



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

May 31, 2017 and 2016



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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of St. Francis as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Sikich LLP

Naperville, Illinois
October 12, 2017

Financial Statements

University of St. Francis
 Statements of Financial Position
 May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 5,930,177	\$ 4,616,497
Student accounts receivable, net of allowance of \$1,500,000 in 2017 and \$1,565,473 in 2016	2,880,615	5,204,323
Other receivables	3,305,074	1,366,562
Prepaid expenses and other assets	387,443	467,998
Contributions receivable, net of allowance of \$121,900 in 2017 and \$175,900 in 2016	2,753,625	3,084,464
Restricted cash and investments	8,421,547	15,597,441
Investments	15,913,978	14,738,569
Real estate held for investment	1,319,500	1,496,500
Student loans receivable, net of allowance of \$50,000	1,470,729	1,424,138
Interest rate swap agreements	24,463	-
Property and equipment, net of accumulated depreciation of \$39,682,227 in 2017 and \$36,616,708 in 2016	55,626,303	48,798,604
Beneficial interest in perpetual trust	2,428,262	2,307,036
	Total Assets	\$ 99,102,132
	\$ 100,461,716	\$ 99,102,132
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,025,711	\$ 1,932,580
Accrued expenses	3,141,741	2,874,197
Borrowings on revolving line of credit	-	2,000,000
Deferred revenue	4,115,851	4,616,974
Capital lease obligations	820,778	489,186
Other liabilities	1,329,167	1,375,527
Interest rate swap agreements	-	596,272
Bonds and note payable, net of unamortized debt issuance costs of \$568,930 in 2017 and \$595,985 in 2016	38,831,070	39,706,015
U.S. Government student loan funds	997,427	1,043,652
	Total liabilities	54,634,403
	51,261,745	54,634,403
Net Assets		
Unrestricted	33,405,318	29,467,224
Temporarily restricted	6,790,422	6,315,149
Permanently restricted	9,004,231	8,685,356
	Total net assets	44,467,729
	49,199,971	44,467,729
	Total Liabilities and Net Assets	\$ 99,102,132
	\$ 100,461,716	\$ 99,102,132

See accompanying Notes to Financial Statements.

University of St. Francis

Statement of Activities
Year Ended May 31, 2017

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

See accompanying Notes to Financial Statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains, and Other Support				
Tuition and fees	\$ 60,249,827	\$ -	\$ -	\$ 60,249,827
Less scholarships and aid	(19,385,188)	-	-	(19,385,188)
Net tuition and fees	40,864,639	-	-	40,864,639
Contributions	1,338,627	4,887,118	121,203	6,346,948
Grants and contracts	805,491	47,100	-	852,591
Distribution from trusts held by others	-	138,071	-	138,071
Investment return	93,852	121,952	-	215,804
Auxiliary enterprises	3,862,714	-	-	3,862,714
Other income	1,303,263	-	-	1,303,263
Net assets released from restrictions	2,600,336	(2,600,336)	-	-
Total revenues, gains, and other support	50,868,922	2,593,905	121,203	53,584,030
Expenses				
Instruction	17,117,493	-	-	17,117,493
Academic support	8,771,430	-	-	8,771,430
Student services	10,358,789	-	-	10,358,789
Auxiliary enterprises	4,203,106	-	-	4,203,106
Total educational program services	40,450,818	-	-	40,450,818
Institutional support	8,047,659	-	-	8,047,659
Fundraising	849,152	-	-	849,152
Total expenses	49,347,629	-	-	49,347,629
Change in Net Assets Before Other Revenues (Expenses)	1,521,293	2,593,905	121,203	4,236,401
Other Revenues (Expenses)				
Loss on disposals of property	(135,529)	-	-	(135,529)
Unrealized investment gain (loss)	(244,389)	(388,531)	-	(632,920)
Unrealized gain (loss) on real estate held for investment	(200,000)	-	-	(200,000)
Change in fair value of interest rate swap agreements	(284,636)	-	-	(284,636)
Change in value of split-interest agreements	(278)	-	(186,565)	(186,843)
Total other revenues (expenses)	(864,832)	(388,531)	(186,565)	(1,439,928)
Changes in Net Assets	656,461	2,205,374	(65,362)	2,796,473
Net Assets, Beginning of Year	28,810,763	4,109,775	8,750,718	41,671,256
Net Assets, End of Year	\$ 29,467,224	\$ 6,315,149	\$ 8,685,356	\$ 44,467,729

See accompanying Notes to Financial Statements.

University of St. Francis
Statements of Cash Flows
Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 4,732,242	\$ 2,796,473
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,493,473	3,053,301
Loss on disposals of property	589,290	135,529
Bad debt expense	(119,473)	96,100
Change in contributions receivable discount	(76,210)	265,991
Perkins loans cancellations and adjustments	27,350	12,459
Net realized and unrealized (gains) losses on investments	(1,171,444)	48,627
Change in beneficial interest in perpetual trust	(121,226)	186,565
Change in fair value of interest rate swap agreements	(620,735)	284,637
Actuarial loss on annuity obligations	3,150	279
Noncash contributions	(475,036)	(1,604,847)
Contributions restricted for long-term investment	(202,649)	(121,203)
Contributions restricted for acquisition of long-lived assets	(1,656,971)	(6,149,870)
Changes in operating assets and liabilities		
Student accounts receivable	2,389,181	(386,607)
Other receivables	(1,938,512)	(1,124,726)
Prepaid expenses	80,555	67,188
Contributions receivable	765,081	1,693,656
Accounts payable	868,469	(76,396)
Accrued expenses	267,544	223,750
Deferred revenue	(501,123)	634,258
Other liabilities	108,392	(131,325)
	<u>6,441,348</u>	<u>(96,161)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(11,530,688)	(7,625,201)
Proceeds from sale of property and equipment	246,003	44,147
Purchases of investments	(10,400,652)	(15,724,734)
Proceeds from sales and maturities of investments	10,627,884	18,019,569
(Increase) decrease in cash and investments restricted for student loans, scholarships, and long-lived asset purchases	7,561,733	(12,444,679)
Advances of student loans	(231,813)	(241,000)
Principal payments received on student loans	157,872	130,419
	<u>(3,569,661)</u>	<u>(17,841,479)</u>
Net cash used in investing activities		

(This statement is continued on the following page.)

University of St. Francis
 Statements of Cash Flows (continued)
 Years Ended May 31, 2017 and 2016

	2017	2016
Cash Flows from Financing Activities		
Payments on capital lease obligations	\$ (160,098)	\$ (63,457)
Payments on note payable	(902,000)	(887,000)
Proceeds from issuance of bonds	-	14,640,612
Proceeds (paydown) from draw on line of credit	(2,000,000)	2,000,000
Payments on annuities payable	(5,272)	(5,272)
(Increase) decrease in U.S. Government student loan funds	(46,225)	5,994
Proceeds from contributions restricted for long-term investment	202,649	121,203
Proceeds from contributions restricted for acquisition of long-lived assets	1,352,939	1,170,530
	(1,558,007)	16,982,610
Net cash provided by (used in) financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	1,313,680	(955,030)
Cash and Cash Equivalents, Beginning of Year	4,616,497	5,571,527
Cash and Cash Equivalents, End of Year	\$ 5,930,177	\$ 4,616,497
Supplemental Cash Flows Information		
Interest paid	\$ 957,597	\$ 642,159
Property and equipment purchases included in accounts payable	223,083	998,421
Noncash contribution of property	-	575,250
Equipment acquired by capital lease	491,690	491,770

See accompanying Notes to Financial Statements.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Nature of Operations

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

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2017 and 2016, cash equivalents consisted primarily of money market funds.

At May 31, 2017 and 2016, the University's cash accounts exceeded federally insured limits by \$5,876,091 and \$4,705,510, respectively. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

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

Student Accounts and Loans Receivable

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Student Accounts and Loans Receivable (Continued)

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

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

Restricted Cash and Investments

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

Investments and Investment Return

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

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

Property and Equipment

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

University of St. Francis

Notes to Financial Statements

May 31, 2017 and 2016

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

Property and Equipment (Continued)

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

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

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

Split-Interest Agreements

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

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

Deferred Revenue

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

Net Assets

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Net Assets (Continued)

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

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

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

Tuition and Fees

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

Contributions

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

Gifts of land, buildings, equipment, and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily 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.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Contributions (Continued)

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

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

In-Kind Contributions

In addition to receiving cash contributions, the University receives in-kind contributions of investments, auction items for fundraising events, and property from various donors. It is the policy of the University to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended May 31, 2017 and 2016, \$129,208 and \$690,021, respectively, was received in in-kind contributions.

Grants and Contracts

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

Auxiliary Enterprises

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

Advertising Costs

The University uses advertising to promote its various programs. The production costs of advertising are expensed the first time the advertising takes place. Advertising expenses for the years ended May 31, 2017 and 2016 were \$557,626 and \$684,007, respectively.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Income Taxes

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

Functional Allocation of Expenses

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

Note 2 — Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2017	2016
Due within one year	\$ 470,057	\$ 345,889
Due in one to five years	2,573,876	3,085,635
Due after five years	30,000	95,600
	3,073,933	3,527,124
Less		
Present value discount at 2%	(198,408)	(266,760)
Allowance for uncollectible contributions	(121,900)	(175,900)
	\$ 2,753,625	\$ 3,084,464

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 3 — Investments and Investment Return

Investments at May 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash and money market funds	\$ 529,429	\$ 1,134,022
Common and preferred stocks	4,916,789	5,848,515
U.S. Treasury notes	979,441	501,934
U.S. Government agency mortgage-backed securities	178,915	420,482
Corporate bonds	2,057,951	2,115,199
Equity mutual funds	4,900,369	2,762,791
Fixed income mutual funds	2,486,257	1,449,192
Fixed income exchange-traded funds	588,079	798,445
Alternative strategy mutual funds	449,982	986,467
Alternative investment funds	7,248,313	14,318,963
Real estate held for investment	1,319,500	1,496,500
	<u>\$ 25,655,025</u>	<u>\$ 31,832,510</u>

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

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

	<u>2017</u>	<u>2016</u>
Restricted cash and investments	\$ 8,421,547	\$ 15,597,441
Investments	15,913,978	14,738,569
Real estate held for investment	1,319,500	1,496,500
	<u>\$ 25,655,025</u>	<u>\$ 31,832,510</u>

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income (net of expenses of \$84,615 and \$89,046 in 2017 and 2016, respectively)	\$ 364,702	\$ 367,176
Realized gain (loss) on investments reported at fair value	396,437	(151,372)
Net investment return	761,139	215,804
Unrealized gain (loss) on investments reported at fair value	952,007	(632,920)
Unrealized loss on real estate held for investment reported at fair value	(177,000)	(200,000)
	<u>\$ 1,536,146</u>	<u>\$ (617,116)</u>

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 3 — Investments and Investment Return (Continued)

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

	2017	2016
Student loans	\$ 64,326	\$ 115,508
Long-lived asset purchases	7,182,119	14,448,876
Scholarships	1,108,907	1,008,696
Deferred compensation	66,195	24,361
	\$ 8,421,547	\$ 15,597,441

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 1.37% and 1.49% of total assets as of May 31, 2017 and 2016, 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, 2017 and 2016, \$788,002 and \$790,726, 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 ten 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.

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

	2017	2016
Beginning balance	\$ (50,000)	\$ (50,000)
Provision charged to income	-	-
	\$ (50,000)	\$ (50,000)

University of St. Francis
Notes to Financial Statements
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Note 4 — Student Loans Receivable (Continued)

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

	In Default				
	Less than 270 Days	More Than 270 Days and Less Than 2 Years	More Than 2 Years, Up to 5 Years	More Than 5 Years	Total Past Due
2017	\$ 74,015	\$ 70,034	\$ 74,693	\$ 143,620	\$ 362,362
2016	\$ 92,064	\$ 42,007	\$ 70,172	\$ 128,916	\$ 333,159

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 \$997,417 and \$1,043,652 as of May 31, 2017 and 2016, 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.

Note 5 — Property and Equipment

Property and equipment at May 31 consists of:

	2017	2016
Land and land improvements	\$ 11,308,895	\$ 9,348,682
Buildings and building and leasehold improvements	58,249,292	52,385,610
Equipment, furniture, and fixtures	14,810,588	13,712,322
Administrative computer software	987,845	987,845
Library books	316,181	391,096
Motor vehicles	457,929	460,993
Construction in progress	9,177,800	8,128,764
	95,308,530	85,415,312
Less accumulated depreciation and amortization	(39,682,227)	(36,616,708)
	\$ 55,626,303	\$ 48,798,604

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

University of St. Francis
Notes to Financial Statements
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Note 5 — Property and Equipment (Continued)

	2017	2016
Interest costs capitalized	\$ 192,395	\$ 111,747
Interest costs charged to expense	767,524	558,340
Total interest incurred	\$ 959,919	\$ 670,087

The following construction commitments exist as of May 31:

	2017	2016
St. Clare Campus (Guardian Angel Hall) Renovations	\$ -	\$ 1,401,263
Science Building	8,371,721	15,507,275
	\$ 8,371,721	\$ 16,908,538

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 \$2,428,262 and \$2,307,036, which represents the fair value of the trust assets at May 31, 2017 and 2016, respectively. The income from this trust for 2017 and 2016 was \$115,500 and \$109,000, 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 statements of financial position of the University since the trust is revocable at the discretion of the trustee. The income from this trust for 2017 and 2016 was \$28,881 and \$29,071, respectively.

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

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

	2017	2016
2013 Illinois Finance Authority Revenue Refunding Bond; interest varies, is 75% of the sum of the one-month USD-LIBOR-BBA rate and 1.11%, and is reset monthly, rates ranged from 1.18% to 1.58% in 2017 and 0.97% to 1.16% in 2016, 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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

	2017	2016
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.23%, and is reset monthly, rates ranged from 1.58% to 1.98% in 2017 and 1.37% to 1.56% in 2016, maturing through September 30, 2041, payable in annual installments beginning September 30, 2018 ranging from \$304,000 to \$488,000	\$ 9,000,000	\$ 9,000,000
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.25%, and is reset monthly, rates ranged from 1.60% to 2.00% in 2017 and 1.39% to 1.58% in 2016, maturing through September 30, 2041 payable in annual installments beginning September 30, 2018 ranging from \$202,000 to \$369,000	6,000,000	6,000,000
Term Loan; interest varies, is the sum of the one-month USD-LIBOR-BBA rate and 1.01%, and is reset monthly, rates ranged from 1.48% to 2.01% in 2017 and 1.19% to 1.45% in 2016, maturing through June 16, 2018, payable in annual installments ranging from \$152,000 to \$902,000	152,000	1,054,000
Total bonds and notes payable	39,400,000	40,302,000
Less unamortized debt issuance costs	568,930	595,985
Total net bonds and notes payable	38,831,070	39,706,015
\$2,000,000 Revolving Loan expiring June 10, 2016; interest varies with the bank's prime rate, which was 3.50% on May 31, 2016	-	2,000,000
Capital lease obligations for equipment	820,778	489,186
	\$ 39,651,848	\$ 42,195,201

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, 2017 and 2016, the University believes it is in compliance with these covenants and ratios.

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

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

Aggregate annual maturities of bonds and notes payable, the line of credit, and payments on capital lease obligations at May 31, 2017 are:

	Bonds and Notes Payable	Line of Credit	Capital Lease Obligations
2018	\$ 922,000	\$ -	\$ 193,875
2019	1,320,087	-	193,875
2020	1,476,039	-	190,842
2021	1,511,223	-	182,655
2022	1,544,648	-	79,056
Thereafter	32,626,003	-	69,168
	\$ 39,400,000	\$ -	909,471
Less amount representing interest			88,693
Present value of future minimum lease payments			\$ 820,778

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

	2017	2016
Equipment	\$ 983,459	\$ 591,263
Less accumulated depreciation	(150,768)	(93,946)
	\$ 832,691	\$ 497,317

Note 8 — Derivative Financial Instruments – Interest Rate Swap Agreements

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 8 — Derivative Financial Instruments – Interest Rate Swap Agreements (Continued)

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

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

	2017	2016
Fair value of asset (liability) for interest rate swap agreements		
2013 Series Bond	\$ (131,262)	\$ (513,688)
2013 Term Loan	76	(140)
2016 Series B Bond	155,649	(82,444)
	\$ 24,463	\$ (596,272)
	2017	2016
Gain (Loss) recognized in change in net assets		
2013 Series Bond	\$ 382,426	\$ (205,207)
2013 Term Loan	215	3,015
2016 Series B Bond	238,093	(82,444)
	\$ 620,734	\$ (284,636)

Note 9 — Annuities Payable

The University has been the recipient of charitable gift annuities which require future payments to the donor. The assets received from the donor are recorded at fair value, which approximates the recorded liability, and are included in investments in the statements of financial position. The University has recorded a liability at May 31, 2017 and 2016 of \$53,054 and \$55,177, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 2.4% and 1.8% at May 31, 2017 and 2016, respectively, and applicable mortality tables.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 10 – Net Assets

Temporarily Restricted Net Assets

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

	2017	2016
Scholarships	\$ 1,298,756	\$ 1,140,577
Educational programs and other	2,670,387	2,745,813
Property and equipment purchases	495,491	706,926
Accumulated earnings on endowed funds for		
Scholarships	2,168,864	1,615,429
Faculty development and other programs	84,548	44,869
Prizes and awards	72,376	61,535
	\$ 6,790,422	\$ 6,315,149

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2017	2016
Investment in perpetuity, the income of which is expendable to support		
Scholarship	\$ 6,076,434	\$ 5,893,278
Faculty development and other programs	425,135	425,135
Prizes and awards	54,400	53,900
	6,555,969	6,372,313
Subtotal		
Contributions receivable	20,000	6,007
Beneficial interest in perpetual trust, the income of which is to be spent on scholarships	2,428,262	2,307,036
	\$ 9,004,231	\$ 8,685,356

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 10 – Net Assets (Continued)

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:

	2017	2016
Purpose restrictions accomplished		
Scholarships	\$ 533,076	\$ 576,159
Faculty development and other programs	1,254,917	1,793,909
Prizes and awards	2,975	2,500
	1,790,968	2,372,568
Property and equipment acquired and placed in service	29,580	227,768
Pledges written off	55,000	-
	\$ 1,875,548	\$ 2,600,336

Note 11 – Endowment

The University's endowment consists of approximately 92 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 11 – Endowment (Continued)

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

The composition of net assets by type of endowment fund at May 31, 2017 and 2016 was:

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 1,721,833	\$ 8,679,349	\$ 10,401,182
Board-designated endowment funds	6,204,870	-	-	6,204,870
Total endowment funds	\$ 6,204,870	\$ 1,721,833	\$ 8,679,349	\$ 16,606,052

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 11 – Endowment (Continued)

Changes in endowment net assets for the years ended May 31, 2017 and 2016 were:

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

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 11 – Endowment (Continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 5,831,219	\$ 2,300,475	\$ 8,673,518	\$ 16,805,212
Investment return				
Investment income	137,413	180,343	-	317,756
Net appreciation	(305,845)	(403,753)	(186,564)	(896,162)
Total investment return	(168,432)	(223,410)	(186,564)	(578,406)
Contributions	-	140,214	192,395	332,609
Board designation to reinvest 2016 endowment expenditures	419,679	-	-	419,679
Board designation to move 25% of annual fund contributions to endowment	87,065	-	-	87,065
Board designation to move estate gifts to endowment	44,835	-	-	44,835
Appropriation of endowment assets for expenditure	(9,496)	(495,446)	-	(504,942)
Endowment net assets, end of year	\$ 6,204,870	\$ 1,721,833	\$ 8,679,349	\$ 16,606,052

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

	2017	2016
Permanently restricted net assets		
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	\$ 2,428,262	\$ 2,307,036
Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	6,555,969	6,372,313
	<u>\$ 8,984,231</u>	<u>\$ 8,679,349</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to time restriction under Illinois UPMIFA, with purpose restrictions	<u>\$ 2,325,788</u>	<u>\$ 1,721,833</u>

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 11 – Endowment (Continued)

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Illinois UPMIFA. Such endowments are often referred to as “underwater” endowments. Though the University is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value, accounting guidance for not-for-profit organization require that such losses and subsequent gains be reflected as changes in unrestricted net assets until the fair values again reach their historical dollar values. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at May 31, 2017 and 2016.

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

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

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

Note 12 – Operating Leases and Service Agreements

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

The University entered into an approximately ten-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 \$250,700 to \$273,300.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 12 – Operating Leases and Service Agreements (Continued)

The University entered into two lease agreements for space in the Rialto Theater building located in downtown Joliet, Illinois. The lease agreements are for 10 and 20 years, respectively, and expire in February 2020 and June 2029, respectively. These leases require the University to pay all executory costs (property taxes, maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately \$21,400 to \$23,000 and \$215,600 to \$307,400, respectively.

Effective July 2016, the University entered into a license agreement to lease space in an athletic facility in Joliet, Illinois, through June 2021. This agreement is renewable for an additional five-year term. For the final year of the term of the agreement, a usage fee ranging from approximately \$84,300 to \$91,200 is payable in three installments due on or before July 1, October 1, and January 1.

In April 2014, the University entered into a contractual services agreement with a third-party for the provision of document production and mail management services through March 2019. The base monthly fee for labor and management services is \$22,831 and changes each April.

In addition, the University has several other noncancellable 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, 2017 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2018	\$ 582,150	\$ 251,853	\$ 279,381	\$ 1,113,384
2019	596,991	206,087	279,381	1,082,459
2020	601,130	24,223	229,366	854,719
2021	598,922	13,134	-	612,056
2022	517,132	13,134	-	530,266
Thereafter	2,611,588	20,795	-	2,632,383
Total minimum lease payments	\$ 5,507,913	\$ 529,226	\$ 788,128	\$ 6,825,267

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 12 – Operating Leases and Service Agreements (Continued)

Expenses for the operating leases and service agreements during 2017 totaled:

	2017	2016
Facilities leases rent expense	\$ 572,087	\$ 589,210
Vehicle and equipment leases rent expense	253,986	253,693
Total rent expense	826,073	842,903
Contracted services	279,253	273,178
	\$ 1,105,326	\$ 1,116,081

Note 13 – Retirement Plans

The University has a defined contribution benefit plan (the Plan) covering substantially all full-time faculty, administrative, and staff personnel who agree to make contributions of at least 5% of the employee's base salary to the Plan. The University's annual contribution to the Plan ranges between 5% and 10% of the employees' base salaries depending upon years of service. The retirement benefit expense was \$1,224,151 and \$1,313,746 for 2017 and 2016, respectively.

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

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

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

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

During the years ended May 31, 2017 and 2016, the University made discretionary contributions to the trust of \$36,000 and \$24,000, respectively, recognized as compensation expense. The fair market value of the underlying trust assets as of May 31, 2017 and 2016 was \$66,195 and \$24,360, respectively, and are included in cash and restricted investments along with a related deferred compensation liability of \$66,195 and \$24,360, respectively, included in other liabilities on the statements of financial position.

University of St. Francis
Notes to Financial Statements
May 31, 2017 and 2016

Note 14 – Related Party Transactions

The University conducts business with various vendors throughout the Joliet and greater Chicagoland areas. Several of the University's vendors have principals or employees currently serving on its Board of Trustees. In accordance with the University's Conflict of Interest Policy, each Trustee is required to disclose her or his business relationship with the University on an annual basis. For the years ended May 31, 2017 and 2016, the University did not purchase any products or services from these related parties. Where applicable, expenditures are competitively bid and management believes that having relationships with the Trustees saves the University money on both an aggregate and individual basis.

Approximately \$891,600 (25%) and \$6,408 (3%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2017 and 2016, respectively, and approximately \$182,566 (9%) and \$141,648 (2%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2017 and 2016, respectively.

Note 15 – Disclosures About Fair Value of Assets and Liabilities

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the University to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

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, 2017 and 2016:

University of St. Francis
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Note 15 – Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

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

University of St. Francis

Notes to Financial Statements

May 31, 2017 and 2016

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

Recurring Measurements (Continued)

	2016			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Common and preferred stocks	\$ 5,848,515	\$ -	\$ -	\$ 5,848,515
U.S. Treasury notes	-	501,934	-	501,934
U.S. Government agency mortgage-backed securities	-	420,482	-	420,482
Corporate bonds	-	2,115,199	-	2,115,199
Equity mutual funds	2,762,791	-	-	2,762,791
Fixed income mutual funds	1,449,192	-	-	1,449,192
Fixed income exchange-traded funds	798,445	-	-	798,445
Alternative strategy mutual funds	986,467	-	-	986,467
Real estate held for investment	-	1,496,500	-	1,496,500
	<u>\$ 11,845,410</u>	<u>\$ 4,534,115</u>	<u>\$ -</u>	<u>16,379,525</u>
Cash and cash equivalents carried at amortized cost				1,134,022
Alternative investment funds carried at NAV				<u>14,318,963</u>
Total investments				<u>\$ 31,832,510</u>
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,307,036	\$ 2,307,036
Liabilities				
Interest rate swap agreements	-	596,272	-	596,272

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

Recurring Measurements (Continued)

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

Investments

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

Real Estate Held for Investment

Fair value is determined by appraisal each year.

Beneficial Interest in Perpetual Trust

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

Interest Rate Swap Agreements

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

Transfers Between Fair Value Hierarchy Levels

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

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

Unobservable (Level 3) Inputs

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

	2017	2016
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,307,036	\$ 2,493,601
Total change in value of perpetual trust	121,226	(186,565)
Balance, end of year	\$ 2,428,262	\$ 2,307,036
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	\$ 121,226	\$ (186,565)

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

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.

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, 2017 and 2016 to be \$592,000 and \$675,000, respectively, which is included in the other liabilities line in the statements of financial position.

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

Litigation

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

Note 17 – Risks and Uncertainties

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

Note 18 – Subsequent Events

No significant events to report.

Subsequent events have been evaluated through October 12, 2017, which is the date the financial statements were available to be issued.