



**Financial Statements and  
Independent Auditor's Report**

**May 31, 2015 and 2014**

**University of St. Francis**  
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**May 31, 2015 and 2014**

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1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

630.566.8400 // [www.sikich.com](http://www.sikich.com)

Certified Public Accountants & Advisors  
*Members of American Institute of Certified Public Accountants*

## 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 of the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to 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 as of May 31, 2015 and 2014, 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.

*Sichich LLP*

Naperville, Illinois  
October 2, 2015

## **Financial Statements**

**University of St. Francis**  
**Statements of Financial Position**  
**May 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,571,527	\$ 6,679,941
Student accounts receivable, net of allowance of \$1,640,900 in 2015 and \$1,453,800 in 2014	4,742,316	2,591,866
Other receivables	241,836	279,680
Prepaid expenses and other assets	535,186	450,787
Contributions receivable, net of allowance of \$4,400 in 2015 and \$2,900 in 2014	236,271	53,327
Restricted cash and investments	1,250,061	1,227,097
Investments	17,790,135	20,915,912
Real estate held for investment	1,696,500	2,073,500
Student loans receivable, net of allowance of \$50,000 in 2015 and 2014	1,326,016	1,291,308
Debt issuance costs, net of accumulated amortization of \$21,828 in 2015 and \$10,914 in 2014	251,022	261,936
Property and equipment, net of accumulated depreciation of \$33,823,614 in 2015 and \$31,214,973 in 2014	43,051,714	38,080,421
Beneficial interest in perpetual trust	2,493,601	2,467,157
<b>Total Assets</b>	<b>\$ 79,186,185</b>	<b>\$ 76,372,932</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,735,755	\$ 1,118,417
Accrued expenses	2,650,447	2,384,582
Deferred revenue	3,982,716	3,488,006
Capital lease obligations	60,873	220,320
Other liabilities	1,546,845	1,208,992
Interest rate swap agreements	311,635	43,447
Bonds and notes payable	26,189,000	27,062,000
U.S. Government student loan funds	1,037,658	1,075,545
<b>Total liabilities</b>	<b>37,514,929</b>	<b>36,601,309</b>
<b>Net Assets</b>		
Unrestricted	28,810,763	27,838,983
Temporarily restricted	4,109,775	3,842,945
Permanently restricted	8,750,718	8,089,695
<b>Total net assets</b>	<b>41,671,256</b>	<b>39,771,623</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 79,186,185</b>	<b>\$ 76,372,932</b>

See accompanying Notes to Financial Statements.

# University of St. Francis

## Statement of Activities Year Ended May 31, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains, and Other Support</b>				
Tuition and fees	\$ 59,415,093	\$ -	\$ -	\$ 59,415,093
Less scholarships and aid	(18,315,229)	-	-	(18,315,229)
Net tuition and fees	41,099,864	-	-	41,099,864
Contributions	866,808	712,421	634,579	2,213,808
Grants and contracts	564,334	1,853,693	-	2,418,027
Distribution from trusts held by others	-	142,029	-	142,029
Investment return	146,820	223,577	-	370,397
Auxiliary enterprises	3,965,432	-	-	3,965,432
Other income	990,480	-	-	990,480
Net assets released from restrictions	2,729,399	(2,729,399)	-	-
Total revenues, gains, and other support	50,363,137	202,321	634,579	51,200,037
<b>Expenses</b>				
Instruction	17,613,766	-	-	17,613,766
Academic support	8,700,815	-	-	8,700,815
Student services	9,672,970	-	-	9,672,970
Auxiliary enterprises	4,227,782	-	-	4,227,782
Total educational program services	40,215,333	-	-	40,215,333
Institutional support	7,823,663	-	-	7,823,663
Fundraising	658,352	-	-	658,352
Total expenses	48,697,348	-	-	48,697,348
<b>Change in Net Assets Before Other Revenues (Expenses)</b>	1,665,789	202,321	634,579	2,502,689
<b>Other Revenues (Expenses)</b>				
Unrealized investment gain (loss)	(38,589)	64,509	-	25,920
Unrealized loss on real estate held for investment	(377,000)	-	-	(377,000)
Change in fair value of interest rate swap agreements	(268,188)	-	-	(268,188)
Change in value of split-interest agreements	(10,232)	-	26,444	16,212
Total other revenues (expenses)	(694,009)	64,509	26,444	(603,056)
<b>Changes in Net Assets</b>	971,780	266,830	661,023	1,899,633
<b>Net Assets, Beginning of Year</b>	27,838,983	3,842,945	8,089,695	39,771,623
<b>Net Assets, End of Year</b>	\$ 28,810,763	\$ 4,109,775	\$ 8,750,718	\$ 41,671,256

See accompanying Notes to Financial Statements.

# University of St. Francis

## Statement of Activities

Year Ended May 31, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains, and Other Support</b>				
Tuition and fees	\$ 59,386,787	\$ -	\$ -	\$ 59,386,787
Less scholarships and aid	(17,828,381)	-	-	(17,828,381)
Net tuition and fees	41,558,406	-	-	41,558,406
Contributions	1,940,902	148,656	182,775	2,272,333
Grants and contracts	377,109	1,328,194	-	1,705,303
Distribution from trusts held by others	-	129,826	-	129,826
Investment return	144,594	201,305	-	345,899
Auxiliary enterprises	4,056,569	-	-	4,056,569
Other income	924,983	-	-	924,983
Net assets released from restrictions	2,319,245	(2,319,245)	-	-
Total revenues, gains, and other support	51,321,808	(511,264)	182,775	50,993,319
<b>Expenses</b>				
Instruction	17,643,578	-	-	17,643,578
Academic support	6,650,606	-	-	6,650,606
Student services	7,934,119	-	-	7,934,119
Auxiliary enterprises	4,127,563	-	-	4,127,563
Total educational program services	36,355,866	-	-	36,355,866
Institutional support	8,142,753	-	-	8,142,753
Fundraising	585,098	-	-	585,098
Total expenses	45,083,717	-	-	45,083,717
<b>Change in Net Assets Before Other Revenues (Expenses)</b>	6,238,091	(511,264)	182,775	5,909,602
<b>Other Revenues (Expenses)</b>				
Unrealized investment gain	137,388	186,064	-	323,452
Change in fair value of interest rate swap agreements	20,703	-	-	20,703
Change in value of split-interest agreements	1,578	-	137,418	138,996
Loss on extinguishment of debt	(391,717)	-	-	(391,717)
Total other revenues (expenses)	(232,048)	186,064	137,418	91,434
<b>Changes in Net Assets</b>	6,006,043	(325,200)	320,193	6,001,036
<b>Net Assets, Beginning of Year</b>	21,832,940	4,168,145	7,769,502	33,770,587
<b>Net Assets, End of Year</b>	\$ 27,838,983	\$ 3,842,945	\$ 8,089,695	\$ 39,771,623

See accompanying Notes to Financial Statements.



**University of St. Francis**  
**Statements of Cash Flows**  
**Years Ended May 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,899,633	\$ 6,001,036
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	2,992,632	2,783,096
Loss on asset impairment	65,022	-
Bad debt expense	188,600	90,900
Change in contributions receivable discount	(387)	847
Perkins loans cancellations and adjustments	21,190	20,608
Net realized and unrealized (gains) losses on investments	276,219	(404,008)
Gain on sale of property and equipment	-	(250)
Change in beneficial interest in perpetual trust	(26,444)	(137,419)
Change in fair value of interest rate swap agreements	268,188	(20,703)
Actuarial (gain) loss on annuity obligations	10,232	(1,578)
Noncash contributions	(134,964)	(1,493,508)
Contributions restricted for long-term investment	(634,579)	(182,775)
Contributions restricted for acquisition of long-lived assets	(1,915,158)	(2,760,939)
Loss on extinguishment of debt	-	391,617
Changes in operating assets and liabilities		
Student accounts receivable	(2,337,550)	497,433
Other receivables	37,844	226,397
Prepaid expenses	(84,399)	(53,436)
Contributions receivable	(184,057)	208,916
Accounts payable	215,035	176,994
Accrued expenses	265,865	(277,430)
Deferred revenue	494,710	(1,226,334)
Other liabilities	350,096	521,635
	<u>1,767,728</u>	<u>4,361,099</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(7,530,290)	(6,103,678)
Proceeds from sale of property and equipment	-	250
Purchases of investments	(19,849,826)	(27,268,633)
Proceeds from sales and maturities of investments	23,010,619	28,033,207
Increase in cash and investments restricted for student loans, scholarships, and long-lived asset purchases	57,325	1,165,862
Advances of student loans	(227,050)	(180,000)
Principal payments received on student loans	171,152	212,713
	<u>(4,368,070)</u>	<u>(4,140,279)</u>

(This statement is continued on the following page.)

**University of St. Francis**  
**Statements of Cash Flows (continued)**  
**Years Ended May 31, 2015 and 2014**

	2015	2014
<b>Cash Flows from Financing Activities</b>		
Payments on note payable	\$ -	\$ (16,200)
Payments on capital lease obligations	(159,447)	(184,836)
Principal payments on bonds	(873,000)	(25,574,000)
Payment on termination of interest rate swap agreement	-	(3,610,000)
Proceeds from issuance of bonds	-	27,886,000
Payments on annuities payable	(3,500)	(3,500)
Proceeds from issuance of annuities payable	16,025	-
Decrease in cash restricted for bond payable retirement	-	357,945
Decrease in U.S. Government student loan funds	(37,887)	(66,044)
Proceeds from contributions restricted for long-term investment	634,579	182,775
Proceeds from contributions restricted for acquisition of long-lived assets	1,915,158	2,760,939
	1,491,928	1,733,079
Net cash provided by financing activities	1,491,928	1,733,079
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,108,414)	1,953,899
<b>Cash and Cash Equivalents, Beginning of Year</b>	6,679,941	4,726,042
<b>Cash and Cash Equivalents, End of Year</b>	\$ 5,571,527	\$ 6,679,941
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 542,776	\$ 652,711
Property and equipment purchases included in accounts payable	725,200	322,897
Noncash contribution of property	85,440	1,437,425

See accompanying Notes to Financial Statements.

**University of St. Francis**  
**Notes to Financial Statements**  
**May 31, 2015 and 2014**

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**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, 2015 and 2014, cash equivalents consisted primarily of money market funds.

At May 31, 2015, the University's cash accounts exceeded federally insured limits by approximately \$5,538,000. 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

**University of St. Francis**  
**Notes to Financial Statements**  
**May 31, 2015 and 2014**

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begin). A late fee 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. 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.

### **Debt Issuance Costs**

Costs incurred in obtaining long-term financing are deferred and amortized over the term of the related borrowing. Total amortization expense for the years ended May 31, 2015 and 2014 was \$10,914 and \$10,914, respectively.

# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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### 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.

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 the 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:

# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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*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.

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.

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**Notes to Financial Statements**  
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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, 2015 and 2014, \$206,405 and \$1,524,383, 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.

### **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, 2015 and 2014 were \$705,270 and \$552,936, respectively.

### **Income Taxes**

The University is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code 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.

Tax effects from uncertain tax positions are recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain tax positions that require recognition in the financial statements. The University is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2012.

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

**Note 2 — Contributions Receivable**

Contributions receivable at May 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 225,440	\$ 36,883
Due in one to five years	16,000	16,500
Due after five years	-	4,000
	<u>241,440</u>	<u>57,383</u>
Less		
Present value discount at 2%	(769)	(1,156)
Allowance for uncollectible contributions	(4,400)	(2,900)
	<u>\$ 236,271</u>	<u>\$ 53,327</u>

**Note 3 — Investments and Investment Return**

Investments at May 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 2,049,241	\$ 1,129,383
Common and preferred stocks	2,719,671	2,406,269
U.S. Treasury notes	1,186,915	763,721
U.S. Government agency mortgage-backed securities	2,174,829	2,587,967
Corporate bonds	3,706,253	4,948,763
Municipal bonds	-	1,675,000
Equity mutual funds	888,426	930,321
Fixed income mutual funds	1,392,498	2,544,243
Equity exchange-traded fund	2,850,750	2,737,995
Fixed income exchange-traded funds	1,678,745	1,441,054
Alternative strategy mutual funds	349,248	877,348
Real estate held for investment	1,696,500	2,073,500
	<u>\$ 20,693,076</u>	<u>\$ 24,115,564</u>



**University of St. Francis**  
**Notes to Financial Statements**  
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Investments are reflected in the statements of financial position as follows:

	2015	2014
Restricted cash and investments	\$ 1,206,440	\$ 1,126,152
Investments	17,790,135	20,915,912
Real estate held for investment	1,696,500	2,073,500
	\$ 20,693,075	\$ 24,115,564

Total investment return is comprised of the following:

	2015	2014
Interest and dividend income (net of expenses of \$118,008 and \$77,015 in 2015 and 2014, respectively)	\$ 295,536	\$ 265,343
Realized gains on investments reported at fair value	74,861	80,556
Net investment return	370,397	345,899
Unrealized gains on investments reported at fair value	25,920	323,452
Unrealized loss on real estate held for investment reported at fair value	(377,000)	-
	\$ 19,317	\$ 669,351

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

	2015	2014
Student loans	\$ 43,621	\$ 100,945
Long-lived asset purchases	154,629	100,748
Scholarships	1,051,811	1,025,404
	\$ 1,250,061	\$ 1,227,097

**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 1.74% and 1.76% of total assets as of May 31, 2015 and 2014, 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, 2015 and 2014, \$767,442 and \$698,493, 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.

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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 year ended May 31 follows:

	2015	2014
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	
2015	\$ 46,741	\$ 75,547	\$ 42,234	\$ 119,075	\$ 283,597
2014	\$ 102,603	\$ 72,316	\$ 34,055	\$ 120,827	\$ 329,801

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 \$1,037,658 and \$1,075,545 as of May 31, 2015 and 2014, 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.

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**Note 5 — Property and Equipment**

Property and equipment at May 31 consists of:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 8,951,672	\$ 8,129,511
Buildings and building and leasehold improvements	50,640,589	46,680,904
Equipment, furniture, and fixtures	12,419,348	10,791,013
Administrative computer software	987,845	867,085
Library books	532,105	643,088
Motor vehicles	460,993	337,558
Construction in progress	2,882,776	1,846,235
	<u>76,875,328</u>	<u>69,295,394</u>
Less accumulated depreciation and amortization	(33,823,614)	(31,214,973)
	<u>\$ 43,051,714</u>	<u>\$ 38,080,421</u>

The University capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	<u>2015</u>	<u>2014</u>
Interest costs capitalized	\$ 35,820	\$ -
Interest costs charged to expense	540,678	619,719
Total interest incurred	<u>\$ 576,498</u>	<u>\$ 619,719</u>

The following construction commitments exist as of May 31:

	<u>2015</u>	<u>2014</u>
St. Clare Campus (Guardian Angel Hall) Renovations	\$ 4,101,199	\$ 7,070
Robert W. Plaster Free Enterprise Center renovations	110,102	1,012,965
Albuquerque Campus renovations	-	393,963
Science Building	1,494,995	-
	<u>\$ 5,706,296</u>	<u>\$ 1,413,998</u>

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**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 \$2,493,601 and \$2,467,157, which represents the fair value of the trust assets at May 31, 2015 and 2014, respectively. The income from this trust for 2015 and 2014 was \$112,000 and \$100,089, 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 2015 and 2014 was \$30,029 and \$29,737, respectively.

**Note 7 — Bonds and Notes Payable and Capital Lease Obligations**

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

	2015	2014
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 .95% to .97% in 2015, maturing through December 1, 2037, payable in annual installments beginning December 1, 2017 ranging from \$770,000 to \$1,440,000	\$ 24,248,000	\$ 24,248,000
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 1.16% to 1.19% in 2015, maturing through June 16, 2018, payable in annual installments ranging from \$152,000 to \$902,000	1,941,000	2,814,000
\$2,000,000 Revolving Loan expiring June 16, 2015; interest varies with the bank's prime rate, which was 3.25% on May 31, 2014, and is payable monthly	-	-
Total bonds and notes payable	26,189,000	27,062,000
Capital lease obligations for equipment under two capital leases which expire in 2016 and 2017	60,873	220,320
	\$ 26,249,873	\$ 27,282,320

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In June of 2013, the University refinanced its outstanding County of Will, Illinois Tax-Exempt Variable Rate Demand Revenue Bonds by issuing a \$24,248,000 tax-exempt bond and a \$3,638,000 taxable note payable.

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, 2015 and 2014, the University believes it is in compliance with these covenants and ratios.

Aggregate annual maturities of bonds and notes payable and payments on capital lease obligations at May 31, 2015, are:

	<b>Bonds and Notes Payable</b>	<b>Capital Lease Obligations</b>
2016	\$ 887,000	\$ 52,871
2017	902,000	9,710
2018	922,000	-
2019	941,000	-
2020	961,000	-
Thereafter	21,576,00	-
	<u>\$ 26,189,000</u>	62,581
Less amount representing interest		1,708
Present value of future minimum lease payments		\$ 60,873

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

	<b>2015</b>	<b>2014</b>
Equipment	\$ 434,494	\$ 681,494
Less accumulated depreciation	(378,387)	(473,238)
	<u>\$ 56,107</u>	<u>\$ 208,256</u>

**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

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amount of \$24,248,000 at May 31, 2015. 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 \$1,941,000 at May 31, 2015. 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 University also entered into an interest rate swap agreement for a portion of its variable rate debt that was refinanced in June 2013. The agreement provides for the University to receive interest from the counterparty at the USD-BMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 4.25% on notional amounts of \$20,730,000 at May 31, 2013. Under the agreement, 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. This agreement was terminated on June 17, 2013.

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

	2015	2014
Fair value of liability for interest rate swap agreements		
2013 Series bond	\$ 3,154	\$ 7,555
2013 Term loan	308,481	35,892
2005 and 2007 Series bonds	-	-
	\$ 311,635	\$ 43,447
Gain (Loss) recognized in change in net assets		
2013 Series bond	\$ 4,401	\$ (7,555)
2013 Term loan	(272,589)	(35,892)
2005 and 2007 Series bonds	-	64,150
	\$ (268,188)	\$ 20,703

**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, 2015 and 2014 of \$60,171 and \$37,414, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 1.8% and 2.4% at May 31, 2015 and 2014, respectively, and applicable mortality tables.

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**Note 10 – Net Assets**

**Temporarily Restricted Net Assets**

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

	2015	2014
Scholarships	\$ 1,186,287	\$ 1,138,327
Educational programs and other	390,984	443,109
Property and equipment purchases	232,029	100,749
Accumulated earnings on endowed funds for		
Scholarships	2,171,095	2,045,943
Faculty development and other programs	64,262	53,018
Prizes and awards	65,118	61,799
	\$ 4,109,775	\$ 3,842,945

**Permanently Restricted Net Assets**

Permanently restricted net assets at May 31 are restricted to:

	2015	2014
Investment in perpetuity, the income of which is		
expendable to support		
Scholarship	\$ 5,779,582	\$ 5,145,503
Faculty development and other programs	424,135	424,135
Prizes and awards	53,400	52,900
	6,257,117	5,622,538
Beneficial interest in perpetual trust the income		
of which is to be spent on scholarships	2,493,601	2,467,157
	\$ 8,750,718	\$ 8,089,695

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**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:

	2015	2014
Purpose restrictions accomplished		
Scholarships	\$ 539,735	\$ 514,692
Faculty development and other programs	373,760	183,339
Prizes and awards	1,799	4,200
	915,294	702,231
Property and equipment acquired and placed in service	1,814,105	1,617,014
	\$ 2,729,399	\$ 2,319,245

**Note 11 – Endowment**

The University's endowment consists of approximately 85 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:

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



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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, 2015 and 2014, was:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 2,300,475	\$ 8,673,518	\$ 10,973,993
Board-designated endowment funds	6,333,760	-	-	6,333,760
Total endowment funds	\$ 6,333,760	\$ 2,300,475	\$ 8,673,518	\$ 17,307,753

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 2,160,760	\$ 8,089,695	\$ 10,250,455
Board-designated endowment funds	5,071,495	-	-	5,071,495
Total endowment funds	\$ 5,071,495	\$ 2,160,760	\$ 8,089,695	\$ 15,321,950

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Changes in endowment net assets for the years ended May 31, 2015 and 2014, were:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 5,071,494	\$ 2,160,760	\$ 8,089,695	\$ 15,321,949
Investment return				
Investment income	81,973	124,393	-	206,366
Net appreciation	67,212	137,285	26,444	230,941
Total investment return	149,185	261,678	26,444	437,307
Contributions	90,986	334,749	557,379	983,114
Board designation to reinvest 2015 endowment expenditures	307,470	-	-	307,470
Board designation to move 25% of annual fund contributions to endowment	49,365	-	-	49,365
Board designation to move estate gifts to endowment	685,000	-	-	685,000
Appropriation of endowment assets for expenditure	(19,740)	(456,712)	-	(476,452)
Endowment net assets, end of year	\$ 6,333,760	\$ 2,300,475	\$ 8,673,518	\$ 17,307,753

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	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 4,514,179	\$ 2,117,468	\$ 7,769,502	\$ 14,401,149
Investment return				
Investment income	72,656	120,355	-	193,011
Net appreciation	121,051	241,610	137,418	500,079
Total investment return	193,707	361,965	137,418	693,090
Contributions	41,666	92,484	182,775	316,925
Board designation to reinvest 2014 endowment expenditures	292,779	-	-	292,779
Board designation to move 25% of annual fund contributions to endowment	48,900	-	-	48,900
Appropriation of endowment assets for expenditure	(19,736)	(411,157)	-	(430,893)
Endowment net assets, end of year	\$ 5,071,495	\$ 2,160,760	\$ 8,089,695	\$ 15,321,950

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

	2015	2014
Permanently restricted net assets		
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	\$ 2,493,601	\$ 2,467,157
Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	6,179,917	5,622,538
	\$ 8,673,518	\$ 8,089,695
Temporarily restricted net assets - portion of perpetual endowment funds subject to time restriction under Illinois UPMIFA, with purpose restrictions	\$ 2,300,475	\$ 2,160,760

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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, 2015 and 2014.

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 \$247,000 to \$273,300.

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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 \$20,900 to \$23,000 and \$209,300 to \$307,400, respectively.

Effective July 2011, the University entered into a license agreement to lease space in an athletic facility in Joliet, Illinois, through June 2016. This agreement is renewable for an additional five-year term. For the final year of the term of the agreement, a usage fee \$81,120 is payable in three installments due on or before July 1, October 1, and January 1.

Effective September 2004, the University entered into a 10-year lease for classroom and office space for its campus located in Albuquerque, New Mexico, that expired in August 2014. The lease required the University to pay all executory costs (maintenance, utilities, and insurance). The lease was payable in monthly installments of \$13,000.

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 \$22,262 and changes each April.

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 2024.

Future minimum contractual payments as of May 31, 2015 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2016	\$ 558,378	\$ 234,775	\$ 276,513	\$ 1,069,666
2017	487,722	214,191	275,853	977,766
2018	497,785	209,667	275,853	983,305
2019	509,251	185,111	231,329	925,691
2020	513,391	21,959	725	536,075
Thereafter	3,636,392	46,784	-	3,683,176
Total minimum lease payments	\$ 6,202,919	\$ 912,487	\$ 1,060,273	\$ 8,175,679

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Expenses for the operating leases and service agreements during 2015 totaled:

	2015	2014
Facilities leases rent expenses	\$ 628,210	\$ 491,606
Vehicle and equipment leases rent expenses	248,860	252,135
Total rent expense	877,070	743,741
Contracted services	267,872	247,687
	\$ 1,144,942	\$ 991,428

**Note 13 – Retirement Benefit Plan**

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 \$1,298,070 and \$1,212,306 for 2015 and 2014, respectively.

**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, 2015 and 2014, the University purchased products or services totaling \$0 and \$21,415, respectively, from these related parties. Where applicable, these expenditures are competitively bid and management believes that having such relationships with the Trustees saves the University money on both an aggregate and individual basis.

Approximately \$6,408 (3%) and \$1,800 (3%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2015 and 2014, respectively, and approximately \$140,892 (6%) and \$1,572,973 (69%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2015 and 2014, 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:

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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, 2015 and 2014:

	2015			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Investments				
Common and preferred stocks	\$ 2,719,671	\$ -	\$ -	\$ 2,719,671
U.S. Treasury notes	-	1,186,915	-	1,186,915
U.S. Government agency mortgage-backed securities	-	2,174,829	-	2,174,829
Corporate bonds	-	3,706,253	-	3,706,253
Equity mutual funds	888,426	-	-	888,426
Fixed income mutual funds	1,392,498	-	-	1,392,498
Equity exchange-traded funds	2,850,750	-	-	2,850,750
Fixed income exchange-traded fund	1,678,745	-	-	1,678,745
Alternative strategy mutual funds	349,248	-	-	349,248
<b>Total investments</b>	<b>9,879,338</b>	<b>7,067,997</b>	<b>-</b>	<b>16,947,335</b>
Real estate held for investment	-	1,696,500	-	1,696,500
Beneficial interest in perpetual trust	-	-	2,493,601	2,493,601
<b>Liabilities</b>				
Interest rate swap agreements	-	311,635	-	311,635

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	2014			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Investments				
Common and preferred stocks	\$ 2,406,269	\$ -	\$ -	\$ 2,406,269
U.S. Treasury notes	-	763,721	-	763,721
U.S. Government agency mortgage-backed securities	-	2,587,967	-	2,587,967
Corporate bonds	-	4,948,763	-	4,948,763
Municipal bonds	-	1,675,000	-	1,675,000
Equity mutual funds	930,321	-	-	930,321
Fixed income mutual funds	2,544,243	-	-	2,544,243
Equity exchange-traded funds	2,737,995	-	-	2,737,995
Fixed income exchange-traded funds	1,441,054	-	-	1,441,054
Alternative strategy mutual funds	877,348	-	-	877,348
<b>Total investments</b>	<b>10,937,230</b>	<b>9,975,451</b>	<b>-</b>	<b>20,912,681</b>
Real estate held for investment	-	2,073,500	-	2,073,500
Beneficial interest in perpetual trust	-	-	2,467,157	2,467,157
<b>Liabilities</b>				
Interest rate swap agreements	-	43,447	-	43,447

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 and Real Estate Held for Investment**

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



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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.

**Beneficial Interest in Perpetual Trust**

Fair value is determined using the current value of the trust. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

**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.

**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:

	2015	2014
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,467,157	\$ 2,329,738
Total change in value of perpetual trust	26,444	137,418
Balance, end of year	\$ 2,493,601	\$ 2,467,156
	2015	2014
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	\$ 26,444	\$ 137,418

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.

# University of St. Francis

## Notes to Financial Statements

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### Fair Value of Financial Instruments

The following table summarizes the carrying values and estimated fair values of the University's financial instruments at May 31, 2015 and 2014:

	2015			
	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 5,571,527	\$ 5,571,527	\$ -	\$ -
Contributions receivable	236,271	-	-	236,271
Restricted cash and investments	1,250,061	1,250,061	-	-
Investments	17,790,135	10,722,138	7,067,997	-
Real estate held for investment	1,696,500	-	1,696,500	-
Student loans receivable	1,326,016	-	-	1,326,016
Beneficial interest in perpetual trust	2,493,601	-	-	2,493,601
<b>Liabilities</b>				
Annuities payable	60,171	-	-	60,171
Interest rate swap agreements	311,635	-	311,635	311,635
Bonds and notes payable	26,189,000	-	26,189,000	-
U.S. Government student loan funds	1,037,658	-	-	1,037,658
<b>2014</b>				
	Carrying Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 6,679,941	\$ 6,679,941	\$ -	\$ -
Contributions receivable	53,327	-	-	53,327
Restricted cash and investments	1,227,097	1,227,097	-	-
Investments	20,915,912	10,940,461	9,975,451	-
Real estate held for investment	2,073,500	-	2,073,500	-
Student loans receivable	1,291,308	-	-	1,291,308
Beneficial interest in perpetual trust	2,476,157	-	-	2,476,157
<b>Liabilities</b>				
Annuity payable	37,414	-	-	37,414
Interest rate swap agreements	43,447	-	43,447	-
Bonds and notes payable	27,062,000	-	27,062,000	-
U.S. Government student loan funds	1,075,545	-	-	1,075,545

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

**Cash and Cash Equivalents**

Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

**Contributions Receivable**

Contributions receivable are shown net of allowance for uncollectible amounts and the value is determined by discounting the expected future cash flows by a risk-adjusted rate of return and approximates fair value.

**Student Loans Receivable**

The carrying amount reported is recorded net of allowance for doubtful accounts and approximates its fair value.

**Annuities Payable**

The fair value is determined by discounting the expected future cash flows using interest rates for instruments with similar terms and maturities and approximates fair value.

**Bonds and Notes Payable**

The carrying value of the loans and bonds payable is presumed to approximate the fair value.

**U.S. Government Student Loan Funds**

The carrying value of the U.S. Government student loans funds liability is presumed to approximate the fair value.

**Note 16 – Significant Estimates, Concentrations, and Contingencies**

Accounting principles generally accepted in the United States of America require 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.

# University of St. Francis

## Notes to Financial Statements

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### **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, 2015 and 2014 to be \$861,231 and \$610,557, respectively, which is included in the other liabilities line in the statements of financial position.

### **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**

In June 2015, the University extended the expiration date on the \$2,000,000 unsecured revolving bank loan to June 30, 2017.

Subsequent events have been evaluated through October 2, 2015, which is the date the financial statements were available to be issued.