KPMG

SAINT LEO UNIVERSITY, INC.

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report

The Board of Trustees
Saint Leo University, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Leo University, Inc. (the University), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2013 and 2012, and the change in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Tampa, Florida
August 30, 2013
Certified Public Accountants

SAINT LEO UNIVERSITY, INC.

Statements of Financial Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	14,308,425	26,461,317
Short term investments		3,327,284	3,160,363
Student accounts receivable, less allowance for doubtful accounts of $744,178 in 2013 and $4,836,216 in 2012		4,160,310	5,489,346
Grants receivable		42,746	297,687
Accounts receivable – other		776,569	662,443
Contributions receivable, net		3,759,828	4,635,179
Investments		40,404,439	32,192,071
Student loans receivable, less allowance for doubtful accounts of $294,259 in 2013 and 2012		386,228	430,855
Beneficial interest in trusts		3,277,779	2,902,631
Other assets		6,909,232	5,112,224
Interest rate exchange agreements		510,598	—
Land, buildings, and equipment, net of accumulated depreciation		135,942,308	122,865,399
Total assets	$	213,805,746	204,209,515
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	4,516,403	4,822,031
Accrued expenses and other liabilities		1,669,748	5,394,902
Interest rate exchange agreements		—	413,740
Accrued compensation		6,277,715	5,265,575
Deposits held in custody for others		94,783	104,047
Deferred revenue		513,093	392,587
Federal student loans refundable		730,682	725,175
Federal and state grants/loans refundable		263,010	621,032
Bonds and notes payable		56,764,656	57,983,669
Total liabilities		70,830,090	75,722,758
Total fund balances:			
Net assets:			
Unrestricted		132,401,427	109,508,160
Temporarily restricted		2,511,797	11,537,479
Permanently restricted		8,062,432	7,441,118
Total net assets		142,975,656	128,486,757
Total liabilities and net assets	$	213,805,746	204,209,515

See accompanying notes to financial statements.

SAINT LEO UNIVERSITY, INC.

Statements of Activities and Changes in Net Assets

Years ended June 30, 2013 and 2012

	June 30, 2013				June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenue, gains and other support:								
Tuition and fees	$ 153,230,174	—	—	153,230,174	144,508,961	—	—	144,508,961
University funded scholarship allowances	(16,582,477)	—	—	(16,582,477)	(14,773,475)	—	—	(14,773,475)
Net tuition and fees	136,647,697	—	—	136,647,697	129,735,486	—	—	129,735,486
Sales of auxiliary enterprises	13,737,165	—	—	13,737,165	12,544,074	—	—	12,544,074
Contributions	988,872	568,303	233,415	1,790,590	262,487	1,287,247	253,409	1,803,143
Government grants	1,190,665	—	—	1,190,665	1,159,062	—	—	1,159,062
Investment earnings	1,274,600	189,285	—	1,463,885	2,246,667	96,003	—	2,342,670
Change in interest rate exchange agreements	647,073	—	—	647,073	401,144	—	—	401,144
Other revenues	1,339,368	647,204	—	1,986,572	2,271,199	558,402	—	2,829,601
Total other revenue and gains	19,177,743	1,404,792	233,415	20,815,950	18,884,633	1,941,652	253,409	21,079,694
Net assets released from restrictions	12,239,814	(12,239,814)	—	—	988,629	(988,629)	—	—
Total revenue, gains and other support	168,065,254	(10,835,022)	233,415	157,463,647	149,608,748	953,023	253,409	150,815,180
Expenses:								
Educational and general:								
Instructional	51,670,530	—	—	51,670,530	46,326,326	—	—	46,326,326
Academic support	16,601,372	—	—	16,601,372	14,457,184	—	—	14,457,184
Student services	33,468,005	—	—	33,468,005	30,498,425	—	—	30,498,425
Institutional support	30,726,015	—	—	30,726,015	26,570,022	—	—	26,570,022
Auxiliary enterprises	13,119,598	—	—	13,119,598	10,559,186	—	—	10,559,186
Total expenses	145,585,520	—	—	145,585,520	128,411,143	—	—	128,411,143
Change in net assets from operating activities	22,479,734	(10,835,022)	233,415	11,878,127	21,197,605	953,023	253,409	22,404,037
Unrealized gains (losses) on investments	1,334,371	901,253	—	2,235,624	(1,258,551)	(821)	—	(1,259,372)
Change in value of split interest agreements	—	(10,251)	385,399	375,148	—	(12,399)	(20,203)	(32,602)
Change in net assets	23,814,105	(9,944,020)	618,814	14,488,899	19,939,054	939,803	233,206	21,112,063
Net asset at beginning of year	109,508,160	11,537,479	7,441,118	128,486,757	89,569,106	10,688,559	7,117,029	107,374,694
Cumulative effect of change in accounting principal (Note11)	(920,838)	920,838	—	—	—	—	—	—
Change in donor intent and other transfers	—	(2,500)	2,500	—	—	(90,883)	90,883	—
Net assets at end of year	$ 132,401,427	2,511,797	8,062,432	142,975,656	109,508,160	11,537,479	7,441,118	128,486,757

See accompanying notes to financial statements.

SAINT LEO UNIVERSITY, INC.

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Operating activities:			
Change in net assets	$	14,488,899	21,112,063
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Provision for doubtful accounts		(3,905,150)	(2,047,381)
Depreciation and amortization		8,354,997	4,929,607
Net realized and unrealized (gains) on investments		(2,701,998)	(574,394)
Contributions restricted for long-term investments		(233,415)	(253,409)
Receipt of agency funds		150,341,593	146,719,317
Disbursement of agency funds		(150,341,593)	(146,719,317)
Change in value of beneficial interests in trusts		(375,148)	232,297
Change in operating assets and liabilities:			
Student accounts receivable		5,421,074	1,300,929
Grants receivable		254,941	637,076
Contributions receivable		688,463	77,801
Other assets, including other accounts receivable		(1,948,624)	(1,627,971)
Interest rate exchange agreements		(924,338)	(401,444)
Accounts payable		(305,628)	265,608
Accrued expenses and other liabilities		(1,379,143)	1,138,649
Accrued compensation		1,012,140	1,449,201
Deposits held in custody for others		(9,264)	(19,470)
Deferred revenue		120,506	(83,332)
Federal student loans refundable and Federal and state grants/loans refundable		(352,515)	(280,712)
Net cash provided by operating activities		18,205,797	25,855,118
Investing activities:			
Purchases of land, buildings and equipment		(23,740,427)	(37,741,163)
Purchases of investments		(31,267,696)	(45,306,894)
Proceeds from sales and maturities of investments		25,590,405	42,041,994
Collection of student loans		44,627	67,085
Net cash used in investing activities		(29,373,091)	(40,938,978)
Financing activities:			
Payment of principal on long-term debt		(58,904,013)	(2,855,563)
Proceeds from issuance of bonds		57,685,000	29,688,622
Contributions restricted for long-term investments		233,415	253,409
Net cash (used in) provided by financing activities		(985,598)	27,086,468
Change in cash and cash equivalents		(12,152,892)	12,002,608
Cash and cash equivalents at beginning of year		26,461,317	14,458,709
Cash and cash equivalents at end of year	$	14,308,425	26,461,317
Supplemental cash flow information:			
Cash paid for interest	$	1,102,386	1,017,455
Accrued capital construction in process		—	2,346,011

See accompanying notes to financial statements.

(1) Organization

Saint Leo University, Inc. (the University) is a not-for-profit organization that provides higher education through its School of Business, School of Education and Social Services, School of Liberal Arts and Sciences. A conventional on-campus university education is provided to students, as well as certain customary auxiliary services such as housing and food. The School of Continuing Education is engaged in extension programs, including continuing education courses that are provided at numerous military bases and other locations. The University also provides educational opportunities through its studies abroad program and Internet courses.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as either: unrestricted, temporarily restricted, or permanently restricted net assets as follows:

- Unrestricted net assets consist of unrestricted amounts that are available for use in carrying out the operations of the University and include those expendable resources that have been designated for special use by the Board of Trustees.
- Temporarily restricted net assets represent those amounts that are not available until future periods or are donor restricted for specific purposes. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.
- Permanently restricted net assets result from gifts from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. Perpetual trusts held by third parties for the benefit of the University are also included in permanently restricted net assets.

Contributions received are measured at their fair values on the date of receipt and are reported as increases in net assets. The University reports gifts of cash and other assets as restricted support if they are designated for specific purposes or as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Expenses are reported as decreases in unrestricted net assets.

Income and realized and unrealized net gains (losses) on investments are reported as follows:

- As changes in permanently restricted net assets if the terms of the gift or the University Board of Trustees' interpretation of relevant state law require that they be added to the principal of a permanent gift
- As changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income

- As changes in unrestricted net assets in all other cases

(b) Interest Rate Exchange Agreements

The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. At June 30, 2013 and 2012, the interest rate exchange agreements are recognized on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities and changes in net assets.

(c) Operating Measure

The change in net assets from operating activities represents the revenue, gains, and other support designated to operate the University, less expenses and other costs associated with the University's operating activities. The University's unrealized gains (losses) related to its investment activities are excluded from the change in net assets from operating activities.

(d) Liquidity

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash. Liabilities are presented according to the nearness of their maturity and resulting use of cash.

(e) Cash Equivalents

The University considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

(f) Short Term Investments and Investments

Short term investments include cash, cash equivalents and investments that are liquid in nature and are used as part of managing the University's short term cash flow needs. Investments in equity securities that have readily determinable fair values and all investments in debt securities are stated at fair value. All real property, with the exception of the residential real property noted below, is reported at appraised value at the date of acquisition. The University owns two parcels of residential real property, which are recorded at fair value, classified as an unrestricted investment, and held for sale. All other investments are recorded at estimated fair value at the date of receipt if acquired by gift. All gains and losses arising from the sale, collection, or other disposition of unrestricted assets are recorded as operating revenue.

(g) Beneficial Interest in Trusts

The University has a beneficial interest in one charitable remainder and one perpetual trust. The trusts are held by third parties who manage the assets and make payments to the life income

(Continued)

beneficiaries. Upon termination of the charitable trust (generally the death of the life income beneficiaries), the remaining assets revert to the University.

Charitable remainder trusts are recorded at the present value of the estimated future distributions expected to be received by the University and are classified as temporarily restricted net assets. Perpetual trusts are recorded at the fair value of the underlying assets of the perpetual trusts as permanently restricted net assets. Annual distributions from the perpetual trusts are reported as investment income that increases unrestricted net assets or temporarily restricted net assets if restricted by donors.

At June 30, 2013 and 2012, $500,000 is recorded as contributions receivable relating to the University's beneficial interest in certain life insurance policies.

(h) Land, Buildings, and Equipment

Land, buildings, improvements, furniture and equipment, and library books are stated at cost or, if contributed, at estimated fair value at the date of gift. Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's estimated useful life. Interest expense of $123,408 and $115,000 was capitalized during the years ended June 30, 2013 and 2012, respectively.

Depreciation is provided over the estimated useful life, or in case of assets acquired under capital leases the shorter of the life of the lease or useful life, of each class of depreciable asset and is computed on a straight-line basis. During the year ended June 30, 2013 the University began depreciating assets when the asset was placed in service. The University's former policy was to take no depreciation in the year of acquisition and a full year of depreciation in the year of disposal. Furniture and equipment are depreciated over lives ranging from 4 to 20 years. Buildings and improvements are depreciated over lives ranging from 15 to 40 years, and library books are depreciated over 7 years. Land is not depreciated.

(i) Impairment of Long-Lived Assets

The University evaluates the recoverability of its land, buildings, and equipment whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No indicators of impairment existed at June 30, 2013 and 2012.

(j) Federal Student Loans Refundable

Federal student loans refundable include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Student loans under the Program are subject to significant restrictions. Such funds are reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are generally refundable to the U.S. government. The University has ceased disbursing new loans and therefore no new loans were disbursed during the years ended June 30, 2013 and 2012.

(k) Federal and State Grants/Loans Refundable

Federal and state grants/loans refundable include funds the University advances to students that will be reimbursed by the U.S. government, State of Florida, or other states. Student loans and grants are subject to restrictions.

(l) Tuition and Fee Revenue Recognition

Tuition and fees and related expenses for programs and academic terms that extend over more than one fiscal year are recognized using the proration method where revenues are allocated between terms based on the number of days in each term that relate to each fiscal year.

(m) Financial Aid

Funding from federal and state governments is received for the benefit of certain eligible students attending the University. For most of these funds, the University acts in an agent capacity; accordingly, such amounts are not recorded as revenue and expenses in the accompanying statements of activities and changes in net assets.

Only the financial aid revenue for which the University has the ability to determine individual awards to students is included in the accompanying statements of activities and changes in net assets.

(n) Income Taxes

The University is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code, as amended. Management does not consider federal income taxes connected with the University's unrelated business income to be significant.

FASB ASC Subtopic 740-10, *Income Taxes – Overall*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, and disclosure. The University believes that it has appropriate support for its tax positions taken and as such, does not have any uncertain tax positions that could result in material impact to the financial statements.

(o) Use of Estimates

Management of the University has made several estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the recognition of revenues and expenses during the reporting period to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(p) Reclassifications

Certain amounts in the 2012 financial statements have been made to conform to the 2013 presentation.

(Continued)

(3) Contributions Receivable

Contributions receivable at June 30 are summarized as follows:

		2013	2012
Due in one year or less	$	1,172,151	1,155,823
Due in one to five years		2,018,143	2,673,934
Due in greater than five years		998,000	1,047,000
Total contributions receivable		4,188,294	4,876,757
Less:			
Allowances for uncollectible contributions		(224,411)	(232,466)
Discount for present value (0.09% at June 30, 2013 and 0.09% at June 30, 2012)		(204,055)	(9,112)
	$	3,759,828	4,635,179

(4) Investments

Investments, including those considered short term, at June 30 consist of the following:

		2013		2012	
		Fair value	Cost	Fair value	Cost
Short-term cash fund	$	1,674,662	1,674,662	1,550,872	1,550,872
Common stocks		27,238,926	24,760,619	21,353,948	21,516,185
Government bonds		8,486,260	8,587,461	9,782,419	9,709,632
Fixed income securities		5,729,719	5,747,040	2,160,881	2,115,219
Real estate		602,156	648,762	504,314	585,747
Total investments	$	43,731,723	41,418,544	35,352,434	35,477,655

During fiscal year 2013, the Board designated $5 million to be moved to Board Designated Quasi-Endowment. This amount is included in unrestricted investments and net assets.

(Continued)

The components of net investment return, including the interest earned on cash and cash equivalents, for the years ended June 30, 2013 and 2012, are as follows:

		2013	2012
Investment income	$	955,410	317,409
Realized gain		466,374	1,929,258
Investment income from temporarily restricted endowments		42,101	96,003
Investment return before unrealized (loss) gain		1,463,885	2,342,670
Unrealized gain (loss)		2,235,624	(1,259,372)
Investment return	$	3,699,509	1,083,298

Investment fees incurred for the years ended June 30, 2013 and 2012 were $235,045 and $136,660, respectively. These costs are included in institutional support expenses on the statements of activities and changes in net assets.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30:

		2013	2012
Land	$	3,151,512	2,303,379
Buildings		109,324,111	70,842,906
Improvements		34,551,121	27,767,104
Furniture and equipment		13,537,004	13,905,679
Computer equipment		15,730,636	15,730,825
Library books		5,126,830	4,918,496
Construction in progress		1,984,186	32,749,747
Equipment related to capital lease		142,296	142,296
		183,547,696	168,360,432
Less accumulated depreciation		(47,605,388)	(45,495,033)
Total land, building and equipment	$	135,942,308	122,865,399

Construction in progress at June 30, 2013, consists of various building improvement projects. Construction in progress at June 30, 2012, consisted of two new residence buildings, a parking garage, as well as various building improvement projects.

(Continued)

(6) Bonds and Notes Payable

Bonds and notes payable at June 30 consist of the following:

		2013	2012
HEFFA Series 2006 Revenue Bonds; Variable Interest Rate (2.13% at June 30, 2012) bonds payable; secured by irrevocable letter of credit; required principal payments begin December 2007 through October 2016; interest due in monthly installments through October 2016. Bond refunded November 29, 2012.	$	—	8,538,600
HEFFA Series 2009 Revenue Bonds; Variable Interest Rate (1.80% at June 30, 2012) bond payable; secured by irrevocable letter of credit and buildings; required principal payments begin March 2010; interest due in monthly installments through December 2029. Bond refunded November 29, 2012.		—	19,445,069
HEFFA Series 2010 Revenue Bonds; Variable Interest Rate (1.80% at June 30, 2012) bond payable; secured by irrevocable letter of credit and buildings; required principal payments begin August 2013; interest due in monthly installments through May 2030. Bond refunded November 29, 2012.		—	22,000,000
HEFFA Series 2010A Revenue Bonds; Fixed Interest Rate (2.65%) notes payable; secured by irrevocable letter of credit; required principal payments begin September 2013; interest due in monthly installments through December 2030. Bond refunded November 29, 2012.		—	8,000,000
HEFFA Series 2012A Revenue Refunding Bonds; Variable interest rate (1.08% at June 30, 2013) bond payable; secured by irrevocable letter of credit and buildings; required principal payments beginning November 2012; interest due in monthly installments through December 2030.		29,253,690	—
HEFFA Series 2012B Revenue Refunding Bonds; Variable interest rate (1.44% at June 30, 2013) bond payable; secured by irrevocable letter of credit and buildings; required principal payments beginning November 2012; interest due in monthly installments through October 2037.		27,510,966	—
	$	56,764,656	57,983,669

On September 29, 2006, the Higher Education Facilities Financing Authority (HEFFA) issued its Revenue Bonds, Series 2006 in the amount of $9,500,000 on behalf of the University. The proceeds from the bonds were loaned to the University and used to finance the construction of the student community center and to pay off existing debt of $3,250,000 for the initial construction costs of the project. The bonds bear interest at a variable interest rate and are payable in monthly installments through October 2016. The bonds have various restrictive financial covenants as defined in the loan agreement and the financing document with the purchaser of the bond. The bonds were refunded on November 30, 2012 with HEFFA Revenue Refunding Bond Series 2012B.

On April 11, 2008, the University entered into two interest rate exchange agreements (swaps) with Regions Bank, effectively converting the existing variable rate bonds to fixed rates. The first swap, effective April 11, 2008, and terminating on June 1, 2013, was for the notional amount of $21,837,600 at a fixed rate of 2.79%. As of June 30, 2012, the notional amount was $16,852,900. At June 30, 2012, the fair value of this swap was $(413,740). On October 19, 2012 the swap was terminated early. The second swap, effective April 15, 2008, and terminated on May 15, 2012, was for the notional amount of $1,882,386 at a fixed rate of 2.64%.

On December 1, 2009, the Higher Educational Facilities Financing Authority issued its Revenue Bonds, Series 2009 in the amount of $21,450,000 on behalf of the University. The proceeds of the bonds were loaned to the University and were used to refund the Pasco County Educational Facility Authority Revenue Bond (Series 1999), the Higher Educational Facilities Financing Authority Revenue Bond (Series 2002), and the Higher Educational Facilities Financing Authority Revenue Bond (Series 2004). The bond bears interest at a variable interest rate and is payable in monthly installments through December 2029. The bond has various restrictive financial covenants as defined in the loan agreement and the financing document with the purchaser of the bond. The bond was refunded on November 29, 2012 with HEFFA Revenue Refunding Bond Series 2012B.

On May 1, 2010, the Higher Educational Facilities Financing Authority issued its Revenue Bonds, Series 2010 in an amount not to exceed $22,000,000. The proceeds were loaned to the University and used for the construction and equipping of educational facilities to be owned and operated by the University. The loan bears interest at a variable interest rate and is payable in monthly installments through May 2030. The loan has various restrictive financial covenants as defined in the loan agreement and the financing document entered into with the purchaser of the bond. The purchaser of the bond is a commercial bank that has agreed to fund the loan as proceeds are needed by the University. During the years ended June 30, 2013 and 2012, the University drew $0 and $21,783,922, respectively. The bond was refunded on November 29, 2012 with HEFFA Revenue Refunding Bond Series 2012A.

On December 1, 2010, the Higher Educational Facilities Financing Authority agreed to issue its Revenue Bonds, Series 2010A in an amount not to exceed $8,000,000. The proceeds were loaned to the University and used for the construction and equipping of educational facilities to be owned and operated by the University. The loan bears interest at a fixed rate of 2.65% and is payable in monthly installments through December 2030. The loan has various restrictive financial covenants as defined in the loan agreement and the financing document with the purchaser of the bond. The purchaser of the bond is a commercial bank that has agreed to fund the loan as proceeds are needed by the University. During the years ended June 30, 2013 and 2012, the University drew $0 and $7,904,700, respectively. The bond was refunded on November 29, 2012 with HEFFA Revenue Refunding Bond Series 2012A.

On November 29, 2012, the Higher Educational Facilities Financing Authority issued its Revenue Refunding Bonds, Series 2012A in the amount of $30,000,000 on behalf of the University. The proceeds of the bonds were loaned to the University and were used to refund the Higher Educational Facilities Financing Authority Revenue Bond Series 2010 and Series 2010A. The bond bears interest at a variable interest rate (1.08% at June 30, 2013) and is payable in monthly installments through December 2030. The bond has various restrictive financial covenants as defined in the loan agreement and the financing document with the purchaser of the bond.

On November 29, 2012, the Higher Educational Facilities Financing Authority issued its Revenue Refunding Bonds, Series 2012B in the amount of $27,685,000 on behalf of the University. The proceeds of the bonds were loaned to the University and were used to refund the Higher Educational Facilities Financing Authority Revenue Bond (Series 2006), and the Higher Educational Facilities Financing Authority Revenue Bond (Series 2009). The bond bears interest at a variable interest rate (1.44% at June 30, 2013) and is payable in monthly installments through October 2037. The bond has various restrictive financial covenants as defined in the loan agreement and the financing document with the purchaser of the bond.

On April 25, 2013, the University entered into an interest rate exchange agreement (swap) with BB&T Bank, effectively converting the Series 2012A variable rate bond to a fixed rate. The swap, effective April 25, 2013, and terminating on December 1, 2022, was for the notional amount of $29,481,283 at a fixed rate of 2.14%. As of June 30, 2013, the notional amount that decreases over time was $29,253,690. At June 30, 2013, the fair value of this swap was $510,598.

The University entered into a $5,000,000 line of credit for working capital purposes issued through a lending institution. The line of credit provided borrowings at LIBOR rate plus 1.35% per annum (1.54% at June 30, 2013), was unsecured, and was available at June 30, 2013. There were no borrowings or outstanding borrowings on the line of credit for the year ended June 30, 2013.

Management is not aware of any instances of noncompliance with any of the covenants contained in any of its financing documents at June 30, 2013 and 2012.

Maturities of bonds payable for years subsequent to June 30, 2013 are as follows:

Year ending June 30:		
2014	$	1,709,582
2015		1,753,422
2016		1,794,745
2017		1,844,411
2018		1,891,708
Thereafter		47,770,788
	$	56,764,656

Interest expense (including accruals), net of amounts capitalized (see note 2h), on the bonds payable was $981,445 and $1,055,308, respectively, for the years ended June 30, 2013 and 2012.

(7) Unrestricted Net Assets

		June 30	
		2013	**2012**
Unrestricted net assets	$	132,401,427	109,508,160
Less property, plant, and equipment (and assets limited to plant)		(135,942,308)	(122,865,399)
Add back plant-related debt		56,764,656	57,983,669
Unrestricted net assets excluding plant and debt	$	53,223,775	44,626,430

(8) Restrictions and Limitations on Net Assets

Temporarily restricted net assets consist of the following at June 30:

		2013	**2012**
Gifts and other unexpended revenue and gains available for:			
Comprehensive capital campaign	$	—	11,006,451
Donor-supported scholarship aid		1,962,482	84,968
Student athletics		201,062	165,822
Funds held in trusts by others		46,541	56,792
Landscaping and capital improvements		100,794	91,579
Other grants and programs		200,918	131,867
Total temporarily restricted net assets	$	2,511,797	11,537,479

Permanently restricted net assets consist of the following at June 30:

		2013	**2012**
Endowment funds	$	4,831,194	4,595,279
Beneficial interest in perpetual trusts		3,231,238	2,845,839
	$	8,062,432	7,441,118

(Continued)

(9) Net Assets Released From Restrictions

Net assets were released from donor restrictions as follows, during the years ended June 30, 2013 and 2012, by incurring expenses, satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Purpose restrictions accomplished:		
Comprehensive capital campaign	$ 11,025,456	—
Donor-supported scholarship aid	382,055	282,625
Government grants and contracts	226,926	341,508
Student athletics	345,384	363,023
Other	259,993	1,473
	$ 12,239,814	988,629

(10) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable, and deposits held in custody for others approximate fair value because of the short-term maturity of these financial instruments.

The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the end of the financial reporting period.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates that approximate current market rates for notes with similar maturities and credit quality.

Fair value accounting guidance defines fair value as the exit price that would be received to sell an asset or transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Based on the inputs used to determine fair value, a three-level fair value hierarchy is used as follows:

Level 1 – Inputs are observable, such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the factors that market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances.

The following tables present financial instruments that are measured or disclosed at fair value by the fair value guidance hierarchy as of June 30, 2013 and 2012:

	2013			
	Valued using			
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Assets:				
Recurring:				
Cash and cash equivalents	$ 14,308,425	—	—	14,308,425
Investments:				
Short term cash fund	1,674,662	—	—	1,674,662
Stocks	27,238,926	—	—	27,238,926
Government bonds and fixed income securities	6,140,065	8,075,914	—	14,215,979
Real estate	162,358	439,798	—	602,156
Total investments	35,216,011	8,515,712	—	43,731,723
Beneficial interest in perpetual trusts	—	—	3,231,238	3,231,238
Funds held in trust by others	—	—	46,541	46,541
Interest rate swaps	—	510,598	—	510,598
Total recurring	49,524,436	9,026,310	3,277,779	61,828,525
Nonrecurring:				
Contributions receivable	—	—	3,759,828	3,759,828
Total nonrecurring	—	—	3,759,828	3,759,828
Disclosure:				
Student loans receivable	—	386,228	—	386,228
Total assets	$ 49,524,436	9,412,538	7,037,607	65,974,581

	2013 Valued using Level 1 inputs	2013 Valued using Level 2 inputs	2013 Valued using Level 3 inputs	2013 Total
Liabilities:				
Recurring:				
Deposits held in custody for others	$ —	—	94,783	94,783
Total recurring	—	—	94,783	94,783
Disclosure:				
Bonds and loans payable	—	56,764,656	—	56,764,656
Total liabilities	$ —	56,764,656	94,783	56,859,439

	2012 Valued using Level 1 inputs	2012 Valued using Level 2 inputs	2012 Valued using Level 3 inputs	2012 Total
Assets:				
Recurring:				
Cash and cash equivalents	$ 26,461,317	—	—	26,461,317
Investments:				
Short term cash fund	1,550,872	—	—	1,550,872
Stocks	21,353,948	—	—	21,353,948
Government bonds and fixed income securities	6,457,354	5,485,946	—	11,943,300
Real estate	99,314	405,000	—	504,314
Total investments	29,461,488	5,890,946	—	35,352,434
Beneficial interest in perpetual trusts	—	—	2,845,839	2,845,839
Funds held in trust by others	—	—	56,792	56,792
Total recurring	55,922,805	5,890,946	2,902,631	64,716,382
Nonrecurring:				
Contributions receivable	—	—	4,635,179	4,635,179
Total nonrecurring	—	—	4,635,179	4,635,179
Disclosure:				
Student loans receivable	—	430,855	—	430,855
Total assets	$ 55,922,805	6,321,801	7,537,810	69,782,416

(Continued)

	2012			
	Valued using			
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Liabilities:				
Recurring:				
Interest rate swaps	$ —	—	413,740	413,740
Deposits held in custody for others	—	—	104,047	104,047
Total recurring	—	—	517,787	517,787
Disclosure:				
Bonds and loans payable	—	57,983,669	—	57,983,669
Total liabilities	$ —	57,983,669	517,787	58,501,456

The University's accounting policy is to recognize transfers between levels of fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfer between Level 1, Level 2, or Level 3 during the years ended June 30, 2013 and 2012.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-term investments – Short-term investments consisting of money market funds are measured at fair value using quoted market prices.

Equity securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Government bonds and fixed income securities – Investments in fixed income securities comprise U.S. Treasury notes, mortgage-backed securities, municipal bonds, and corporate bonds and notes. U.S. Treasury notes are classified as Level 1 if they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis. The remaining fixed income securities are classified as Level 2 based on multiple sources of information, which include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Real estate – Investments in real estate are classified as Level 1 when they are actively traded and a reliable quote is observable. If the investment classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, investments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which class it is classified as Level 3.

(Continued)

Beneficial interest in perpetual trusts – The University's beneficial interest in perpetual trusts administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets.

Funds held in trust by others – The University's beneficial interest in irrevocable split-interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

Interest rate exchange agreements – Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.), which take into account the present value of the estimated future cash flows and credit valuation adjustments.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following tables present a reconciliation of the statements of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30.

	2013		
	Beneficial interest in perpetual trusts	**Funds held in trust by others**	**Total**
Balance, beginning of year	$ 2,845,839	56,792	2,902,631
Realized and unrealized gains (losses), net	385,399	(10,251)	375,148
Purchases, issuances, sales, and settlements:			
Purchases	—	—	—
Issuance	—	—	—
Sales	—	—	—
Settlements	—	—	—
Balance, end of year	$ 3,231,238	46,541	3,277,779

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2013	$ 375,148

(Continued)

	2012		
	Beneficial interest in perpetual trusts	Funds held in trust by others	Total
Balance, beginning of year	$ 2,866,042	268,886	3,134,928
Realized and unrealized gains (losses), net	(20,203)	(12,374)	(32,577)
Purchases, issuances, sales, and settlements:			
Purchases	—	—	—
Issuance	—	—	—
Sales	—	—	—
Settlements	—	(199,720)	(199,720)
Balance, end of year	$ 2,845,839	56,792	2,902,631

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2012	$ (32,577)

There have been no changes in the valuation techniques used in determining Level 2 or Level 3 classifications.

(11) Endowment

ASC 958, *Not-for-Profit Entities*, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization’s endowment funds. On July 1, 2012, the State of Florida enacted UPMIFA. As a result, the University implemented all requirements of UPMIFA, most notably the requirement that all donor-restricted endowment funds that are not classified as permanently restricted net assets be 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 in UPMIFA. This adoption resulted in a cumulative effect of a change in accounting principle reclassification of $921,000 of unrestricted net assets at June 30, 2013.

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. 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.

Endowments classified as permanently restricted net assets include (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 of the accumulation added to the fund. The remaining portion of the

(Continued)

donor-restricted endowment fund that is not classified in permanently restricted net assets 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 the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA).

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

1. The duration and preservation of the fund
2. The purposes 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-specific 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 a real return, net of inflation and investment management costs, of at least 5% over the long term. 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 has a policy of appropriating for distribution each year 5% of its endowment funds of the preceding fiscal year in which the distribution is planned. 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 the long-term rate of inflation. This is consistent with the University’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

(Continued)

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ —	1,984	8,062	10,046
Board-designated funds	33,636	—	—	33,636
Total funds	$ 33,636	1,984	8,062	43,682

Changes in endowment net assets for the fiscal year ended June 30, 2013 consisted of the following (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 27,597	57	7,441	35,095
Net asset re-classification based on law change	(921)	921	—	—
Investment income:				
Investment return	766	189	—	955
Net appreciation (depreciation) (realized and unrealized)	1,334	892	385	2,611
Total investment gain (loss)	2,100	1,081	385	3,566
Contributions	—	123	233	356
Appropriation of endowment assets for expenditures	(140)	(195)	—	(335)
Other changes:				
Transfers between funds	5,000	(3)	3	5,000
Endowment net assets, end of year	$ 33,636	1,984	8,062	43,682

At June 30, 2012, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ 921	57	7,441	8,419
Board-designated funds	26,676	—	—	26,676
Total funds	$ 27,597	57	7,441	35,095

(Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	27,129	269	7,117	34,515
Investment income:					
Investment return		204	(1)	—	203
Net appreciation (depreciation) (realized and unrealized)		428	(12)	(20)	396
Total investment gain (loss)		632	(13)	(20)	599
Contributions		—	824	253	1,077
Appropriation of endowment assets for expenditures		(273)	(823)	—	(1,096)
Other changes:					
Transfers between funds		109	(200)	91	—
Endowment net assets, end of year	$	27,597	57	7,441	35,095

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies of this nature, which are reported in unrestricted net assets, did not exist in either of the two years reported.

(12) Leases

The University is obligated under several noncancelable, operating leases, primarily for office space, transportation, and office equipment, which expire through 2019. Lease expense during the years ended June 30, 2013 and 2012 totaled $2,275,774 and $1,672,576, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

Year ending June 30:		
2014	$	2,250,509
2015		2,049,188
2016		1,949,762
2017		884,590
2018		318,297
	$	7,452,346

The University is involved in leasing arrangements for certain computer equipment. The computer equipment has been capitalized in the financial statements as a purchase of assets and incurrence of debt, as if financed.

(13) Retirement Plan

The University offers an Internal Revenue Code Section 403(b) retirement plan covering most hourly and salaried employees. This plan is administered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company (VALIC). Employees of the University at the time the plan was adopted were not required to contribute to participate; however, the plan was subsequently amended to set minimum contributions from employees in order to participate. Currently, employees who meet eligibility requirements must contribute a minimum of 1% of their salary to participate. For employees making such contribution, the University will make a matching contribution at a percentage that is periodically adjusted. The current University contribution rate ranges from 3% to 9% depending on the employee's rate of contribution. Employees become fully vested in both the employee and employer contributions to the Plan upon entering the plan. For the years ended June 30, 2013 and 2012, the University's plan contributions were $2,594,140 and $2,144,921, respectively. The University's policy is to fund retirement costs accrued.

The University has a 457(b) Deferred Compensation Plan, limited to specific management and faculty positions. The deferred compensation is invested with TIAA-CREF or VALIC and is considered University property until the employee withdraws the funds due to emergency, termination, or retirement. The participants' contributions are subject to the general creditors of the University. Accordingly, invested assets are recorded at fair value in other assets in the accompanying statements of financial position, with a corresponding liability in the amount of $1,450,839 and $1,100,763 recorded in accrued compensation at June 30, 2013 and 2012, respectively. The University does not record any related transaction activity as revenue or expense.

(14) Expenses

Expenses by natural classification were as follows for the years ended June 30:

			2013		
	Salaries and benefits	Contractual services	Other expenses	Depreciation and amortization	Total
Instructional	$ 41,875,143	1,223,971	7,345,731	1,225,685	51,670,530
Academic support	12,451,460	166,850	3,176,878	806,184	16,601,372
Student services	14,825,900	7,689,194	9,824,866	1,128,045	33,468,005
Institutional support	14,788,625	2,635,756	12,628,837	672,797	30,726,015
Auxiliary enterprises	2,174,372	518,055	5,904,885	4,522,286	13,119,598
	$ 86,115,500	12,233,826	38,881,197	8,354,997	145,585,520

	2012				
	Salaries and benefits	**Contractual services**	**Other expenses**	**Depreciation and amortization**	**Total**
Instructional	$ 37,872,023	1,055,325	6,647,875	751,103	46,326,326
Academic support	10,843,741	205,006	3,036,108	372,329	14,457,184
Student services	11,020,794	10,681,568	8,133,120	662,943	30,498,425
Institutional support	12,618,786	1,603,042	12,072,662	275,532	26,570,022
Auxiliary enterprises	1,989,036	374,709	5,327,741	2,867,700	10,559,186
	$ 74,344,380	13,919,650	35,217,506	4,929,607	128,411,143

Included in institutional support are fund raising expenses of $1,648,145 and $1,617,583 incurred by the University during the years ended June 30, 2013 and 2012, respectively.

(15) Related Parties

Contributions receivable include amounts pledged by various Board of Trustee members. At June 30, 2013 and 2012, gross pledges outstanding from such Trustees amounted to $3,337,870 and $3,798,818, respectively.

(16) Contingencies

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition or changes in net assets of the University.

The University is party to various claims and legal actions arising in the ordinary course of business. Management does not believe that the outcome of such claims and legal actions will have a material adverse effect on the financial position or changes in net assets of the University.

(17) Subsequent Events

The University reviewed and evaluated events from June 30, 2013 through August 30, 2013, the date that the financial statements were available for issuance, and concluded that no subsequent events have occurred that require recognition in the financial statements or disclosure in the notes to the financial statements.