



UNIVERSITY OF ST. FRANCIS



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on Financial Statements

We have audited the accompanying financial statements of University of St. Francis (the University), which comprise the statements of financial position as of May 31, 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 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 controls 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 us to 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

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# University of St. Francis

## Statements of Financial Position

May 31, 2015 and 2014

	2015	2014
<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>\$ 79,186,185</b>	<b>\$ 76,372,932</b>
<b>Total Assets</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
	37,514,929	36,601,309
<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
	41,671,256	39,771,623
<b>Total net assets</b>	<b>41,671,256</b>	<b>39,771,623</b>
	<b>\$ 79,186,185</b>	<b>\$ 76,372,932</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 79,186,185</b>	<b>\$ 76,372,932</b>

See accompanying Notes to Financial Statements.

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<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

**Expenses**

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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 charisma 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 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 gain

# 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
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# 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.

# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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

# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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



# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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

	<b>2015</b>	<b>2014</b>
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:

	<b>2015</b>	<b>2014</b>
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:

	<b>2015</b>	<b>2014</b>
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.

# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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

# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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 im provements	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 progre ss	2,882,776	1,846,235
	<u>76,875,328</u>	<u>69,295,394</u>
Less accumulated depreciati on 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 co mponent of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

2015	2014
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# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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:

	<u>2015</u>	<u>2014</u>
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 1.0%, and is reset monthly, rates ranged from 1.16% to 1.19% in 2015, maturing		

# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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	-
	<b>\$ 26,189,000</b>	<b>62,581</b>
Less amount representing interest		1,708
Present value of future minimum lease payments		<b>\$ 60,873</b>

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)
	<b>\$ 56,107</b>	<b>\$ 208,256</b>

### 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

# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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

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

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Note 10,, Net Assets

**Temporarily Restricted Net Assets**

# University of St. Francis

Notes to Financial Statements

May 31, 2015 and 2014

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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:

	<u>2015</u>	<u>2014</u>
Purpose restrictions accomplished		
Scholarships	\$ 539,735	\$ 514,692
Faculty development and other programs	373,760	183,339
Prizes and awards	1,799	4,200
	<u>915,294</u>	<u>702,231</u>



# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

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



# University of St. Francis

## Notes to Financial Statements

May 31, 2015 and 2014

	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 Univer

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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:

	<b>Facilities</b>	<b>Equipment</b>	<b>Contracted Services</b>	<b>Total</b>
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
<b>Total minimum lease payments</b>	<b>\$ 6,202,919</b>	<b>\$ 912,487</b>	<b>\$ 1,060,273</b>	<b>\$ 8,175,679</b>



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## Notes to Financial Statements

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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
Total investments	10,937,230	9,975,451	-	20,912,681
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 me





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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:

	Carrying Value	2015		
		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 loans	138,445	-	-	138,445

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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.

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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. De