

UNIVERSITY OF ST. FRANCIS
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
MAY 31, 2014 AND 2013

UNIVERSITY OF ST. FRANCIS
TABLE OF CONTENTS
MAY 31, 2014 AND 2013

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	3-4
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-40



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

630.566.8400 // 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 the statements of financial position of as of May 31, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of University of St. Francis as of May 31, 2013 were audited by other auditors whose report dated December 20, 2013, expressed an unqualified opinion on those statements.

A handwritten signature in cursive script that reads "Silich LLP".

Naperville, Illinois
October 17, 2014

FINANCIAL STATEMENTS

UNIVERSITY OF ST. FRANCIS
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 6,679,941	\$ 4,726,042
Student accounts receivable, net of allowance of \$1,453,800 in 2014 and \$1,374,600 in 2013	2,591,866	3,168,499
Other receivables	279,680	506,077
Prepaid expenses and other assets	450,787	397,351
Contributions receivable, net of allowance of \$2,900 in 2014 and \$14,600 in 2013	53,327	274,790
Restricted cash and investments	1,227,097	2,311,949
Investments	20,915,912	21,967,200
Real estate held for investment	2,073,500	2,073,500
Student loans receivable, net of allowance of \$50,000	1,291,308	1,344,629
Debt issuance costs, net of accumulated amortization of \$10,914 in 2014 and \$126,400 in 2013	261,936	295,889
Property and equipment, net of accumulated depreciation of \$31,214,973 in 2014 and \$28,592,391 in 2013	38,080,421	33,267,881
Beneficial interest in perpetual trust	2,467,157	2,329,738
TOTAL ASSETS	<u><u>\$ 76,372,932</u></u>	<u><u>\$ 72,663,545</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,118,417	\$ 897,804
Accrued expenses	2,384,582	2,662,012
Deferred revenue	3,488,006	4,714,340
Capital lease obligations	220,320	405,156
Other liabilities	1,208,992	727,435
Interest rate swap agreement	43,447	3,674,150
Bonds and notes payable	27,062,000	24,670,472
U.S. Government student loan funds	1,075,545	1,141,589
Total liabilities	<u>36,601,309</u>	<u>38,892,958</u>
NET ASSETS		
Unrestricted	27,838,983	21,832,940
Temporarily restricted	3,842,945	4,168,145
Permanently restricted	8,089,695	7,769,502
Total net assets	<u>39,771,623</u>	<u>33,770,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 76,372,932</u></u>	<u><u>\$ 72,663,545</u></u>

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	
REVENUES, GAINS, AND OTHER SUPPORT				
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	281,982	387,369	-	669,351
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	51,459,196	(325,200)	182,775	51,316,771
EXPENSES				
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
CHANGE IN NET ASSETS BEFORE OTHER REVENUES (EXPENSES)	6,375,479	(325,200)	182,775	6,233,054
OTHER REVENUES (EXPENSES)				
Change in fair value of interest rate swap agreement	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)	(369,436)	-	137,418	(232,018)
CHANGES IN NET ASSETS	6,006,043	(325,200)	320,193	6,001,036
NET ASSETS, BEGINNING OF YEAR	21,832,940	4,168,145	7,769,502	33,770,587
NET ASSETS, END OF YEAR	\$ 27,838,983	\$ 3,842,945	\$ 8,089,695	\$ 39,771,623

See accompanying Notes to Financial Statements.

UNIVERSITY OF ST. FRANCIS
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Tuition and fees	\$ 55,231,589	\$ -	\$ -	\$ 55,231,589
Less scholarships and aid	(16,656,739)	-	-	(16,656,739)
Net tuition and fees	38,574,850	-	-	38,574,850
Contributions	918,804	1,313,387	218,653	2,450,844
Grants and contracts	404,242	1,072,910	-	1,477,152
Distribution from trusts held by others	-	153,873	-	153,873
Investment return	300,362	414,980	-	715,342
Unrealized gain on real estate held for investment	185,000	-	-	185,000
Auxiliary enterprises	3,622,577	-	-	3,622,577
Other income	510,319	-	-	510,319
Net assets released from restrictions	1,782,528	(1,782,528)	-	-
Total revenues, gains, and other support	46,298,682	1,172,622	218,653	47,689,957
EXPENSES				
Instruction	18,757,874	-	-	18,757,874
Academic support	3,782,710	-	-	3,782,710
Student services	6,097,720	-	-	6,097,720
Auxiliary enterprises	3,710,710	-	-	3,710,710
Total educational program services	32,349,014	-	-	32,349,014
Institutional support	9,824,214	-	-	9,824,214
Fundraising	547,248	-	-	547,248
Total expenses	42,720,476	-	-	42,720,476
CHANGE IN NET ASSETS BEFORE OTHER REVENUES (EXPENSES)	3,578,206	1,172,622	218,653	4,969,481
OTHER REVENUES (EXPENSES)				
Change in fair value of interest rate swap agreement	801,729	-	-	801,729
Change in value of split-interest agreements	(545)	-	153,429	152,884
Total other revenues (expenses)	801,184	-	153,429	954,613
CHANGES IN NET ASSETS	4,379,390	1,172,622	372,082	5,924,094
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED				
	18,200,623	3,769,145	6,583,126	28,552,894
Effect of restatement on beginning net assets (Note 18)	(747,073)	(773,622)	814,294	(706,401)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	17,453,550	2,995,523	7,397,420	27,846,493
NET ASSETS, END OF YEAR	\$ 21,832,940	\$ 4,168,145	\$ 7,769,502	\$ 33,770,587

See accompanying Notes to Financial Statements.

UNIVERSITY OF ST. FRANCIS
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,001,036	\$ 5,924,094
Items not requiring (providing) operating activities cash flows		
net cash from operating activities		
Depreciation and amortization	2,783,096	2,588,561
Bad debt expense	90,900	74,923
Change in contributions receivable discount	847	(13,463)
Perkins loans cancellations and adjustments	20,608	18,624
Net realized and unrealized gains on investments	(404,008)	(453,139)
Gain on sale of property and equipment	(250)	(3,646)
Change in beneficial interest in perpetual trust	(137,419)	(153,429)
Change in fair value of interest rate swap agreement	(20,703)	(801,729)
Actuarial loss (gain) on annuity obligation	(1,578)	545
Noncash contributions	(1,493,508)	(482,465)
Contributions restricted for long-term investment	(182,775)	(218,653)
Contributions restricted for acquisition of long-lived assets	(2,760,939)	(1,565,888)
Loss on extinguishment of debt	391,617	-
Changes in operating assets and liabilities		
Student accounts receivable	497,433	(855,446)
Other receivables	226,397	81,388
Prepaid expenses	(53,436)	(22,072)
Contributions receivable	208,916	122,272
Accounts payable	176,994	203,189
Accrued expenses	(277,430)	292,107
Deferred revenue	(1,226,334)	890,781
Other liabilities	521,635	304,466
Net cash provided by operating activities	<u>4,361,099</u>	<u>5,931,020</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,103,678)	(1,865,919)
Proceeds from sale of property and equipment	250	3,200
Purchases of investments	(27,268,633)	(36,839,448)
Proceeds from sales and maturities of investments	28,033,207	34,199,779
Increase (decrease) in cash and investments restricted for student loans, scholarships, and long-lived asset purchases	1,165,862	(1,044,065)
Advances of student loans	(180,000)	(179,479)
Principal payments received on student loans	212,713	174,000
Net cash used in investing activities	<u>(4,140,279)</u>	<u>(5,551,932)</u>

(This statement is continued on the following page.)

UNIVERSITY OF ST. FRANCIS
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED MAY 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	\$ (16,200)	\$ (16,200)
Payments on capital lease obligations	(184,836)	(138,277)
Principal payments on bonds	(25,574,000)	(1,350,000)
Payment on termination of interest rate swap agreement	(3,610,000)	-
Proceeds from issuance of bonds	27,886,000	-
Payments on annuity payable	(3,500)	(3,500)
Increase (decrease) in cash restricted for bond payable retirement	357,945	(20,064)
(Increase) decrease in U.S. Government student loan funds	(66,044)	2,266
Proceeds from contributions restricted for long-term investment	182,775	218,653
Proceeds from contributions restricted for acquisition of long-lived assets	2,760,939	1,565,888
Net cash provided by financing activities	<u>1,733,079</u>	<u>258,766</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,953,899	637,854
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,726,042</u>	<u>4,088,188</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,679,941</u>	<u>\$ 4,726,042</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	\$ 652,711	\$ 1,481,030
Property and equipment purchases included in accounts payable	322,897	279,278
Noncash contribution of property	1,437,425	327,500
Equipment acquired by capital lease	-	335,000

See accompanying Notes to Financial Statements.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

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, 2014 and 2013, cash equivalents consisted primarily of money market funds.

At May 31, 2014, the University's cash accounts exceeded federally insured limits by approximately \$8,089,000. 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.

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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

Prior to the issuance of the 2013 bond, the University was required to transfer cash restricted for the purpose of the annual bond principal retirement and interest into an account segregated from its operating cash. Upon transfer of the cash, the University no longer retained the right to use this cash for operating purposes. In addition, 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. Lastly, 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.

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Investment Return (Continued)

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 year ended May 31, 2014 and 2013 was \$10,914 and \$19,124, respectively.

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-Interest Agreements (Continued)

The University also administers a charitable gift annuity. Assets transferred to the University under this agreement are recorded at fair value. Contribution revenue was recognized at the date the 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:

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 property and investments 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, 2014 and 2013, \$1,524,383 and \$526,365, respectively, was received in in-kind contributions.

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013 were \$552,936 and \$447,592, 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 not 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 2011.

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31 consisted of the following:

	2014	2013
Due within one year	\$ 36,883	\$ 247,047
Due in one to five years	16,500	36,346
Due after five years	4,000	8,000
	<u>57,383</u>	<u>291,393</u>
Less		
Present value discount at 2%	(1,156)	(2,003)
Allowance for uncollectible contributions	(2,900)	(14,600)
	<u>\$ 53,327</u>	<u>\$ 274,790</u>

3. INVESTMENTS AND INVESTMENT RETURN

Investments at May 31 consisted of the following:

	2014	2013
Cash and money market funds	\$ 1,129,383	\$ 2,329,883
Common and preferred stocks	2,406,269	2,270,375
U.S. Treasury notes	763,721	640,065
U.S. Government agency mortgage-backed securities	2,587,967	5,156,279
Corporate bonds	4,948,763	8,010,455
Municipal bonds	1,675,000	485,000
Equity mutual funds	930,321	310,491
Fixed income mutual funds	2,544,243	2,451,164
Equity exchange traded fund	2,737,995	-
Fixed income exchange traded funds	1,441,054	-
Alternative strategy mutual funds	877,348	749,172
Real estate held for investment	2,073,500	2,073,500
	<u>\$ 24,115,564</u>	<u>\$ 24,476,384</u>

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

	2014	2013
Restricted cash and investments	\$ 1,126,152	\$ 435,684
Investments	20,915,912	21,967,200
Real estate held for investment	2,073,500	2,073,500
	<u>\$ 24,115,564</u>	<u>\$ 24,476,384</u>

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

3. INVESTMENTS AND INVESTMENT RETURN (Continued)

Total investment return is comprised of the following:

	2014	2013
Interest and dividend income (net of expenses of \$77,015 and \$48,786 in 2014 and 2013, respectively)	\$ 265,343	\$ 447,203
Net realized and unrealized gains on investments reported at fair value	404,008	268,139
Unrealized gain on real estate held for investments reported at fair value	-	185,000
	<u>\$ 669,351</u>	<u>\$ 900,342</u>

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

	2014	2013
Student loans	\$ 100,945	\$ 245,470
Long-lived asset purchases	100,748	435,684
Debt service	-	630,795
Scholarships	1,025,404	1,000,000
	<u>\$ 1,227,097</u>	<u>\$ 2,311,949</u>

4. STUDENT LOANS RECEIVABLE

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program. These loan amounts represent 1.76% and 1.92% of total assets as of May 31, 2014 and 2013, 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, 2014 and 2013, \$698,493 and \$737,617, 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.

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

4. STUDENT LOANS RECEIVABLE (Continued)

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

	2014	2013
Beginning balance	\$ (50,000)	\$ -
Provision charged to income	-	(50,000)
Ending balance	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>

At May 31, 2014 and 2013, the following amounts were past due under the Federal student loan program:

	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
2014	<u>\$ 102,603</u>	<u>\$ 72,316</u>	<u>\$ 34,055</u>	<u>\$ 120,827</u>	<u>\$ 329,801</u>
2013	<u>\$ 123,466</u>	<u>\$ 74,797</u>	<u>\$ 36,451</u>	<u>\$ 111,065</u>	<u>\$ 345,779</u>

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 \$1,075,545 and \$1,141,589 as of May 31, 2014 and 2013, 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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

5. PROPERTY AND EQUIPMENT

Property and equipment at May 31 consists of:

	2014	2013
Land and land improvements	\$ 8,129,511	\$ 6,527,996
Buildings and building and leasehold improvements	46,680,904	43,401,075
Equipment, furniture, and fixtures	10,791,013	9,554,611
Administrative computer software	867,085	867,086
Library books	643,088	776,597
Motor vehicles	337,558	274,245
Construction in progress	1,846,235	458,662
	<u>69,295,394</u>	<u>61,860,272</u>
Less accumulated depreciation and amortization	<u>(31,214,973)</u>	<u>(28,592,391)</u>
	<u>\$38,080,421</u>	<u>\$33,267,881</u>

The following construction commitments exist as of May 31:

	2014	2013
St. Clare Campus (Guardian Angel Home) Renovations	\$ 7,070	\$ -
St. Bonaventure Hall renovations	1,012,965	-
Albuquerque Campus renovations	393,963	-
Motherhouse sustainable parking lot	-	587,793
	<u>\$ 1,413,998</u>	<u>\$ 587,793</u>

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 \$2,467,157 and \$2,329,738, which represents the fair value of the trust assets at May 31, 2014 and 2013, respectively. The income from this trust for 2014 and 2013 was \$100,089 and \$98,604, 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 2014 and 2013 was \$29,737 and \$55,269, respectively.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

7. BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

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

	2014	2013
2005 The County of Will, Illinois Adjustable Rate Demand Revenue Bonds, interest varies with the rate determined by the Remarketing Agent and is reset weekly and payable monthly, rates ranged from .22% to .33% in 2013, maturing through December 1, 2025, payable in annual principal installments ranging from \$815,000 to \$1,275,000	\$ -	\$13,380,000
2007 The County of Will, Illinois Tax-Exempt Variable Rate Demand Revenue Bonds, interest varies with the rate determined by the Remarketing Agent and is reset weekly and payable monthly, rates ranged from .20% to .33% in 2013, maturing through December 1, 2037, payable in annual principal installments ranging from \$585,000 to \$960,000	-	11,370,000
Note payable due September 1, 2013; payable in annual principal installments of \$16,200; secured by furniture and equipment in Albuquerque, New Mexico	-	16,200
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 2014, maturing through December 1, 2037, payable in annual installments beginning December 1, 2017 ranging from \$770,000 to \$1,440,000	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 .97% to 1.20% in 2014, maturing through June 16, 2018, payable in annual installments ranging from \$152,000 to \$902,000	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	-	-

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

**7. BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS
(Continued)**

	2014	2013
Capital lease obligations for equipment under three capital leases which expire in 2015, 2016, and 2017	\$ 220,320	\$ 405,156
	27,282,320	25,171,356
Less unamortized bond discount	-	(95,728)
	<u>\$27,282,320</u>	<u>\$25,075,628</u>

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 bonds 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, 2014 and 2013, the University believes it is in compliance with these covenants and ratios.

Interest expense, including letter of credit fees, related to bonds and notes payable and capital lease obligations was \$619,719 and \$1,482,104 for the years ended May 31, 2014 and 2013, respectively.

Aggregate annual maturities of bonds and notes payable and payments on capital lease obligations at May 31, 2014, are:

	Bonds and Notes Payable	Capital Lease Obligations
2015	\$ 873,000	\$ 166,073
2016	887,000	52,871
2017	902,000	9,710
2018	922,000	-
2019	941,000	-
Thereafter	22,537,000	-
	<u>\$ 27,062,000</u>	228,654
Less amount representing interest		<u>8,334</u>
Present value of future minimum lease payments		<u>\$ 220,320</u>

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

**7. BONDS AND NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS
(Continued)**

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

	2014	2013
Equipment	\$ 681,494	\$ 681,494
Less accumulated depreciation	(473,238)	(315,653)
	\$ 208,256	\$ 365,841

**8. DERIVATIVE FINANCIAL INSTRUMENT - INTEREST RATE SWAP
AGREEMENT**

Variable-to-Fixed Interest Rate Swap

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 \$24,248,000 at May 31, 2014. 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 \$2,814,000 at May 31, 2014. 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.

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

8. DERIVATIVE FINANCIAL INSTRUMENT - INTEREST RATE SWAP AGREEMENT (Continued)

Variable-to-Fixed Interest Rate Swap (Continued)

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

	2014	2013
Fair value of liability for interest rate swap agreements		
2013 Series bond	\$ 7,555	\$ -
2013 Term loan	35,892	-
2005 and 2007 Series bonds	-	3,674,150
	<u>\$ 43,447</u>	<u>\$ 3,674,150</u>
Gain (Loss) recognized in change in net assets		
2013 Series bond	\$ (7,555)	\$ -
2013 Term loan	(35,892)	-
2005 and 2007 Series bonds	64,150	(801,729)
	<u>\$ 20,703</u>	<u>\$ (801,729)</u>

9. ANNUITY PAYABLE

The University has been the recipient of a charitable gift annuity which requires 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, 2014 and 2013 of \$37,414 and \$42,492, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 2.4% and 1.2% at May 31, 2014 and 2013, respectively, applicable mortality tables.

10. NET ASSETS

Temporarily Restricted Net Assets

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

	2014	2013
Scholarships	\$ 1,138,327	\$ 1,076,065
Educational programs and other	443,109	538,928
Property and equipment purchases	100,749	435,684
Accumulated earnings on endowed funds for		
Scholarships	2,052,250	2,028,135
Faculty development and other programs	46,711	30,010
Prizes and awards	61,799	59,323
	<u>\$ 3,842,945</u>	<u>\$ 4,168,145</u>

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

10. NET ASSETS (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2014	2013
Investment in perpetuity, the income of which is expendable to support		
Scholarship	\$ 5,207,553	\$ 5,025,288
Faculty development and other programs	362,085	362,085
Prizes and awards	52,900	52,391
	<u>5,622,538</u>	<u>5,439,764</u>
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	<u>2,467,157</u>	<u>2,329,738</u>
	<u>\$ 8,089,695</u>	<u>\$ 7,769,502</u>

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:

	2014	2013
Purpose restrictions accomplished		
Scholarships	\$ 514,692	\$ 478,086
Faculty development and other programs	183,339	76,631
Prizes and awards	4,200	2,000
	<u>702,231</u>	<u>556,717</u>
Property and equipment acquired and placed in service	<u>1,617,014</u>	<u>1,225,811</u>
	<u>\$ 2,319,245</u>	<u>\$ 1,782,528</u>

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

11. ENDOWMENT (Continued)

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
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, 2014 and 2013, was:

	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	<u>\$ 5,071,495</u>	<u>\$ 2,160,760</u>	<u>\$ 8,089,695</u>	<u>\$ 15,321,950</u>

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

11. ENDOWMENT (Continued)

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 2,117,468	\$ 7,769,502	\$ 9,886,970
Board-designated endowment funds	4,514,179	-	-	4,514,179
Total endowment funds	\$ 4,514,179	\$ 2,117,468	\$ 7,769,502	\$ 14,401,149

Changes in endowment net assets for the year ended May 31, 2014 and 2013, were:

	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

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

11. ENDOWMENT (Continued)

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year, as previously reported	\$ 2,469,319	\$ 1,149,819	\$ 6,583,126	\$ 10,202,264
Effect of restatement of prior year endowment net assets	1,754,422	836,231	814,294	3,404,947
Endowment net assets, beginning of year, as restated	4,223,741	1,986,050	7,397,420	13,607,211
Investment return				
Investment income	92,657	147,433	-	240,090
Net appreciation	129,058	206,223	153,429	488,710
Total investment return	221,715	353,656	153,429	728,800
Contributions	16,759	5,744	218,653	241,156
Board designation to move 25% of annual fund contributions to endowment	41,043	-	-	41,043
Board designation to move estate gift to endowment	30,506	-	-	30,506
Appropriation of endowment assets for expenditure	(19,585)	(227,982)	-	(247,567)
Endowment net assets, end of year	\$ 4,514,179	\$ 2,117,468	\$ 7,769,502	\$ 14,401,149

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

11. ENDOWMENT (Continued)

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

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets		
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	\$ 2,467,157	\$ 2,329,738
Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	<u>5,622,538</u>	<u>5,439,764</u>
	<u>\$ 8,089,695</u>	<u>\$ 7,769,502</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to time restriction under Illinois UPMIFA, with purpose restrictions	<u>\$ 2,160,760</u>	<u>\$ 2,117,468</u>

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, 2014 and 2013.

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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

11. ENDOWMENT (Continued)

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.

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.

In March 2014, 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 \$185,000 to \$273,300.

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 \$20,400 to \$23,000 and \$203,200 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. During the term of the agreement, a usage fee ranging from \$75,000 to \$81,120 is payable in three installments due on or before July 1, October 1, and January 1.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

12. OPERATING LEASES AND SERVICE AGREEMENTS (Continued)

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 will expire in August 2014. The lease requires the University to pay all executory costs (maintenance, utilities, and insurance). The lease is payable in monthly installments of \$13,000.

The University entered into a contractual services agreement with a third-party for the provision of document production and mail management services through May 2014. The base monthly fee for labor and management services was \$20,521. A new agreement for contractual services with the same third-party was entered into April 2014 for provision of identical services through March 2019. The new base monthly fee for labor and management services is \$21,818.

In addition, the University has several other non-cancellable operating leases for office equipment and a vehicle that expire in various years through 2019.

Future minimum contractual payments as of May 31, 2014 on the above commitments are:

	Facilities	Vehicle and Equipment	Contracted Services	Total
2015	\$ 528,787	\$ 99,598	\$ 261,235	\$ 889,620
2016	558,379	88,679	261,812	908,870
2017	487,722	69,020	261,812	818,554
2018	497,785	62,601	261,812	822,198
2019	509,251	46,192	218,177	773,620
Thereafter	4,149,782	-	-	4,149,782
Total minimum lease payments	<u>\$ 6,731,706</u>	<u>\$ 366,090</u>	<u>\$ 1,264,848</u>	<u>\$ 8,362,644</u>

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

12. OPERATING LEASES AND SERVICE AGREEMENTS (Continued)

Expenses for the operating leases and service agreements during 2014 totaled:

	2014	2013
Facilities leases rent expenses	\$ 491,606	\$ 664,927
Vehicle and equipment leases rent expenses	252,135	148,642
Total rent expense	743,741	813,569
Contracted services	247,687	242,370
	<u>\$ 991,428</u>	<u>\$ 1,055,939</u>

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 \$1,212,306 and \$1,238,164 for 2014 and 2013, respectively.

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 year ended May 31, 2014 and 2013, the University purchased products or services totaling \$21,415 and \$17,876, 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 \$1,800 (3%) and \$178,700 (61%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2014 and 2013, respectively, and approximately \$1,572,973 (69%) and \$253,200 (10%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2014 and 2013, respectively.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

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, 2014 and 2013:

	2014			Total
	Level 1	Level 2	Level 3	
Assets				
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 fund	1,441,054	-	-	1,441,054
Alternative strategy mutual funds	877,348	-	-	877,348
	<u>\$ 10,937,230</u>	<u>\$ 9,975,451</u>	<u>\$ -</u>	<u>\$ 20,912,681</u>

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

15. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES
(Continued)

Recurring Measurements (Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Assets (Continued)				
Real estate held for investment	\$ -	\$ 2,073,500	\$ -	\$ 2,073,500
Beneficial interest in perpetual trust	-	-	2,467,157	2,467,157
Liabilities				
Interest rate swap agreement	-	43,447	-	43,447

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Common and preferred stocks	\$ 2,270,375	\$ -	\$ -	\$ 2,270,375
U.S. Treasury notes	-	640,065	-	640,065
U.S. Government agency mortgage-backed securities	-	5,156,279	-	5,156,279
Corporate bonds	-	8,010,455	-	8,010,455
Municipal bonds	-	485,000	-	485,000
Equity mutual funds	310,491	-	-	310,491
Fixed income mutual funds	2,451,164	-	-	2,451,164
Alternative strategy mutual funds	749,172	-	-	749,172
	<u>\$ 5,781,202</u>	<u>\$ 14,291,799</u>	<u>\$ -</u>	<u>\$ 20,073,001</u>
Real estate held for investment	\$ -	\$ 2,073,500	\$ -	\$ 2,073,500
Beneficial interest in perpetual trust	-	-	2,329,738	2,329,738
Liabilities				
Interest rate swap agreement	-	3,674,150	-	3,674,150

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 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 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 Agreement

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.

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

**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:

	2014	2013
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,329,738	\$ 2,176,309
Total change in value of perpetual trust	137,418	153,429
Balance, end of year	<u>\$ 2,467,157</u>	<u>\$ 2,329,738</u>
	2014	2013
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	<u>\$ 137,418</u>	<u>\$ 153,429</u>

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.

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, 2014 and 2013.

	Carrying Value	2014		
		Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 6,679,941	\$ 6,679,941	\$ -	\$ -
Student accounts receivable	2,591,866	-	-	2,591,866
Other receivables	279,680	-	-	279,680
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

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

15. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES
(Continued)

Fair Value of Financial Instruments (Continued)

	2014			
	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
Liabilities				
Deferred revenue	\$ 3,488,006	\$ -	\$ -	\$ 3,488,006
Annuity payable	37,414	-	-	37,414
Interest rate swap agreement	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
	2013			
	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 4,726,042	\$ 4,726,042	\$ -	\$ -
Student accounts receivable	3,168,499	-	-	3,168,499
Other receivables	506,077	-	-	506,077
Contributions receivable	274,790	-	-	274,790
Restricted cash and investments	2,311,949	2,311,949	-	-
Investments	21,967,200	7,675,402	14,291,798	-
Real estate held for investment	2,073,500	-	2,073,500	-
Student loans receivable	1,334,629	-	-	1,334,629
Beneficial interest in perpetual trust	2,329,738	-	-	2,329,738
Liabilities				
Deferred revenue	4,714,340	-	-	4,714,340
Annuity payable	42,492	-	-	42,492
Interest rate swap agreement	3,674,150	-	3,674,150	-
Bonds and notes payable	24,670,472	-	24,671,472	-
U.S. Government student loan funds	1,141,589	-	-	1,141,589

**15. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES
(Continued)**

Fair Value of Financial Instruments (Continued)

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.

Student Accounts Receivable, Other Receivables, and Student Loans Receivable

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

Deferred Revenue

The carrying amount recorded approximates the fair value and is based upon the tuition billed and nonrefundable or received in advance by the University.

Annuity Payable

The annuity payable 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.

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:

Contributions

Approximately 63% and 13% of all contributions were received from one donor in 2014 and 2013, respectively.

Student Accounts Receivable

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

Investments

Approximately 22% of the University's total investments are in one corporate variable rate bond as of May 31, 2013. In addition, approximately 11% and 21% of the University's total investments are in U.S. Government agency mortgage-backed securities; however, there were no individual securities in excess of 10% as of May 31, 2014 and 2013.

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, 2014 and 2013 to be \$610,557 and \$214,663, respectively, which is included in the other liabilities line in the statement 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.

UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013

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.

18. EFFECT OF RESTATEMENT ON BEGINNING NET ASSETS

The beginning of the year net asset balances for the year ended May 31, 2013, have been restated for the following items:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Record a liability related to a charitable gift annuity	\$ (45,447)	\$ -	\$ -	\$ (45,447)
Record an asset retirement obligation	(210,454)	-	-	(210,454)
Record depreciation expense and related accumulated depreciation for residential buildings not previously being depreciated	(450,500)	-	-	(450,500)
Net asset reclassifications				
Re-establish the balance of various endowment funds to align with donor intent	(392,206)	(422,088)	814,294	-
Record releases from restrictions occurring prior to fiscal year 2013	351,534	(351,534)	-	-
Total effect of restatement on beginning net assets - June 1, 2012	<u>\$ (747,073)</u>	<u>\$ (773,622)</u>	<u>\$ 814,294</u>	<u>\$ (706,401)</u>

**UNIVERSITY OF ST. FRANCIS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2014 AND 2013**

19. SUBSEQUENT EVENTS

In June and July 2014, as a part of campus-wide upgrades to the copier and printer equipment, the University entered into six new non-cancellable operating leases that expire through June 2019. Future minimum annual lease payments total approximately \$134,000 for each of the next five years.

Subsequent events have been evaluated through October 17, 2014, which is the date the financial statements were available to be issued.