,002, respectively, were not in repayment status (that is, the borrowers were not yet required to make payment). Most loans that are in repayment status are collected over a period of 10 years.

Note 4 — Student Loans Receivable (Continued)

Allowances for doubtful accounts are established based on prior collection experience, current economic factors, and specific circumstances of the borrower which, in management's judgment, could influence the ability of the borrower to repay the amounts per the loan terms. Under this Federal loan program, the federal government bears the risk of loss of uncollectible loans provided the University performs required collection due diligence procedures, therefore, affecting the determination of the needed allowance for losses. The University does not stop the accrual of interest until a loan is written off; therefore, the University has no loans on nonaccrual status.

The change in the allowance for doubtful accounts for the years ended May 31 follows:

	2018	2017
Beginning balance	$ (50,000)	$ (50,000)
Provision charged to income	-	-
Ending balance	$ (50,000)	$ (50,000)

The following amounts were past due under the Federal student loan program at May 31:

		In Default			
	Less than 270 Days	More Than 270 Days and Less Than 2 Years	More Than 2 Years, Up to 5 Years	More Than 5 Years	Total Past Due
2018	$ 75,757	$ 47,347	$ 89,467	$ 146,604	$ 359,175
2017	$ 74,015	$ 70,034	$ 74,693	$ 143,620	$ 362,362

The availability of funds under this federal loan program is dependent on reimbursement of the loan fund from repayments on outstanding loans. Funds advanced by the federal government totaled $967,650 and $997,417 as of May 31, 2018 and 2017, respectively. These advances are ultimately refundable to the federal government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of funds available for future loans and a decrease in the University's liability to the federal government.

The authority to make new Perkins loans ended September 30, 2017, with disbursements permitted through June 30, 2018, for students with existing Perkins loans. The University will be required to return the federal contribution and may continue servicing their Perkins loans or assign the Perkins loans to the Department of Education.

Note 5 — Property and Equipment

Property and equipment at May 31 consists of:

	2018	2017
Land and land improvements	$ 11,862,742	$ 11,308,895
Buildings and building and leasehold improvements	75,642,318	58,249,292
Equipment, furniture, and fixtures	16,404,115	14,810,588
Administrative computer software	987,845	987,845
Library books	241,628	316,181
Motor vehicles	410,133	457,929
Construction in progress	408,411	9,177,800
	105,957,192	95,308,530
Less accumulated depreciation and amortization	(43,496,454)	(39,682,227)
	$ 62,460,738	$ 55,626,303

The University capitalizes interest costs as a component of construction in progress. Total interest incurred each year was:

	2018	2017
Interest costs capitalized	$ 383,566	$ 192,395
Interest costs charged to expense	604,164	767,524
Total interest incurred	$ 987,730	$ 959,919

The following construction commitments exist as of May 31:

	2018	2017
Science Building	$ 545,090	$ 8,371,721
	$ 545,090	$ 8,371,721

Note 6 — Beneficial Interest in Perpetual and Revocable Trusts

The University is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $2,451,186 and $2,428,262, which represents the fair value of the trust assets at May 31, 2018 and 2017, respectively. The income from this trust for 2018 and 2017 was $105,500 and $115,500, respectively.

The University is also the sole beneficiary under a trust administered by a bank. The assets of this trust are not included in the statement of financial position of the University since the trust is revocable at the discretion of the trustee. The income from this trust for 2018 and 2017 was $24,100 and $28,881, respectively.

Note 7 — Bonds and Notes Payable, Line of Credit and Capital Lease Obligations

Bonds and notes payable and capital lease obligations at May 31 consist of the following:

	2018	2017
2013 Illinois Finance Authority Revenue Refunding Bond; interest varies, is 75% of the sum of the one-month USD-LIBOR-BBA rate and 1.11%, and is reset monthly, rates ranged from 1.92% to 2.54% in 2018, and 1.18% to 1.58% in 2017, maturing through December 1, 2037, payable in annual installments beginning December 1, 2017 ranging from $770,000 to $1,440,000	$ 23,478,000	$ 24,248,000
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.23%, and is reset monthly, rates ranged from 2.04% to 2.66% in 2018, and 1.58% to 1.98% in 2017, maturing through September 30, 2041, payable in annual installments beginning September 30, 2018 ranging from $304,000 to $488,000	9,000,000	9,000,000
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.25%, and is reset monthly, rates ranged from 2.06% to 2.68% in 2018, and 1.60% to 2.00% in 2017, maturing through September 30, 2041, payable in annual installments beginning September 30, 2018 ranging from $202,000 to $369,000	6,000,000	6,000,000
Term Loan; interest varies, is the sum of the one-month USD-LIBOR-BBA rate and 1.01%, and is reset monthly, rates ranged from 2.01% to 2.01% in 2018, and 1.48% to 2.01% in 2017, maturing through June 16, 2018, payable in annual installments ranging from $152,000 to $902,000	-	152,000
Total bonds and notes payable	38,478,000	39,400,000
Less unamortized debt issuance costs	543,952	568,930
Total net bonds and notes payable	37,934,048	38,831,070
Capital lease obligations for equipment	1,072,749	820,778
	$ 39,006,797	$ 39,651,848

Note 7 — Bonds and Notes Payable, Line of Credit and Capital Lease Obligations (Continued)

The bond and term loan agreements contain certain covenants, including continuation of use of University facilities for educational purposes, maintenance of insurance policies, and availability of certain financial records. In addition, the agreements require the University to maintain certain financial ratios related to debt service coverage and liquidity. As of May 31, 2018 and 2017, the University is not aware of any violations of these covenants and ratios.

The 2016 Illinois Finance Authority Revenue Bonds are subject to a Mortgage that grants a security interest in certain real and personal property of the University and a Security Agreement that grants a security interest in the University's Gross Revenues, as defined in the Security Agreement.

Aggregate annual maturities of bonds and notes payable, and payments on capital lease obligations at May 31, 2018, are:

	Bonds and Notes Payable	Capital Lease Obligations
2019	$ 1,320,087	$ 306,919
2020	1,476,039	303,886
2021	1,511,223	295,699
2022	1,544,648	201,519
2023	1,579,322	65,854
Thereafter	31,046,681	3,314
	$ 38,478,000	1,177,191
Less amount representing interest		104,442
Present value of future minimum lease payments		$ 1,072,749

Property and equipment include the following property under capital leases at May 31:

	2018	2017
Equipment	$ 1,481,789	$ 983,459
Less accumulated depreciation	(415,106)	(150,768)
	$ 1,066,683	$ 832,691

Note 8 — Derivative Financial Instruments – Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, in June of 2013, the University entered into two interest rate swap agreements for the entire balance of the variable rate bond and term loan payable. The interest rate swap agreement associated with the bond provides for the University to receive interest from the counterparty at 75% of the sum of the one-month USD-LIBOR-BBA rate and 1.11% and to pay interest to the counterparty at a fixed rate of 2.162% on a notional amount of $23,478,000 and $24,248,000 at May 31, 2018 and 2017, respectively. The interest rate swap agreement associated with the term loan provides for the University to receive interest from the counterparty at the one-month USD-LIBOR-BBA rate plus 1.01% and to pay interest to the counterparty at a fixed rate of 1.65% on a notional amount of $0 at May 31, 2018 and $152,000 at May 31, 2017. In February of 2016, the University entered into an additional interest rate swap agreement for the 2016 Series B bond. The agreement associated with the bond provides for the University to receive interest from the counterparty at 75% of the one-month USD-LIBOR-BBA rate and to pay interest to the counterparty at a fixed rate of 1.23% on the notional amount of $9,000,000 at May 31, 2018 and 2017.

Under the agreements, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in other revenues or expenses.

The table below presents certain information regarding the University's interest rate swap agreements:

	2018	2017
Fair value of asset (liability) for interest rate swap agreements		
2013 Series bond	$ 247,825	$ (131,262)
2013 Term loan	-	76
2016 Series B bond	445,034	155,649
	$ 692,859	$ 24,463

	2018	2017
Gain (loss) recognized in change in net assets		
2013 Series bond	$ 379,087	$ 382,426
2013 Term loan	(76)	215
2016 Series B bond	289,385	238,093
	$ 668,396	$ 620,734

Note 9 — Annuities Payable

The University has been the recipient of charitable gift annuities which require future payments to the donor. The assets received from the donor are recorded at fair value. The University has recorded a liability at May 31, 2018 and 2017 of $46,638 and $53,054, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 3.2% and 2.4% at May 31, 2018 and 2017, respectively, and applicable mortality tables.

Note 10 — Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at May 31 are available for the following purposes or periods:

	2018	2017
Scholarships	$ 1,423,598	$ 1,298,756
Educational programs and other	2,398,426	2,670,387
Property and equipment purchases	525,101	495,491
Accumulated earnings on endowed funds for		
Scholarships	2,197,101	2,168,864
Faculty development and other programs	103,121	84,548
Prizes and awards	80,282	72,376
	$ 6,727,629	$ 6,790,422

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2018	2017
Investment in perpetuity, the income of which is expendable to support		
Scholarship	$ 6,328,278	$ 6,096,434
Faculty development and other programs	425,136	425,135
Prizes and awards	54,901	54,400
	6,808,315	6,575,969
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	2,451,186	2,428,262
	$ 9,259,501	$ 9,004,231

Note 10 — Net Assets (Continued)

Permanently restricted net assets at May 31, 2018 and 2017 include $20,000 of outstanding pledges receivable which are not considered part of the University's endowment until the pledges have been collected.

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2018	2017
Purpose restrictions accomplished		
Scholarships	$ 553,389	$ 533,076
Faculty development and other programs	550,360	1,254,917
Prizes and awards	1,900	2,975
	1,105,649	1,790,968
Property and equipment acquired and placed in service	114,631	29,580
Pledges written off (recovered)	(5,000)	60,000
	$ 1,215,280	$ 1,880,548

Note 11 — Endowment

The University's endowment consists of approximately 95 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's Board of Trustees has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (Illinois UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by Illinois UPMIFA. In addition, the University includes in its permanently restricted endowment a beneficial interest in a perpetual trust administered by an outside party, the income from which is restricted to scholarships. In accordance with Illinois UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Note 11 — Endowment (Continued)

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at May 31, 2018 and 2017, was:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,380,504	$ 9,239,501	$ 11,620,005
Board-designated endowment funds	8,166,920	-	-	8,166,920
Total endowment funds	$ 8,166,920	$ 2,380,504	$ 9,239,501	$ 19,786,925

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,325,788	$ 8,984,231	$ 11,310,019
Board-designated endowment funds	7,230,394	-	-	7,230,394
Total endowment funds	$ 7,230,394	$ 2,325,788	$ 8,984,231	$ 18,540,413

Note 11 — Endowment (Continued)

Changes in endowment net assets for the years ended May 31, 2018 and 2017, were:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,230,394	$ 2,325,788	$ 8,984,231	$ 18,540,413
Investment return				
Investment income	192,594	209,741	-	402,335
Net appreciation	271,703	353,342	22,925	647,970
Total investment return	464,297	563,083	22,925	1,050,305
Contributions	16,217	138,015	232,345	386,577
Board designation to endowment	331,191	-	-	331,191
Board designation to move 25% of annual fund contributions to endowment	142,788	-	-	142,788
Reclassification of non-endowed scholarships	-	(188,808)	-	(188,808)
Appropriation of endowment assets for expenditure	(17,967)	(457,574)	-	(475,541)
Endowment net assets, end of year	$ 8,166,920	$ 2,380,504	$ 9,239,501	$ 19,786,925

Note 11 — Endowment (Continued)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,204,870	$ 1,721,833	$ 8,679,349	$ 16,606,052
Investment return				
Investment income	128,325	172,969	-	301,294
Net appreciation	497,338	652,497	121,226	1,271,061
Total investment return	625,663	825,466	121,226	1,572,355
Contributions	-	146,497	183,656	330,153
Board designation to endowment	351,810	-	-	351,810
Board designation to move 25% of annual fund contributions to endowment	48,051	-	-	48,051
Appropriation of endowment assets for expenditure	-	(368,008)	-	(368,008)
Endowment net assets, end of year	$ 7,230,394	$ 2,325,788	$ 8,984,231	$ 18,540,413

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at May 31 consisted of:

	2018	2017
Permanently restricted net assets		
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	$ 2,451,186	$ 2,428,262
Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	6,808,315	6,555,969
	$ 9,239,501	$ 8,984,231
Temporarily restricted net assets - portion of perpetual endowment funds subject to time restriction under Illinois UPMIFA, with purpose restrictions	$ 2,380,504	$ 2,325,788

Note 11 — Endowment (Continued)

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Illinois UPMIFA. Such endowments are often referred to as "underwater" endowments. Though the University is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value, accounting guidance for not-for-profit organization require that such losses and subsequent gains be reflected as changes in unrestricted net assets until the fair values again reach their historical dollar values. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at May 31, 2018 and 2017.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to produce the highest level of return while assuming a moderate level of investment risk. The University expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value over the prior 12 quarters through the year end preceding the year in which expenditure is planned. This distribution is intended to support operations as well as cover investment-related fees and expenses. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 12 — Operating Leases and Service Agreements

Under the terms of various operating leases, the University has long-term commitments for facilities, equipment, and operational services.

The University entered into an approximately 10-year lease for classroom and office space at a new location for its campus located in Albuquerque, New Mexico, which will expire in August 2024. The lease requires the University to pay all executory costs (maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately $257,500 to $273,300.

Note 12 — Operating Leases and Service Agreements (Continued)

The University entered into two lease agreements for space in the Rialto Theater building located in downtown Joliet, Illinois. The lease agreements are for 10 and 20 years, respectively, and expire in February 2020 and June 2029, respectively. These leases require the University to pay all executory costs (property taxes, maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately $17,600 to $23,000 and $228,700 to $307,400, respectively.

Effective July 2016, the University entered into a license agreement to lease space in an athletic facility in Joliet, Illinois, through June 2021. This agreement is renewable for an additional five-year term. For the final year of the term of the agreement, a usage fee ranging from approximately $87,700 to $91,200 is payable in three installments due on or before July 1, October 1, and January 1.

In April 2014, the University entered into a contractual services agreement with a third-party for the provision of document production and mail management services through March 2019. The base monthly fee for labor and management services is approximately $22,900 and changes each September.

In addition, the University has several other non-cancellable operating leases and service agreements for office equipment and laundry facilities equipment that expire in various years through 2029.

Future minimum contractual payments as of May 31, 2018 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2019	$ 596,991	$ 228,590	$ 279,381	$ 1,104,962
2020	601,130	34,134	229,366	864,630
2021	598,922	15,612	-	614,534
2022	517,132	13,134	-	530,266
2023	529,232	13,134	-	542,366
Thereafter	2,082,356	7,661	-	2,090,017
Total minimum lease payments	$ 4,925,763	$ 312,265	$ 508,747	$ 5,746,775

Note 12 — Operating Leases and Service Agreements (Continued)

Expenses for the operating leases and service agreements during 2018 totaled:

	2018	2017
Facilities leases rent expenses	$ 582,150	$ 572,087
Vehicle and equipment leases rent expenses	288,627	253,986
Total rent expense	870,777	826,073
Contracted services	279,380	279,253
	$ 1,150,157	$ 1,105,326

Note 13 — Retirement Plans

The University has a defined contribution benefit plan (the Plan) covering substantially all full-time faculty, administrative, and staff personnel who agree to make contributions of at least 5% of the employee's base salary to the Plan. The University's annual contribution to the Plan ranges between 5% and 10% of the employees' base salaries depending upon years of service. The retirement benefit expense was $1,259,959 and $1,224,151 for 2018 and 2017, respectively.

In February 2016, the University established a nonqualified deferred compensation plan for a select group of key management or highly compensated employees, providing supplemental retirement income benefits through the deferral of base salary, bonus compensation, and additional discretionary contributions by the University.

Additionally, the University entered into an agreement with a trustee under an irrevocable trust (the Trust) to be used in connection with the nonqualified plan. The Trust is intended to be a rabbi trust and the assets of the trust belong to the University and are subject to the claims of the University's general creditors. The Trust assets are invested in a managed portfolio proprietary fund.

Participants are fully vested at all times in their base salary deferrals, bonus compensation deferrals, matching contributions, and discretionary contributions, and any earnings thereon.

Payment of a participant's vested account shall be made within 90 days of the earliest to occur: separation from service; death; and disability.

During the years ended May 31, 2018 and 2017, the University made discretionary contributions to the Trust of $48,000 and $36,000, respectively, recognized as compensation expense. The fair market value of the underlying trust assets as of May 31, 2018 and 2017 was $121,876 and $66,195, respectively. and are included in Cash and Restricted Investments along with a related deferred compensation liability of $121,876 and $66,195, respectively, included in Other Liabilities on the Statement of Financial Position.

Note 14 — Related Party Transactions

The University conducts business with various vendors throughout the Joliet and greater Chicagoland areas. Several of the University's vendors have principals or employees currently serving on its Board of Trustees. In accordance with the University's Conflict of Interest Policy, each Trustee is required to disclose her or his business relationship with the University on an annual basis. For the years ended May 31, 2018 and 2017, the University did not purchase any products or services from these related parties. Where applicable, expenditures are competitively bid and management believes that having relationships with the Trustees saves the University money on both an aggregate and individual basis.

Approximately $719,528 (28%) and $1,047,723 (34%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2018 and 2017, respectively, and approximately $269,666 (14%) and $182,566 (9%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2018 and 2017, respectively.

Note 15 — Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2018 and 2017:

Note 15 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Common and preferred stocks	$ 5,454,701	$ -	$ -	$ 5,454,701
U.S. Treasury notes	-	1,336,405	-	1,336,405
U.S. Government agency mortgage-backed securities	-	173,510	-	173,510
Corporate bonds	-	1,667,433	-	1,667,433
Equity mutual funds	4,806,610	-	-	4,806,610
Fixed income mutual funds	2,774,074	-	-	2,774,074
Fixed income exchange-traded funds	628,763	-	-	628,763
Alternative strategy mutual funds	599,921	-	-	599,921
Real estate held for investment	-	1,430,325	-	1,430,325
	$ 14,264,069	$ 4,607,673	$ -	18,871,742
Cash and cash equivalents carried at amortized cost				5,202,188
Alternative investment funds carried at NAV				121,876
Total investments				$ 24,195,806
Other Assets				
Beneficial interest in perpetual trust	$ -	$ -	$ 2,451,186	$ 2,451,186
Interest rate swap agreements	-	692,859	-	692,859

Note 15 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Common and preferred stocks	$ 4,916,789	$ -	$ -	$ 4,916,789
U.S. Treasury notes	-	979,441	-	979,441
U.S. Government agency mortgage-backed securities	-	178,915	-	178,915
Corporate bonds	-	2,057,951	-	2,057,951
Equity mutual funds	4,900,369	-	-	4,900,369
Fixed income mutual funds	2,486,257	-	-	2,486,257
Fixed income exchange-traded funds	588,079	-	-	588,079
Alternative strategy mutual funds	449,982	-	-	449,982
Real estate held for investment	-	1,319,500	-	1,319,500
	$ 13,341,476	$ 4,535,807	$ -	17,877,283
Cash and cash equivalents carried at amortized cost				529,429
Alternative investment funds carried at NAV				7,248,313
Total investments				$ 25,655,025
Other Assets				
Beneficial interest in perpetual trust	$ -	$ -	$ 2,428,262	$ 2,428,262
Liabilities				
Interest rate swap agreements	-	24,463	-	24,463

Note 15 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameter, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There are no Level 3 securities.

Real Estate Held for Investment

Fair value is determined by appraisal each year.

Beneficial Interest in Perpetual Trust

Fair value is determined using the current value of the trust. The University considers the measurement of its beneficial interest in the perpetual charitable trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the University will never receive those assets or have the ability to direct the trustee to redeem them.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

Note 15 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Unobservable (Level 3) Inputs

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	2018	2017
Beneficial interest in perpetual trust		
Balance, beginning of year	$ 2,428,262	$ 2,307,036
Total change in value of perpetual trust	22,924	121,226
Balance, end of year	$ 2,451,186	$ 2,428,262
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ 22,924	$ 121,226

The total change in value of the perpetual trust reflected in the table above is included in other revenues (expenses) in the statement of activities.

Note 16 — Significant Estimates, Concentrations, and Contingencies

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Student Accounts Receivable

The University grants unsecured credit to students located throughout the United States of America.

Asset Retirement Obligation

The University's conditional asset retirement obligations primarily relate to the remediation of asbestos contained in buildings that the University owns. Environmental regulations exist that require the University to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. Determination of the recorded liability is based on a number of estimates and assumptions including discount rate, abatement cost estimates, and estimates of dates of abatement. The University estimated its liability at May 31, 2018 and 2017 to be $523,058 and $592,226, respectively, which is included in the other liabilities line in the statements of financial position.

Note 16 — Significant Estimates, Concentrations, and Contingencies (Continued)

Litigation

The University is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets, and cash flows of the University. Events could occur that would change this estimate materially in the near term.

Note 17 — Risks and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Note 18 — Subsequent Events

No significant events to report.

Subsequent events have been evaluated October 4, 2018, which is the date the financial statements were available to be issued.