Saint Francis University

Consolidated Financial Statements

June 30, 2016 and 2015

BAKER TILLY

Candor. Insight. Results.

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Independent Auditors' Report

Board of Trustees
Saint Francis University

We have audited the accompanying consolidated financial statements of Saint Francis University, which comprise the consolidated statement of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saint Francis University as of June 30, 2016 and 2015, 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.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
October 27, 2016

Saint Francis University

Consolidated Statement of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 3,418,489	$ 5,395,905
Accounts receivable:		
Student, net	1,902,414	1,889,123
Government agencies	267,309	256,647
Other	499,970	609,356
Unconditional promises to give	1,517,165	583,940
Inventory	259,112	255,727
Prepaid expenses and other	866,855	884,699
Investments	44,271,913	45,757,516
Student loans receivable	1,192,164	1,208,015
Sinking fund	2,387,076	2,385,991
Beneficial interest in remainder trust	41,728	42,172
Cash restricted for purchase of property and equipment	103,627	3,019,903
Plant assets, net	70,846,776	64,610,417
Total assets	$ 127,574,598	$ 126,899,411
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,233,721	$ 822,562
Construction accounts payable	1,656,319	561,995
Accrued payroll and related liabilities	3,753,258	3,509,953
Deferred revenue	3,313,311	3,091,218
Other accrued liabilities	146,552	531,213
Student deposits and prepayments	605,476	555,957
Bonds payable	22,456,666	23,147,634
Notes payable	1,327,781	1,443,608
Obligations under capital leases	566,126	60,886
Annuities payable	110,835	65,775
Advance from federal government for student loans	1,162,440	1,322,038
Total liabilities	36,332,485	35,112,839
Net Assets		
Unrestricted	30,899,509	31,222,730
Temporarily restricted	34,969,624	35,881,394
Permanently restricted	25,372,980	24,682,448
Total net assets	91,242,113	91,786,572
Total liabilities and net assets	$ 127,574,598	$ 126,899,411

See notes to consolidated financial statements

Saint Francis University

Consolidated Statement of Activities
Year Ended June 30, 2016
(With comparative totals for 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating Revenues					
Tuition and fees (net of scholarship allowances of $26,858,203 in 2016 and $25,234,703 in 2015)	$ 38,749,940	$ -	$ -	$ 38,749,940	$ 39,163,559
Federal grants and contracts	1,576,017	-	-	1,576,017	1,601,597
State and local grants	735,979	-	-	735,979	637,071
Private gifts, grants and bequests	2,432,847	1,972,331	689,856	5,095,034	4,305,466
Interest and dividends, net	223,320	492,229	-	715,549	719,571
Other income	3,245,623	-	-	3,245,623	3,447,970
Auxiliary enterprises (net of scholarship allowances of $1,403,976 in 2016 and $974,577 in 2015)	15,303,254	-	-	15,303,254	15,268,408
Net assets released from restrictions	2,642,931	(2,642,931)	-	-	-
Total operating revenues	64,909,911	(178,371)	689,856	65,421,396	65,143,642
Operating Expenses					
Educational and general:					
Instructional	24,661,230	-	-	24,661,230	24,073,718
Research and public service	1,595,721	-	-	1,595,721	1,527,280
Academic support	2,093,499	-	-	2,093,499	1,815,480
Student services	14,810,101	-	-	14,810,101	15,202,402
Institutional support	11,813,157	-	-	11,813,157	11,649,311
Total educational and general	54,973,708	-	-	54,973,708	54,268,191
Auxiliary enterprises	10,017,509	-	-	10,017,509	9,965,829
Total operating expenses	64,991,217	-	-	64,991,217	64,234,020
(Decrease) increase in net assets from operating activities	(81,306)	(178,371)	689,856	430,179	909,622
Nonoperating Activities					
Realized and unrealized (loss) gain on investments	(198,646)	(775,548)	-	(974,194)	868,007
Reclassification of underwater endowments	(43,269)	43,269	-	-	-
Change in value of split-interest agreements	-	(1,120)	676	(444)	605
(Decrease) increase in net assets from nonoperating activities	(241,915)	(733,399)	676	(974,638)	868,612
(Decrease) increase in net assets	(323,221)	(911,770)	690,532	(544,459)	1,778,234
Net Assets, Beginning of Year	31,222,730	35,881,394	24,682,448	91,786,572	90,008,338
Net Assets, End of Year	$ 30,899,509	$ 34,969,624	$ 25,372,980	$ 91,242,113	$ 91,786,572

See notes to consolidated financial statements

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees (net of scholarship allowances of $25,234,703)	$ 39,163,559	$ -	$ -	$ 39,163,559
Federal grants and contracts	1,601,597	-	-	1,601,597
State and local grants	637,071	-	-	637,071
Private gifts, grants and bequests	1,370,495	2,644,979	289,992	4,305,466
Interest and dividends, net	213,049	506,522	-	719,571
Other income	3,447,970	-	-	3,447,970
Auxiliary enterprises (net of scholarship allowances of $974,577)	15,268,408	-	-	15,268,408
Net assets released from restrictions	2,900,110	(2,900,110)	-	-
Total operating revenues	64,602,259	251,391	289,992	65,143,642
Operating Expenses				
Educational and general:				
Instructional	24,073,718	-	-	24,073,718
Research and public service	1,527,280	-	-	1,527,280
Academic support	1,815,480	-	-	1,815,480
Student services	15,202,402	-	-	15,202,402
Institutional support	11,649,311	-	-	11,649,311
Total educational and general	54,268,191	-	-	54,268,191
Auxiliary enterprises	9,965,829	-	-	9,965,829
Total operating expenses	64,234,020	-	-	64,234,020
Increase in net assets from operating activities	368,239	251,391	289,992	909,622
Nonoperating Activities				
Realized and unrealized gain on investments	254,395	613,612	-	868,007
Reclassification of underwater endowments	(275)	275	-	-
Change in value of split-interest agreements	-	(317)	922	605
Increase in net assets from nonoperating activities	254,120	613,570	922	868,612
Increase in net assets	622,359	864,961	290,914	1,778,234
Net Assets, Beginning of Year	30,600,371	35,016,433	24,391,534	90,008,338
Net Assets, End of Year	$ 31,222,730	$ 35,881,394	$ 24,682,448	$ 91,786,572

Saint Francis University

Consolidated Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ (544,459)	$ 1,778,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,914,096	3,978,753
Loss on disposal of plant assets	209,231	280,280
Realized and unrealized loss (gain) on investments	974,194	(868,007)
Private gifts restricted for long-term investment	(689,856)	(289,992)
Private gifts restricted for purchase of property and equipment	(324,884)	(2,020,239)
Change in value of split-interest agreements	444	(605)
Amortization of deferred financing costs	19,032	19,210
Changes in assets and liabilities:		
Accounts receivable	85,433	140,475
Unconditional promises to give	(933,225)	116,742
Inventory	(3,385)	1,130
Prepaid expenses and other	17,844	98,468
Accounts payable	411,159	(160,066)
Accrued payroll and related liabilities	243,305	23,974
Deferred revenue	222,093	(207,508)
Other accrued liabilities	(384,661)	(16,029)
Student deposits and prepayments	49,519	(41,942)
Net cash provided by operating activities	3,265,880	2,832,878
Cash Flows from Investing Activities		
Proceeds from sales of investments	15,464,121	18,384,084
Purchases of investments	(14,952,712)	(17,965,694)
Purchases of plant assets	(7,351,530)	(2,852,782)
Purchase of property and equipment with restricted contributions	(61,061)	(519,391)
Use (purchase) of assets restricted to investment in property and equipment	2,916,276	(1,500,848)
Proceeds from the sale of plant assets	131,496	124,528
Payments on student loans receivable	216,586	241,935
Student loans advanced	(200,735)	(207,000)
Net cash used in investing activities	(3,837,559)	(4,295,168)
Cash Flows from Financing Activities		
Payments on bonds and loans payable and capital leases	(2,304,854)	(2,116,591)
Proceeds from contributions restricted for long-term investments	689,856	636,164
Proceeds from contributions restricted for purchase of property and equipment	324,884	2,020,239
Increase in sinking fund assets	(1,085)	(48)
Proceeds of annuity obligations	45,060	30,773
Net (repayments to) advances from federal government for student loans	(159,598)	3,389
Net cash (used in) provided by financing activities	(1,405,737)	573,926
Net decrease in cash and cash equivalents	(1,977,416)	(888,364)
Cash and Cash Equivalents, Beginning of Year	5,395,905	6,284,269
Cash and Cash Equivalents, End of Year	$ 3,418,489	$ 5,395,905
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,280,759	$ 1,283,213
Supplemental Disclosure of Noncash Investing and Financing Activities		
Plant assets in accounts payable	$ 1,656,319	$ 561,995
Asset acquired under capital lease	$ 1,084,267	$ -
Asset acquired with note payable	$ 900,000	$ -

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Saint Francis University (the "College") is a not-for-profit educational institution located in Loretto, Pennsylvania. The College awards grants-in-aid and scholarships from its unrestricted and temporarily restricted net assets to individuals who meet the College's academic standards. The amounts of such awards are determined primarily based upon the academic performance of each applicant. Additional financial aid is provided to students from federal and state programs in which the College participates and from monies contributed to the College by alumni and friends.

DiSepio Institute for Rural Health and Wellness ("DIRHW"), a separate not-for-profit organization, is a related party which requires consolidation under Financial Accounting Standards Board ("FASB") guidance. DIRHW offers a series of health promotion and rehabilitation services to the College and surrounding community, particularly those who have limited resources and are underserved. DIRHW staff and members of the College's health and behavioral sciences departments pursue clinical research, engage in clinical teaching, and offer clinical services to members of the College and local communities.

The College evaluated subsequent events for recognition or disclosure through October 27, 2016, the date the financial statements were issued.

Principles of Consolidation

The consolidated financial statements include the accounts of the College and DIRHW (collectively, the "University"). The activities of DIRHW have been consolidated in these financial statements due to the College having controlling interest in DIRHW through a majority voting interest in the board. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounts Receivable, Students

Accounts receivable, students are reported at net realizable value. Accounts receivable, students are not collateralized. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of individual accounts.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors past collection experience and other relevant factors.

Conditional promises to give are promises for which donor-imposed conditions specify future and uncertain events whose occurrence or failure to occur release the donors from the obligation to transfer assets in the future. If and when such conditions have been substantially met, these promises cease to be conditional, and revenues are recorded, as appropriate.

Donor-Restricted Gifts

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classifications. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

For contributed property and equipment and contributions restricted by donor for purchases of property and equipment, if donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support. Temporarily restricted net assets related to these contributions are released from restriction equal to depreciation expense of the related assets. In the absence of such stipulations, these types of contributions are recorded as unrestricted support.

Investments

Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the consolidated statement of activities.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all income from investments, are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations, or by law.

Alternative investments, representing ownership in private equity funds are valued at the net asset value equivalent of the underlying holdings.

The University’s principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the University’s investment policy. The degree and concentration of credit risk varies by type of investment. The fair values reported in the consolidated statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Plant Assets

Plant assets are stated at cost, if purchased, or fair value at the date of gift, if donated, less accumulated depreciation, computed on a straight-line basis over their estimated useful lives: buildings (12-62 years); land improvements (20-40 years); furniture and equipment (2-10 years); vehicles (5 years). Library books are stated at cost and are depreciated on a straight-line basis over an estimated useful life of 7 years. Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Student Deposits and Prepayments

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

Advance from Federal Government for Student Loans

The University is a participant in the Federal Perkins Loan program, a program which makes student loans available to eligible participants. This program is funded by both the federal government and the University, with the portion estimated to be allocable to the federal government recorded as a liability in the consolidated statement of financial position, and the portion allocable to the University included in unrestricted net assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the University has been limited to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

Tuition and Fees

Tuition and fees are presented net of grants-in-aid, scholarships, and fellowships.

Nonoperating Activities

For the purpose of the statement of activities, the University considers its changes in unrestricted net assets to be operational changes, except for changes related to gains or losses on investments, capital grants, and changes in the valuation of split-interest agreements.

Government Grants

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenues when the University has incurred expenditures in compliance with the contract.

Advertising Costs

Advertising costs are expensed as incurred and amounted to approximately $1,022,000 in 2016 and $720,000 in 2015.

Fund-Raising Costs

Fund-raising costs are expensed as incurred and amounted to approximately $1,065,000 in 2016 and $1,178,000 in 2015 and are included in institutional support in the consolidated statement of activities.

Cash Equivalents

For the purposes of the statement of cash flows, the University considered all highly liquid investments with original maturities of three months or less (excluding certain short-term instruments which are classified as investments) to be cash equivalents.

Functional Expenses

Depreciation of property and equipment, interest on long-term debt, and plant operations and maintenance costs are allocated to program and supporting activities based upon the facilities' primary uses.

Income Taxes

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.

The University accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in fiscal 2016 and 2015.

The University's federal Organization Exempt from Income Tax Returns (990) and the Exempt Organization Business Income Tax Returns (990-T) subsequent to fiscal year 2012 remain subject to examination by the Internal Revenue Service.

The University's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Title IV Requirements

The University participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. Substantial portions of the revenue and collection of ending accounts receivable as of June 30, 2016 and 2015 are dependent upon the University's continued participation in the Title IV programs.

Institutions participating in the Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring, and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2016 and 2015 and for the years then ended, the University's composite score exceeded 1.5.

Use of Estimates

The preparation of financial statements in conformity 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

New Accounting Standards Adopted

During April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability instead of an asset. The recognition and measurement guidance for debt issuance costs are not affected by this update. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The University adopted the guidance for the fiscal year beginning June 1, 2015. The guidance is retrospective, and the adoption of this ASU did not have a significant impact on the University's results of operations, financial position and cash flows. The adoption of ASU 2015-03 resulted in the deferred financing costs previously reported in the June 30, 2015 consolidated statement of financial position to decrease by $312,366 and the bonds payable to decrease by $312,366.

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The University elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the consolidated statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The University is assessing the impact the remainder of this standard will have on its consolidated financial statements.

New Accounting Standards Not Yet Adopted

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The University may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The University is currently assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its consolidated results from operations, financial position and cash flows.

During February 2016, FASB issued ASU No. 2016-02, *Leases.* ASU 2016-02 establishes principles that require a lessee create a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The University is currently assessing the effect that ASU 2016-02 will have on its consolidated results operations, financial position and cash flows.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its consolidated financial statements.

2. Accounts Receivable, Student

Accounts receivable, student represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The University extended unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled in the University.

Student accounts receivable consists of the following at June 30:

	2016	2015
Accounts receivable	$ 2,202,414	$ 2,149,123
Allowance for doubtful accounts	(300,000)	(260,000)
Net	$ 1,902,414	$ 1,889,123

3. Unconditional Promises to Give

Unconditional promises to give are recognized as revenue when the donor's commitment is received. Unconditional promises to be received after one year are initially recognized at the estimated present value of future cash flows, net of allowances (fair value).

Unconditional promises to give at June 30 are as follows:

	2016	2015
In one year or less	$ 777,818	$ 394,918
Between one year and five years	1,248,336	535,336
More than five years	15,000	22,500
Allowance for doubtful collections	(368,531)	(290,758)
Discount	(155,458)	(78,056)
Unconditional promises to give, net	$ 1,517,165	$ 583,940

The net present value of these cash flows was determined by using risk adjusted discount rates between .33% and 4.17% to account for the time value of money for 2016 and 2015.

Management believes the University's allowance for doubtful collections at June 30, 2016 and 2015 is adequate based upon information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

4. Fair Value Measurements, Investments and Other Financial Instruments

The University measures its investments and beneficial interest in remainder trust at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the University for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The following tables present the financial instruments measured at fair value as of June 30, 2016 and 2015 by caption on the consolidated statement of financial position by the valuation hierarchy defined above:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investments:				
Cash and cash equivalents	$ 1,404,202	$ -	$ -	$ 1,404,202
Equity mutual funds:				
Large cap	3,617,843	-	-	3,617,843
International	7,770,304	-	-	7,770,304
Real return	1,666,484	-	-	1,666,484
Fixed income mutual funds:				
Core fixed income	4,040,077	-	-	4,040,077
Short term	1,219,793	-	-	1,219,793
Inflation protected	1,698,624	-	-	1,698,624
Marketable equity securities:				
Large-cap	10,595,402	-	-	10,595,402
Small-cap	3,755,057	-	-	3,755,057
Bonds:				
U.S. government	-	1,839,669	-	1,839,669
Asset backed	-	2,870,643	-	2,870,643
U.S. corporate	-	2,916,858	-	2,916,858
Total investments by valuation hierarchy	$ 35,767,786	$ 7,627,170	-	43,394,956
Alternative investments reported at net asset value				752,082
Cash surrender value of life insurance at contract value				124,875
Total investments				44,271,913
Beneficial interest in remainder trust			41,728	41,728
Total assets			$ 41,728	$ 44,313,641

The Level 3 reconciliation for the year ended June 30, 2016 is as follows:

	Beneficial Interest in Remainder Trust
Balance at June 30, 2015	$ 42,172
Additions:	
Change in the valuation of split-interest agreements, temporarily restricted	(1,120)
Change in the valuation of split-interest agreements, permanently restricted	676
Balance at June 30, 2016	$ 41,728

	2015			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investments:				
Cash and cash equivalents	$ 2,090,207	$ -	$ -	$ 2,090,207
Equity mutual funds:				
Large cap	2,433,116	-	-	2,433,116
International	7,926,260	-	-	7,926,260
Real return	1,666,191	-	-	1,666,191
Fixed income mutual funds:				
Core fixed income	3,922,988	-	-	3,922,988
Short term	1,190,760	-	-	1,190,760
Inflation protected	1,618,664	-	-	1,618,664
Marketable equity securities:				
Large-cap	11,798,915	-	-	11,798,915
Small-cap	4,863,568	-	-	4,863,568
Bonds:				
U.S. government	-	1,340,960	-	1,340,960
Asset backed	-	2,850,846	-	2,850,846
U.S. corporate	-	2,625,585	-	2,625,585
International	-	254,386	-	254,386
Total investments by valuation hierarchy	$ 37,510,669	$ 7,071,777	-	44,582,446
Alternative investments reported at net asset value				1,041,598
Cash surrender value of life insurance at contract value				133,472
Total investments				45,757,516
Beneficial interest in remainder trust			42,172	42,172
Total assets			$ 42,172	$ 45,799,688

The Level 3 reconciliation for the year ended June 30, 2015 is as follows:

	Beneficial Interest in Remainder Trust
Balance at June 30, 2014	$ 41,567
Additions:	
Change in the valuation of split-interest agreements, temporarily restricted	(317)
Change in the valuation of split-interest agreements, permanently restricted	922
Balance at June 30, 2015	$ 42,172

The preceding tables includes cash surrender value of life insurance in the amount of $124,875 and $133,472 at June 30, 2016 and 2015, respectively, which approximates estimated fair value and which is included in investments in the consolidated statement of financial position.

Change in the valuation of split interest agreements is reported as nonoperating activity in the consolidated statement of activities.

Valuation Methodologies

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2016 and 2015.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of those financial instruments.

Investments: Mutual funds and marketable equity securities in the investment portfolio are measured at fair value using quoted market prices for identical assets, which are considered Level 1 inputs. Bond obligations are valued based on quoted prices of similar assets, with similar terms, in actively traded markets and are measured using Level 2 inputs.

Alternative Investments: The University measures the fair value for these alternative investments based on NAV as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the Fund's measurement date, net asset value ("NAV") is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The alternative investments represent investments in private equity funds that pursue multiple strategies to diversify risks and reduce volatility. The alternative investments pursue multiple strategies as follows:

- LBC Credit Partners, II is a private equity fund focused on providing middle market financing and equity co-investments in companies with earnings generally greater than $7.5 million. Their financing promotes transactions such as buyouts, acquisitions, recapitalizations, etc. Valuations are determined by the General Partner which are then reviewed by the Valuation Committee. For publicly traded securities, the value is based on the average price of the 5 trading dates immediately prior to the valuation date. All other securities are valued using fair market value techniques which include arm's length transactions, market multiples, discounted cash flow, etc. The duration of this investment is the 10th anniversary of the final closing date, however this may be extended at the General Partner's discretion for up to two one-year periods. The University is committed for the duration of the investment and has committed $500,000 ($175,870 is unfunded as of June 30, 2016).

- Patriot Financial Partners, L.P. is a private equity fund focused on investing in community banks, thrifts and financial service related companies throughout the United States. Patriot's objective is to provide superior risk-adjusted returns by applying a hands-on, value-added investment model to non-control investments within the community banking sector, which consists of more than 1,000 public and privately-held depository institutions that have between $500 million and $5 billion of assets. Valuations are determined by the General Partner which require approval from the Advisory Committee. For publicly traded securities, the value is based on the average price of the 10 trading dates immediately prior to the valuation date. All other securities are valued using fair market value techniques which include arm's length transactions, market multiples, discounted cash flow, etc. The duration of this investment is the 10th anniversary of the final closing date, however this may be extended at the General Partner's discretion for up to two one-year periods. Saint Francis is committed for the duration of the investment and has committed $750,000 ($3,040 is unfunded as of June 30, 2016).

There are no redemption restrictions associated with the alternative investments.

The following summarizes the composition of investment (loss) return for the years ended June 30:

	2016	2015
Interest and dividend income	$ 1,039,449	$ 1,044,174
Investment fees	(323,900)	(324,603)
Subtotal, operating activities	715,549	719,571
Realized gains on sale of investments	1,005,120	2,960,129
Unrealized losses on investments	(1,979,314)	(2,092,122)
Subtotal, nonoperating activities	(974,194)	868,007
Net investment (loss) return	$ (258,645)	$ 1,587,578

Net gains and losses (realized and unrealized) are reported as nonoperating activity - investment gain/(loss) in the consolidated statement of activities.

5. Student Loans Receivable

Student loans are made with funds advanced to the University by the federal government under the Federal Perkins Loan program (the "Program"). Such funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2016 and 2015 was $1,162,440 and $1,322,038, respectively.

The University matches and contributes one-third of the amount contributed by the U.S. Government to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written off in conformity with Federal Perkins Loan Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall consolidated financial statements.

6. Plant Assets, Net

The composition of plant assets was as follows at June 30:

	2016	2015
Land	$ 380,284	$ 380,284
Land improvements	11,082,081	9,506,891
Buildings	82,628,613	81,955,217
Furniture and equipment	11,776,143	11,376,218
Equipment held under capital leases	1,168,507	231,751
Vehicles	886,787	762,765
Library books	5,007,050	4,978,214
Collections	209,881	193,450
Construction in progress	7,357,417	1,615,388
Total	120,496,763	111,000,178
Accumulated depreciation	(49,649,987)	(46,389,761)
Plant assets, net	$ 70,846,776	$ 64,610,417

The University provides for depreciation using the straight-line method based on lives which, in the opinion of management, are adequate to allocate asset costs over their productive years. Depreciation expense was approximately $3,914,000 in 2016 and $3,979,000 in 2015.

7. Line of Credit

Saint Francis University has a $2,000,000 unsecured demand line of credit available from a bank. At June 30, 2016 and 2015, no amounts were outstanding under this line of credit. No amounts were drawn under the line of credit during the years ended June 30, 2016 and 2015.

8. Bonds Payable

Bonds payable at June 30, 2016 and 2015 are comprised of the following issues:

	2016	2015
Revenue Bonds, Series 2011 JJ2 with $5,175,000 due November 1, 2031 with a fixed interest rate of 6% and $11,325,000 due November 1, 2041 with a fixed interest rate of 6.25%	$ 16,500,000	$ 16,500,000
Revenue Bonds, Series 2012 LL2 due in varying annual installments through November 2023; fixed interest rate ranging from 2% to 3.25%	6,250,000	6,960,000
Deferred financing costs	(293,334)	(312,366)
Total	$ 22,456,666	$ 23,147,634

The aggregate future principal payments on bonds payable at June 30 is as follows:

Years ending June 30:	
2017	$ 705,968
2018	720,968
2019	730,968
2020	755,968
2021	775,968
Thereafter	18,766,826
Total	$ 22,456,666

As required by the loan agreements, the University has established sinking funds. These funds are reflected in the consolidated statement of financial position as of June 30, 2016 and 2015. These funds are invested in cash and cash equivalents and are subject to Federal Deposit Insurance Corporation limits.

In connection with the issuance of these bonds, the University has agreed to certain financial covenants with which it must comply, including a rate covenant. The University was in compliance with these financial covenants at June 30, 2016.

9. Notes Payable

Notes payable at June 30, 2016 and 2015 are comprised of the following:

	2016	2015
Note payable to PennVest, payable in monthly installments of $10,958, including principal and interest at 1.211%; matures July 2018; secured by a mortgage on 6.5 acres of real estate which include the reservoir and water treatment plan, all current and additions of property and equipment thereto	$ 269,951	$ 397,337
Note payable to PennVest, payable in monthly installments of $1,477, including principal and interest at 1.211%; matures July 2018; secured by a mortgage on 6.5 acres of real estate which include the reservoir and water treatment plan, all current and additions of property and equipment thereto	36,442	53,611
Note payable to Somerset Trust Company, payable in annual installments of $193,309, including principal and interest at 2.39%; matures June 2020; secured by the property acquired with the borrowing	724,855	-
Note payable to First National Bank, payable in monthly installments of $9,873, including principal and interest at 2.52%; matures April 2018; secured by the computer equipment acquired with the borrowing	211,967	323,468
Note payable to Northwest Savings Bank, payable in monthly installments of $42,372, including principal and interest at 1.67%, matures August 2016; secured by the computer equipment acquired with the borrowing	84,566	586,957
Notes repaid in 2016	-	82,235
Total	$ 1,327,781	$ 1,443,608

The aggregate future principal payments on notes payable at June 30, 2016, is as follows:

Years ending June 30:	
2017	$ 521,011
2018	425,679
2019	196,348
2020	184,743
Total	$ 1,327,781

Interest expense on long-term debt was approximately $1,278,000 and $1,279,000 in 2016 and 2015, respectively.

10. Capital Leases

The University leases computer equipment and fitness equipment under capital leases, which expire through 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. The assets are included in plant assets and are amortized over the lease terms. Amortization of assets under capital leases are included in depreciation expense.

The cost and accumulated amortization of equipment under capital leases were as follows at June 30, 2016:

Cost of equipment under capital lease	$ 1,168,507
Accumulated amortization	(234,495)
Total	$ 934,012

Minimum future lease payments under capital leases as of June 30, 2016 are as follows:

Year ending June 30:	
2017	$ 530,760
2018	26,740
2019	13,481
	570,981
Amount representing interest	(4,855)
Present value of minimum lease payments	$ 566,126

Interest rates on the capital leases as of June 30, 2016 range from 1.1% to 1.79%, which were imputed based upon the lower of the University's incremental borrowing rate at the inception of the leases or the lessor's implicit rate of return.

11. Net Assets

Unrestricted net assets are available for the following purposes as of June 30, 2016 and 2015:

	2016	2015
Net investment in plant	$ 22,476,296	$ 19,381,023
Quasi endowment	8,985,766	9,760,629
(Deficits) reserves and operating funds	(562,553)	2,081,078
Total	$ 30,899,509	$ 31,222,730

Temporarily restricted net assets are available for the following purposes or in future periods as of June 30, 2016 and 2015:

	2016	2015
Accumulated income and gains on permanently restricted net assets (Note 12)	$ 9,080,402	$ 10,537,530
Gifts available for scholarships and other academic purposes	2,446,474	2,372,289
Net investment in plant purchased with restricted contributions	22,070,254	19,702,905
Gifts for capital expenditures	103,627	3,019,903
Beneficial interest in remainder trust	15,839	16,959
Unconditional promises to give	1,253,028	231,808
Total	$ 34,969,624	$ 35,881,394

Permanently restricted net assets are related to the following as of June 30, 2016 and 2015:

	2016	2015
Investments to be held in perpetuity by donor stipulation or by Pennsylvania law, the income from which is generally available for services and programs (Note 12)	$ 25,010,099	$ 24,234,289
Unconditional promises to give	264,137	352,132
Beneficial interest in remainder trusts	25,889	25,213
Restricted loan fund	72,855	70,814
Total	$ 25,372,980	$ 24,682,448

Net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors. Net assets released from restrictions consisted of the following as of June 30, 2016 and 2015, respectively:

	2016	2015
Scholarships and other academic	$ 1,830,181	$ 2,090,913
Capital improvements	812,750	809,197
Total	$ 2,642,931	$ 2,900,110

12. Endowment Funds

The University's endowment consists of approximately 200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted Pennsylvania law as requiring the 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 classified 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of the University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a median balanced fund while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 6%, net of fees, annually. 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 capital appreciation (realized and unrealized) and current yield (interest and dividends). 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.

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of endowment return. The law allows non-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage by law must be between 2% and 7%. The University's policy for fiscal years 2016 and 2015 allowed for a payout of 5% of the three-year average balance as measured by the last six semi-annual balance points excluding the current period, which is based on market value net of investment management fees. 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 4.5% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the fiscal years ending June 30, 2015 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 9,977,136	$ 10,510,399	$ 23,598,125	$ 44,085,660
Investment return:				
Investment income	190,776	506,522	-	697,298
Net realized and unrealized appreciation	231,111	613,612	-	844,723
Total investment return	421,887	1,120,134	-	1,542,021
Contributions	-	-	636,164	636,164
Appropriation of endowment assets for expenditure	(638,119)	(1,093,278)	-	(1,731,397)
Other changes: Reclassification of underwater endowments	(275)	275	-	-
Endowment net assets, June 30, 2015	9,760,629	10,537,530	24,234,289	44,532,448
Investment return:				
Investment income	118,187	492,229	-	610,416
Net realized and unrealized depreciation	(186,215)	(775,548)	-	(961,763)
Total investment return	(68,028)	(283,319)	-	(351,347)
Contributions	740	-	775,810	776,550
Appropriation of endowment assets for expenditure	(664,306)	(1,217,078)	-	(1,881,384)
Other changes: Reclassification of underwater endowments	(43,269)	43,269	-	-
Endowment net assets, June 30, 2016	$ 8,985,766	$ 9,080,402	$ 25,010,099	$ 43,076,267

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the University to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $43,544 as of June 30, 2016 and $275 as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

13. Pension Plan

The University sponsors a defined contribution pension plan. Pension expense was approximately $2,060,000 in 2016 and $1,910,000 in 2015.

14. Franciscan Sponsorship

The University paid full salaries to the religious faculty and staff of approximately $673,000 and $721,000 during the years ended June 30, 2016 and 2015, respectively.

15. Government Grants and Student Aid

The amounts under these captions do not include amounts remitted to students under the Pennsylvania Higher Education Assistance Agency Program and the PELL Grants Program. These grants are similar to agency funds as the University acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately $4,386,000 in 2016 and $4,140,000 in 2015.

16. Significant Group Concentration of Credit Risk

The University maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation. From time to time, the bank balances will exceed this coverage.

17. Contingencies

The University participates in a Private College Consortium (the “Consortium”), a cooperative effort between educational institutions to purchase medical services for their collective group. The Consortium uses “cost plus funding”, a fully insured product under Highmark Blue Cross Blue Shield (“Highmark”). Under this arrangement, the Consortium pays a predetermined premium based on Highmark’s underwriting projections. At the close of each contract period, Highmark calculates an amount by which the Consortium has either overfunded or underfunded the trust fund created in connection with the arrangement. This calculation takes into consideration the premiums paid by the group, claims paid during the contract period, claims paid but not incurred during the contract period, claims incurred but not paid during the contract period and a reserve deposit. The Consortium limits its claims exposure through the purchase of stop loss insurance, which pays 100% of the sum of all actual claim payments for covered health benefits made to a covered individual in a policy year that exceed $275,000, with an unlimited lifetime maximum. The University’s share of the Consortium’s trust fund surplus was approximately $531,000 and $748,000 at June 30, 2016 and 2015, respectively. The University’s premium payments to the Consortium amounted to approximately $4,117,000 in 2016 and $4,100,000 in 2015. Although there is a potential refund due if the University elects to terminate participation in the Consortium, management has concluded that it would not be appropriate to record this potential refund in the financial statements due to the uncertainties surrounding its realization.

The University participates in the University and College Insurance Consortium (“UCIC”). UCIC is a self-insurance group providing workers’ compensation coverage to member educational institutions. As part of the agreement with UCIC, the University is contingently liable for possible additional workers compensation premiums. As of June 30, 2016, management does not expect any significant contingencies.

The University owns property constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the property. The University has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate this property and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the property and sufficient information becomes available to estimate the liability it will be recognized at that time.

18. Expenses

Expenses by natural classification for the year ended June 30, 2016 and 2015 were:

	2016	2015
Compensation:		
Salaries and wages	$ 28,939,691	$ 28,167,837
Student wages	979,417	997,431
Benefits	10,977,726	10,881,135
Other	7,028,751	6,952,151
Depreciation	3,914,096	3,978,753
Other, auxiliary	3,222,586	3,343,713
Conference, travel and meals	2,665,709	2,885,384
Professional and contracted services	2,040,390	1,867,913
Supplies and software	1,803,900	1,667,197
Utilities	1,614,157	1,689,811
Interest	1,278,231	1,278,731
Equipment, repairs and maintenance	526,563	523,964
Total	$ 64,991,217	$ 64,234,020