



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

**May 31, 2020 and 2019**



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**University of St. Francis**  
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**May 31, 2020 and 2019**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of University of St. Francis (the University), which comprise the statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of St. Francis as of May 31, 2020 and 2019, 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.

## **Emphasis of Matter**

As discussed in Note 1 of the financial statements, the University adopted new accounting guidance as issued by the Financial Accounting Standards Board (FASB) under Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

*Sikich LLP*

Naperville, Illinois  
October 8, 2020

## **Financial Statements**

# University of St. Francis

## Statements of Financial Position

May 31, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 1,565,826	\$ 3,767,445
Investments	16,016,214	13,109,417
Student accounts receivable, net of allowance of \$1,776,000 in 2020 and \$1,650,000 in 2019	2,065,616	1,974,393
Other receivables	225,683	233,794
Prepaid expenses and other assets	424,865	392,020
Contributions receivable, net of allowance of \$89,700 in 2020 and \$127,500 in 2019	1,662,811	2,340,250
Restricted cash	387,408	181,670
Restricted investments	1,236,046	1,345,587
Real estate held for investment	1,500,825	1,500,825
Student loans receivable, net of allowance of \$50,000	1,105,708	1,318,525
Interest rate swap agreements	-	142,694
Property and equipment, net of accumulated depreciation of \$51,426,853 in 2020 and \$47,710,511 in 2019	57,261,038	60,449,178
Beneficial interest in perpetual trust	2,417,142	2,341,437
Investments restricted to endowment	10,980,954	10,817,209
	<b>\$ 96,850,136</b>	<b>\$ 99,914,444</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,601,748	\$ 1,026,884
Accrued expenses	1,508,884	2,204,208
Deferred revenue	3,294,356	3,689,494
Capital lease obligations	537,330	810,746
Other liabilities	1,401,400	1,443,923
Interest rate swap agreements	610,707	-
Bonds and note payable, net of unamortized debt issuance costs of \$325,252 in 2020 and \$518,975 in 2019	35,634,665	36,638,938
U.S. Government student loan funds	945,480	931,272
	45,534,570	46,745,465
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	24,585,308	26,829,124
Board designated for endowment	9,209,490	8,657,074
	33,794,798	35,486,198
Total net assets without donor restrictions	33,794,798	35,486,198
With Donor Restrictions	17,520,768	17,682,781
	51,315,566	53,168,979
<b>Total Liabilities and Net Assets</b>	<b>\$ 96,850,136</b>	<b>\$ 99,914,444</b>

See accompanying notes to financial statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, and Other Support</b>			
Tuition and fees	\$ 66,068,721	\$ -	\$ 66,068,721
Less scholarships and aid	(25,818,868)	-	(25,818,868)
Net tuition and fees	40,249,853	-	40,249,853
Contributions	617,637	1,167,293	1,784,930
Grants	-	1,214,662	1,214,662
Distribution from trusts held by others	-	111,749	111,749
Investment return	820,416	823,734	1,644,150
Auxiliary enterprises	4,267,913	-	4,267,913
Other income	130,117	-	130,117
Net assets released from restrictions	3,061,661	(3,061,661)	-
Total revenues, gains, and other support	49,147,597	255,777	49,403,374
<b>Expenses</b>			
Instruction	18,294,396	-	18,294,396
Academic support	7,221,767	-	7,221,767
Student services	9,306,799	-	9,306,799
Auxiliary enterprises	4,105,028	-	4,105,028
Total educational program services	38,927,990	-	38,927,990
Institutional support	8,631,220	-	8,631,220
Fundraising	895,129	-	895,129
Total expenses	48,454,339	-	48,454,339
Change in Net Assets Before Other Revenues (Expenses)	693,258	255,777	949,035
<b>Other Revenues (Expenses)</b>			
Loss on disposals of property	(19,531)	-	(19,531)
Unrealized investment loss	(633,791)	(493,495)	(1,127,286)
Unrealized gain on real estate held for investment	-	-	-
Change in fair value of interest rate swap agreements	(610,707)	-	(610,707)
Change in value of split-interest agreements	(9,574)	75,705	66,131
Loss on extinguishment of debt	(1,111,055)	-	(1,111,055)
Total other revenues (expenses)	(2,384,658)	(417,790)	(2,802,448)
Change in Net Assets	(1,691,400)	(162,013)	(1,853,413)
Net Assets, Beginning of Year	35,486,198	17,682,781	53,168,979
Net Assets, End of Year	\$ 33,794,798	\$ 17,520,768	\$ 51,315,566

(This statement is continued on the following page.)

University of St. Francis  
Statement of Activities (Continued)  
Year Ended May 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, and Other Support</b>			
Tuition and fees	\$ 64,815,935	\$ -	\$ 64,815,935
Less scholarships and aid	(22,049,240)	-	(22,049,240)
Net tuition and fees	42,766,695	-	42,766,695
Contributions	760,566	2,548,030	3,308,596
Grants	-	529,344	529,344
Distribution from trusts held by others	-	150,188	150,188
Investment return	597,833	590,951	1,188,784
Auxiliary enterprises	4,030,356	-	4,030,356
Other income	455,259	-	455,259
Net assets released from restrictions	1,524,855	(1,524,855)	-
Total revenues, gains, and other support	50,135,564	2,293,658	52,429,222
<b>Expenses</b>			
Instruction	18,654,085	-	18,654,085
Academic support	7,110,394	-	7,110,394
Student services	9,637,187	-	9,637,187
Auxiliary enterprises	4,357,796	-	4,357,796
Total educational program services	39,759,462	-	39,759,462
Institutional support	8,743,271	-	8,743,271
Fundraising	832,238	-	832,238
Total expenses	49,334,971	-	49,334,971
<b>Change in Net Assets Before Other Revenues (Expenses)</b>	800,593	2,293,658	3,094,251
<b>Other Revenues (Expenses)</b>			
Loss on disposals of property	(103,794)	-	(103,794)
Unrealized investment gain (loss)	(415,441)	(488,258)	(903,699)
Unrealized gain (loss) on real estate held for investment	70,500	-	70,500
Change in fair value of interest rate swap agreements	(550,165)	-	(550,165)
Change in value of split-interest agreements	(4,328)	(109,749)	(114,077)
Total other revenues (expenses)	(1,003,228)	(598,007)	(1,601,235)
<b>Change in Net Assets</b>	(202,635)	1,695,651	1,493,016
<b>Net Assets, Beginning of Year</b>	35,688,833	15,987,130	51,675,963
<b>Net Assets, End of Year</b>	\$ 35,486,198	\$ 17,682,781	\$ 53,168,979

See accompanying notes to financial statements.



University of St. Francis  
Statement of Functional Expenses  
Year Ended May 31, 2020

	Instruction	Academic Support	Student Services	Auxiliary	Institutional Support	Fundraising	Total
<b>Labor</b>							
Salaries	\$ 11,896,001	\$ 4,200,914	\$ 4,217,581	\$ 615,503	\$ 3,200,328	\$ 461,420	\$ 24,591,747
Payroll taxes	846,760	288,277	296,262	38,174	165,504	27,871	1,662,848
Medical and HSA expense	1,085,085	475,613	576,694	87,880	368,900	49,566	2,643,738
403(b) employer match	539,018	229,685	255,701	28,687	226,141	31,530	1,310,762
Other benefits	-	-	-	-	947,919	-	947,919
<b>Total Labor</b>	<b>14,366,864</b>	<b>5,194,489</b>	<b>5,346,238</b>	<b>770,244</b>	<b>4,908,792</b>	<b>570,387</b>	<b>31,157,014</b>
<b>Operating Expenses (non-labor)</b>							
Accreditation expense	5,606	56,635	-	-	9,607	-	71,848
Advertising	3,359	5,198	215	-	184,870	-	193,642
Bad debt expenses	-	-	-	-	150,000	-	150,000
Business insurance	23,341	-	199,265	-	392,232	-	614,838
Conferences and professional development	7,129	54,385	28,700	2,130	21,192	639	114,175
Contractual services	737,774	225,063	501,721	495,977	589,301	58,006	2,607,842
Equipment	48,739	10,469	15,948	10,943	8,929	66	95,094
Fees	6,075	4,153	51,305	4,533	214,414	13,782	294,262
Food expense	13,510	11,527	124,072	1,189,518	50,405	79,732	1,468,764
Interest expense	294,210	130,593	178,221	174,507	101,605	1,858	880,994
Memberships	18,647	75,385	78,609	-	137,141	2,168	311,950
Postage	1,037	2,480	61,060	36	67,803	14,188	146,604
Property taxes	-	-	-	61,439	-	-	61,439
Publications	7,842	154,470	2,856	-	53,391	13,928	232,487
Purchased mailing lists	-	-	195	-	16,423	-	16,618
Rental equipment	3,943	2,901	2,446	139,003	3,586	19,604	171,483
Repairs and maintenance	54,068	27,840	33,555	27,411	20,278	239	163,391
Software licensing	10,465	267,493	9,581	-	259,233	-	546,772
Sponsorship and community support	-	-	1,445	-	54,908	20	56,373
Supplies	510,729	3,591	366,860	80,118	149,129	21,813	1,132,240
Telephone expense	2,999	1,331	5,866	2,887	69,148	19	82,250
Travel	26,874	42,475	307,143	-	39,969	140	416,601
Utilities	392,798	174,353	326,171	259,657	330,368	2,481	1,485,828
Other	263,585	113,429	759,835	-	282,266	86,619	1,505,734
Depreciation and amortization	1,494,802	663,507	905,492	886,625	516,230	9,440	4,476,096
<b>Total Operating Expenses (non-labor)</b>	<b>3,927,532</b>	<b>2,027,278</b>	<b>3,960,561</b>	<b>3,334,784</b>	<b>3,722,428</b>	<b>324,742</b>	<b>17,297,325</b>
<b>Total Expense</b>	<b>\$ 18,294,396</b>	<b>\$ 7,221,767</b>	<b>\$ 9,306,799</b>	<b>\$ 4,105,028</b>	<b>\$ 8,631,220</b>	<b>\$ 895,129</b>	<b>\$ 48,454,339</b>

(This statement is continued on the following page.)

University of St. Francis  
Statement of Functional Expenses (Continued)  
Year Ended May 31, 2019

	Instruction	Academic Support	Student Services	Auxillary	Institutional Support	Fundraising	Total
<b>Labor</b>							
Salaries	\$ 11,935,279	\$ 4,085,657	\$ 4,104,494	\$ 616,615	\$ 2,987,317	\$ 448,565	\$ 24,177,927
Payroll taxes	868,095	272,968	279,794	37,952	208,888	27,789	1,695,486
Medical and HSA expense	1,188,328	464,926	591,619	118,997	406,831	21,195	2,791,896
403(b) employer match	559,898	228,508	238,947	27,771	219,550	17,149	1,291,823
Other benefits	-	-	-	-	925,082	-	925,082
<b>Total Labor</b>	<b>14,551,600</b>	<b>5,052,059</b>	<b>5,214,854</b>	<b>801,335</b>	<b>4,747,668</b>	<b>514,698</b>	<b>30,882,214</b>
<b>Operating Expenses (non-labor)</b>							
Accreditation expense	2,200	46,405	-	-	16,862	-	65,467
Advertising	4,694	13,804	956	-	447,959	-	467,413
Bad debt expenses	-	-	-	-	192,000	-	192,000
Business insurance	15,423	-	258,709	-	374,341	318	648,791
Conferences and professional development	6,049	26,320	43,296	2,918	18,585	2,492	99,660
Contractual services	707,902	186,966	597,180	449,322	391,301	120,702	2,453,373
Equipment	40,820	7,473	22,741	4,768	1,787	26	77,615
Fees	5,336	24,450	59,458	4,114	207,694	12,743	313,795
Food expense	15,907	12,899	195,176	1,382,700	77,435	22,457	1,706,574
Interest expense	340,376	146,130	199,424	195,269	113,692	2,080	996,971
Memberships	14,922	47,996	71,910	83	139,002	1,531	275,444
Postage	1,636	5,471	73,445	23,290	64,009	12,884	180,735
Property taxes	-	-	-	73,921	-	-	73,921
Publications	5,834	156,033	7,257	-	8,391	16,111	193,626
Purchased mailing lists	-	-	1,611	-	21,753	-	23,364
Rental equipment	6,014	2,169	10,957	156,344	1,493	1,338	178,315
Repairs and maintenance	71,614	44,563	45,903	45,309	36,334	410	244,133
Software licensing	1,344	272,144	6,706	-	280,898	-	561,092
Sponsorship and community support	-	-	2,806	-	56,475	-	59,281
Supplies	619,942	50,496	429,143	70,055	141,829	17,385	1,328,850
Telephone expense	3,067	1,317	6,243	3,201	115,602	19	129,449
Travel	39,557	46,042	370,086	269	107,639	4,304	567,897
Utilities	427,128	183,374	346,653	274,416	330,300	2,610	1,564,481
Other	255,376	132,855	783,667	-	343,391	90,859	1,606,148
Depreciation and amortization	1,517,344	651,428	889,006	870,482	506,831	9,271	4,444,362
<b>Total Operating Expenses (non-labor)</b>	<b>4,102,485</b>	<b>2,058,335</b>	<b>4,422,333</b>	<b>3,556,461</b>	<b>3,995,603</b>	<b>317,540</b>	<b>18,452,757</b>
<b>Total Expenses</b>	<b>\$ 18,654,085</b>	<b>\$ 7,110,394</b>	<b>\$ 9,637,187</b>	<b>\$ 4,357,796</b>	<b>\$ 8,743,271</b>	<b>\$ 832,238</b>	<b>\$ 49,334,971</b>

See accompanying notes to financial statements.

University of St. Francis  
Statements of Cash Flows  
For Fiscal Year 2020 as of April 30, 2020

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,853,413)	\$ 1,493,016
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,476,096	4,444,362
Loss on disposals of property	19,531	103,794
Bad debt expense	150,000	192,000
Change in contributions receivable discount	(58,530)	(42,590)
Perkins loans cancellations and adjustments	(14,595)	-
Net realized and unrealized (gains) losses on investments	13,323	161,830
Change in beneficial interest in perpetual trust	(75,705)	109,749
Change in fair value of interest rate swap agreements	610,707	550,165
Actuarial (gain) loss on annuity obligations	(9,574)	(4,328)
Noncash contributions	(35,000)	(1,639,432)
Contributions restricted for long-term investment	(312,111)	(1,083,191)
Contributions restricted for acquisition of long-lived assets	(135,500)	-
Loss on extinguishment of debt	1,111,055	-
Changes in operating assets and liabilities		
Student accounts receivable	(241,223)	573,840
Other receivables	8,111	(8,390)
Prepaid expenses	(32,845)	21,075
Contributions receivable	645,963	35,769
Accounts payable	574,864	92,501
Accrued expenses	(695,324)	(469,706)
Deferred revenue	(395,138)	(373,596)
Other liabilities	111,248	195,399
Net cash provided by operating activities	<u>3,861,940</u>	<u>4,352,267</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(1,388,135)	(1,585,419)
Proceeds from sale of property and equipment	-	38,225
Purchases of investments	(21,685,935)	(26,217,761)
Proceeds from sales and maturities of investments	18,711,612	24,105,161
Principal payments received on student loans	227,412	164,549
Net cash used in investing activities	<u>(4,135,046)</u>	<u>(3,495,245)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(273,416)	(262,003)
Payments on note payable	(37,157,913)	(1,320,087)
Proceeds from refinance of bonds	35,632,202	-
Payments of interest rate swap settlement	(470,201)	-
Payments on annuities payable	(5,272)	(5,272)
(Increase) decrease in U.S. Government student loan funds	14,208	(36,378)
Proceeds from contributions restricted for long-term investment	312,111	1,083,191
Proceeds from contributions restricted for acquisition of long-lived assets	225,506	-
Net cash used in financing activities	<u>(1,722,775)</u>	<u>(540,549)</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents and Restricted Cash</b>	(1,995,881)	316,473
<b>Cash and Cash Equivalents and Restricted Cash Beginning of Year</b>	<u>3,949,115</u>	<u>3,632,642</u>
<b>Cash and Cash Equivalents and Restricted Cash End of Year</b>	<u>\$ 1,953,234</u>	<u>\$ 3,949,115</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 880,994	\$ 997,013
Property and equipment purchases included in accounts payable	-	99,941
Noncash contribution of property	-	939,000

See accompanying notes to financial statements.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### Nature of Operations

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

#### Use of Estimates

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

#### Cash and Cash Equivalents and Restricted Cash

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2020 and 2019, cash equivalents consisted primarily of money market funds.

At May 31, 2020 and 2019, the University's cash accounts exceeded federally insured limits by approximately \$1,871,350 and \$4,413,768, respectively. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

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

The balance of the Federal Perkins Loan revolving fund, consisting of cash awaiting to be loaned to students, is maintained in a separate, restricted bank account.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position as of May 31.

	2020	2019
Cash and cash equivalents	\$ 1,565,826	\$ 3,767,445
Restricted cash	387,408	181,670
Total	<u>\$ 1,953,234</u>	<u>\$ 3,949,115</u>

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### **Student Accounts and Loans Receivable**

Student accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds plus any accrued and unpaid interest. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Tuition and fees are generally due at the beginning of the term unless the student has established a payment plan. Student accounts that do not have an established payment plan are considered past due after the second published due date (this date varies, but is approximately two to three weeks after classes begin). A late fee is charged to all accounts not paid in full or enrolled in a payment plan by that date. In addition, accounts with balances due from a prior term bear interest at 1% per month. Charges that are past due without any payments for approximately three consecutive months are considered delinquent. Delinquent accounts are sent to collections and subsequently written off based on individual credit evaluation and specific circumstances of the student.

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

#### **Restricted Investments**

Contributions restricted for long-lived asset purchases, deferred compensation, and a significant grant received for future scholarship awards are displayed as a component of restricted investments.

#### **Investments and Investment Return**

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at fair value. Alternative investment funds are valued using an estimated net asset value (NAV). Investment return is reported net in the statements of activities and consists of dividend, interest, and other investment income, less external and direct internal investment expense; and realized and unrealized gains and losses on investments carried at fair value. Investment return is reflected in the statements of activities as income without donor restrictions, or income with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### **Property and Equipment**

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

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

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

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

#### **Split-Interest Agreements**

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

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

#### **Deferred Revenue**

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

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### **Net Assets**

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

*Net Assets Without Donor Restrictions* include net assets available for use in general operations and are not subject to donor-imposed restrictions. The University's Board of Trustees has designated from net assets without donor restrictions, net assets for board designated endowment, scholarships, and capital and other projects.

*Net Assets With Donor Restrictions* include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met either by actions of the University or the passage of time. They may also be subject to donor-imposed restrictions that the contribution be maintained in perpetuity and neither expire with the passage of time nor can be removed by satisfying a specific purpose. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets for general or specific purposes. Such assets include primarily the University's permanent endowment.

#### **Tuition and Fees**

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

#### **Contributions**

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

Gifts of land, buildings, equipment, and other long-lived assets are reported as changes in net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### **Contributions (Continued)**

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

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional gifts received prior to the satisfaction of conditions are recorded as refundable grant advances.

#### **In-Kind Contributions**

In addition to receiving cash contributions, the University receives in-kind contributions of investments, auction items for fundraising events, and property from various donors. It is the policy of the University to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended May 31, 2020 and 2019, \$216,458 and \$729,510, respectively, was received in in-kind contributions.

#### **Grants**

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

#### **Auxiliary Enterprises**

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliary enterprises consist of residence halls, dining facilities, conference services, and the University bookstore. Auxiliary enterprise revenues and expenses are reported in the accompanying statements of activities in net assets without donor restrictions.

#### **Advertising Costs**

The University uses advertising to promote its various programs. The production costs of advertising are expensed the first time the advertising takes place. Advertising expenses for the years ended May 31, 2020 and 2019 were \$193,642 and \$184,455, respectively.

#### **Income Taxes**

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



# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### **Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses allocated include depreciation, interest, facilities operations and maintenance, insurance, and utilities expenses, which have been allocated among the educational program, institutional support, and fundraising categories based on the square footage of the space utilized by the different University departments. Certain employee benefit expenses have been allocated among the same categories based on the number of benefits-eligible employees in the different University departments.

#### **New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended by ASU No. 2015-14, which supersedes or replaces nearly all revenue recognition guidance under USGAAP. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and will expand disclosures about revenue. ASU No. 2014-09, as amended by ASU No. 2020-05, is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The University is currently assessing the impact of this new standard.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts and requires additional disclosures about leasing arrangements. ASU No. 2016-02, as amended by ASU No. 2020-05, is effective for nonpublic entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new leases standard at the beginning of the earliest period presented in the financial statements. In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The University is currently assessing the impacts of this new standard, including the two optional transition methods.

FASB has issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018, for transactions in which the entity serves as a resource recipient, and for fiscal years beginning after December 15, 2019, for transactions in which the entity serves as a resource provider. Early adoption is permitted. The University has implemented this standard on the modified prospective basis for the year ended May 31, 2020.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 2 — Liquidity and Availability

The University of St. Francis regularly monitors liquidity required to meet both its operating needs and contractual commitments, while also striving to maximize the investment of its available funds. The University budgets annually in such a way that the student driven revenues are able to cover the total expenses for the year. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities. The University also has a line of credit of \$2,000,000 available as of May 31, 2020, which it could draw upon in the event of an anticipated liquidity need. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of educating students and funds required to support those activities to be general expenditures.

As of May 31, 2020 and 2019, the following table shows the total financial assets held by the University, which could be readily available within one year of the balance sheet date:

	2020	2019
Cash and cash equivalents	\$ 1,565,826	\$ 3,767,445
Investments	16,016,214	13,109,417
Student accounts receivable, net	2,065,616	1,974,393
Other receivables	225,683	233,794
Contribution receivable, net	1,662,811	2,340,250
Restricted cash	387,408	181,670
Restricted investments	1,236,046	1,345,587
Student loans receivable, net	1,105,708	1,318,525
Beneficial interest in perpetual trust	2,417,142	2,341,437
Investments restricted to endowment	10,980,954	10,817,209
	37,663,408	37,429,727
Less those unavailable for general expenditures within one year, due to:		
Legal, contractual or time limitations:		
Restricted cash	(387,408)	(181,670)
Restricted investments	(1,236,046)	(1,345,587)
Student loans receivable, net	(301,397)	(559,502)
	(1,924,851)	(2,086,759)
Board designations:		
Scholarships	(1,327,945)	(1,298,194)
Faculty development	(7,197,837)	(6,691,207)
Prizes and awards	(24,186)	(23,760)
Building and facilities management	(659,522)	(643,913)
	(9,209,490)	(8,657,074)
Donor restrictions:	(17,520,768)	(17,682,781)
Financial assets available to meet the cash needs for general expenditures within one year:	\$ 9,008,299	\$ 9,003,113

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 3 – Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2020	2019
Due within one year	\$ 1,440,511	\$ 763,657
Due in one to five years	337,364	1,791,463
Due after five years	16,000	12,500
	1,793,875	2,567,620
Less		
Present value discount at 2%	(41,370)	(99,870)
Allowance for uncollectible contributions	(89,694)	(127,500)
	\$ 1,662,811	\$ 2,340,250

### Note 4 – Investments

Investments at May 31 consisted of the following:

	2020	2019
Cash and money market funds	\$ 9,217,911	\$ 6,005,903
Common and preferred stocks	970,197	8,190,603
U.S. Treasury notes	70,424	1,815,636
U.S. Government agency mortgage-backed securities	32,106	127,232
Corporate bonds	546,902	2,112,567
Equity mutual funds	2,778,602	1,975,216
Fixed income mutual funds	1,612,298	2,387,363
Equity exchange-traded funds	6,619,162	-
Fixed income exchange-traded funds	5,208,381	700,185
Alternative strategy mutual funds	900,804	1,762,478
Alternative investment funds	276,427	195,030
Real estate held for investment	1,500,825	1,500,825
	\$ 29,734,039	\$ 26,773,038

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

	2020	2019
Investments	\$ 16,016,214	\$ 13,109,417
Restricted investments	1,236,046	1,345,587
Real estate held for investment	1,500,825	1,500,825
Investments restricted to endowment	10,980,954	10,817,209
	\$ 29,734,039	\$ 26,773,038

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 4 — Investments (Continued)

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

	2020	2019
Scholarships	\$ 959,619	\$ 1,150,557
Deferred compensation	276,427	195,030
	\$ 1,236,046	\$ 1,345,587

### Student Loans Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program. These loan amounts represent 1.14% and 1.32% of total assets as of May 31, 2020 and 2019, respectively. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Of these amounts, as of May 31, 2020 and 2019, \$301,397 and \$559,502, respectively, were not in repayment status (that is, the borrowers were not yet required to make payment). Most loans that are in repayment status are collected over a period of ten years.

Allowances for doubtful accounts are established based on prior collection experience, current economic factors, and specific circumstances of the borrower which, in management's judgment, could influence the ability of the borrower to repay the amounts per the loan terms. Under this Federal loan program, the federal government bears the risk of loss of uncollectible loans provided the University performs required collection due diligence procedures, therefore, affecting the determination of the needed allowance for losses. The University does not stop the accrual of interest until a loan is written off; therefore, the University has no loans on nonaccrual status.

An allowance for doubtful accounts has been established at \$50,000 for the years ended May 31, 2020 and 2019, which is an estimate based on management's experience.

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

	In Default				
	Less than 270 Days	More Than 270 Days and Less Than 2 Years	More Than 2 Years, Up to 5 Years	More Than 5 Years	Total Past Due
2020	\$ 107,295	\$ 77,825	\$ 106,585	\$ 171,968	\$ 463,673
2019	\$ 78,500	\$ 80,959	\$ 84,686	\$ 171,240	\$ 415,385

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 4 – Investments (Continued)

#### Student Loans Receivable (Continued)

The availability of funds under this federal loan program is dependent on reimbursement of the loan fund from repayments on outstanding loans. Funds advanced by the federal government totaled \$945,480 and \$931,272 as of May 31, 2020 and 2019, respectively. These advances are ultimately refundable to the federal government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of funds available for future loans and a decrease in the University's liability to the federal government.

The authority to make new Perkins Loans ended September 30, 2017, with disbursements permitted through June 30, 2018, for students with existing Perkins Loans. The University will be required to return the federal contribution and may continue servicing their Perkins Loans or assign the Perkins Loans to the Department of Education.

### Note 5 – Property and Equipment

Property and equipment at May 31 consists of:

	2020	2019
Land and land improvements	\$ 13,360,189	\$ 12,958,626
Buildings and building and leasehold improvements	76,708,258	76,960,126
Equipment, furniture, and fixtures	17,241,610	16,803,463
Administrative computer software	987,845	987,845
Library books	113,789	160,714
Motor vehicles	276,200	276,200
Construction in progress	-	12,715
	108,687,891	108,159,689
Less accumulated depreciation and amortization	(51,426,853)	(47,710,511)
	\$ 57,261,038	\$ 60,449,178

The University capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing, except for construction costs paid through restricted contributions. As a result, no interest was capitalized for the years ended May 31, 2020 and 2019. Total interest incurred each year was:

	2020	2019
Interest costs charged to expense	\$ 880,994	\$ 996,973
Total interest incurred	\$ 880,994	\$ 996,973

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 6 — Beneficial Interest in Perpetual and Revocable Trusts

The University is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$2,417,142 and \$2,341,437, which represents the fair value of the trust assets at May 31, 2020 and 2019, respectively. The income from this trust for 2020 and 2019 was \$81,060 and \$123,000, respectively.

The University is also the sole beneficiary under a trust administered by a bank. The assets of this trust are not included in the statement of financial position of the University since the trust is revocable at the discretion of the trustee. The income from this trust for 2020 and 2019 was \$33,050 and \$45,750, respectively.

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

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

	2020	2019
2013 Illinois Finance Authority Revenue Refunding Bond; interest varies, is 75% of the sum of the one-month USD-LIBOR-BBA rate and 1.36%, and is reset monthly, rates ranged from 2.17% to 2.93% in 2020, and from 2.61% to 2.99% in 2019, maturing through December 1, 2037, payable in annual installments beginning December 1, 2017, ranging from \$770,000 to \$1,440,000. The bond was retired in April 2020.	\$ -	\$ 22,537,000
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.23%, and is reset monthly, rates ranged from 2.26% to 3.07% in 2020, and from 2.73% to 3.11% in 2019, maturing through September 30, 2041, payable in monthly installments beginning September 30, 2018, ranging from \$228,000 to \$485,000 annually. The bond was retired in April 2020.	-	8,772,276
2016 Illinois Finance Authority Revenue Bond; interest varies, is 75% of the one-month USD-LIBOR-BBA rate plus 1.25%, and is reset monthly, rates ranged from 2.75% to 3.14% in 2019, and from 2.06% to 2.68% in 2018, maturing through September 30, 2041 payable in monthly installments beginning September 30, 2018 ranging from \$251,000 to \$322,000 annually. The bond was retired in April 2020.	-	\$ 5,848,637

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

	2020	2019
2020 Illinois Finance Authority Revenue Bond; interest varies, is 80% of the one-month USD-LIBOR-BBA rate plus 0.89%, and is reset monthly, rates ranged from 1.15% to 1.68% in 2020, maturing through May 31, 2042, payable in monthly installments beginning May 1, 2020, ranging from \$1,384,822 to \$1,911,518 annually. The bonds are unsecured with a negative pledge on all business assets.	\$ 35,959,917	\$ -
Total bonds and notes payable	35,959,917	37,157,913
Less unamortized debt issuance costs	(325,252)	(518,975)
Total net bonds and notes payable	35,634,665	36,638,938
Capital lease obligations for equipment	537,330	810,746
TOTAL	<u>\$ 36,171,995</u>	<u>\$ 37,499,684</u>

The bond and term loan agreements contain certain covenants, including continuation of use of University facilities for educational purposes, maintenance of insurance policies, and availability of certain financial records. In addition, the agreements require the University to maintain certain financial ratios related to debt service coverage and liquidity. As of May 31, 2020 and 2019, the University believes it is in compliance with these covenants and ratios.

The University has \$2,000,000 available on an unsecured line of credit with a local bank. The interest rate on the line of credit is the prime rate (3.25% and 5.5% at May 31, 2020 and 2019, respectively). The line of credit has been renewed through June 30, 2021. There was no outstanding balance at May 31, 2020 and 2019.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

Aggregate annual maturities of bonds and notes payable, the line of credit and payments on capital lease obligations at May 31, 2020, are:

	Bonds and Notes Payable	Capital Lease Obligations
2021	\$ 1,384,822	\$ 295,699
2022	1,406,244	201,519
2023	1,427,997	65,844
2024	1,448,794	3,314
2025	1,475,498	-
Thereafter	28,816,562	-
	<u>\$ 35,959,917</u>	566,376
Less amount representing interest		<u>(29,046)</u>
Present value of future minimum lease payments		<u>\$ 537,330</u>

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

	2020	2019
Equipment	\$ 1,481,789	\$ 1,481,789
Less accumulated depreciation	(952,116)	(679,458)
TOTAL	<u>\$ 529,673</u>	<u>\$ 802,331</u>

### Note 8 — Derivative Financial Instruments – Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, in June of 2013, the University entered into an interest rate swap agreement for the variable rate bond. The interest rate swap agreement associated with the bond provides for the University to receive interest from the counterparty at 75% of the sum of the one-month USD-LIBOR-BBA rate and 1.11% and to pay interest to the counterparty at a fixed rate of 2.162% on a notional amount of \$22,537,000 at May 31, 2019. In February of 2016, the University entered into an additional interest rate swap agreement for the 2016 Series B bond. The agreement associated with the bond provides for the University to receive interest from the counterparty at 75% of the one-month USD-LIBOR-BBA rate and to pay interest to the counterparty at a fixed rate of 1.23% on the notional amount of \$8,772,276 at May 31, 2019. The interest swap agreements were retired in April 2020.



# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

In April of 2020, the University entered into an interest rate swap agreement for the variable rate bond. The interest rate swap agreement associated with the bond provides for the University to receive interest from the counterparty at 80% of the one-month USD-LIBOR-BBA rate and to pay interest to the counterparty at a fixed rate of 0.6100% on a notional amount of \$35,959,917 at May 31, 2020.

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

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

	2020	2019
Fair value of asset (liability) for interest rate swap agreements		
2020 Series bond	\$ (610,707)	\$ -
2013 Series bond	-	61,116
2016 Series B bond	-	81,578
TOTAL	<u>\$ (610,707)</u>	<u>\$ 142,694</u>
	2020	2019
Gain (loss) recognized in change in net assets		
2020 Series Bond	\$ (610,707)	\$ -
2013 Series bond	-	(186,709)
2016 Series B bond	-	(363,456)
TOTAL	<u>\$ (610,707)</u>	<u>\$ (550,165)</u>

### Note 9 — Annuities Payable

The University has been the recipient of charitable gift annuities which require future payments to the donor. The University has recorded a liability at May 31, 2020 and 2019 of \$49,997 and \$45,694, respectively, which represents the present value of the future annuity obligations and is included with other liabilities in the statements of financial position. The liability has been determined using a discount rate of 0.8% and 2.8% at May 31, 2020 and 2019, respectively, and applicable mortality tables.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 10 – Net Assets

#### Net Assets With Donor Restrictions

Net Assets-With Donor Restrictions at May 31 are available for the following purposes or periods:

	2020	2019
Subject to expenditure for specified purpose		
Scholarships	\$ 1,666,963	\$ 1,403,348
Educational programs and other	1,491,774	1,853,947
Property and equipment purchases	818,521	1,055,074
	<u>3,977,258</u>	<u>4,312,369</u>
Subject to passage of time		
Contributions	145,414	212,365
Endowments		
Subject to appropriation and expenditure when specified events occur		
Restricted by donor for		
Scholarships	1,861,467	1,908,468
Faculty development and other programs	112,302	106,639
Prizes and awards	92,995	78,122
	<u>2,066,764</u>	<u>2,093,229</u>
Investment in perpetuity, the income of which is expendable to support		
Scholarship	\$ 7,012,680	\$ 6,822,521
Faculty development and other programs	426,135	426,135
Prizes and awards	56,050	55,400
Buildings and facilities management	1,419,325	1,419,325
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	2,417,142	2,341,437
	<u>11,331,332</u>	<u>11,064,818</u>
Total endowments	<u>13,398,096</u>	<u>13,158,047</u>
	<u>\$ 17,520,768</u>	<u>\$ 17,682,781</u>

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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### Note 10 – Net Assets (Continued)

#### Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2020	2019
Purpose restrictions accomplished		
Scholarships	\$ 1,536,785	\$ 644,401
Faculty development and other programs	1,314,550	757,312
Prizes and awards	2,000	1,600
	<u>2,853,335</u>	<u>1,403,313</u>
Property and equipment acquired and placed in service	208,326	121,542
	<u>\$ 3,061,661</u>	<u>\$ 1,524,855</u>

#### Net Assets Without Donor Restrictions Designated by the Board

	2020	2019
Scholarships	\$ 1,327,945	\$ 1,298,194
Faculty development	7,197,837	6,691,207
Prizes and awards	24,186	23,760
Buildings and facilities management	659,522	643,913
	<u>\$ 9,209,490</u>	<u>\$ 8,657,074</u>

### Note 11 – Endowment

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

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 11 — Endowment (Continued)

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

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

The composition of net assets by type of endowment fund at May 31, 2020 and 2019, was:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 13,398,096	\$ 13,398,096
Board-designated endowment funds	9,209,490	-	9,209,490
Total endowment funds	\$ 9,209,490	\$ 13,398,096	\$ 22,607,586

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 11 — Endowment (Continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 13,158,047	\$ 13,158,047
Board-designated endowment funds	8,657,074	-	8,657,074
Total endowment funds	\$ 8,657,074	\$ 13,158,047	\$ 21,815,121

Changes in endowment net assets for the years ended May 31, 2020 and 2019, were:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 8,657,074	\$ 13,158,047	\$ 21,815,121
Investment return			
Investment income	215,161	226,736	441,897
Net appreciation (depreciation)	(55,252)	98,608	43,356
Total investment return	159,909	325,344	485,253
Contributions	-	312,111	312,111
Board designation to support endowment expenditures	37,508	-	37,508
Board designation to move 25% of annual fund contributions to endowment	30,389	-	30,389
Board designation to move gifts without donor restriction to endowment	337,930	-	337,930
Reallocation of temporarily restricted scholarships to the endowment	-	45,995	45,995
Appropriation of endowment assets for expenditure	(13,320)	(443,401)	(456,721)
Endowment net assets, end of year	\$ 9,209,490	\$ 13,398,096	\$ 22,607,586

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 11 — Endowment (Continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 8,166,920	\$ 11,620,005	\$ 19,786,925
Investment return			
Investment income	202,366	220,856	423,222
Net depreciation	(116,865)	(233,026)	(349,891)
Total investment return	85,501	(12,170)	73,331
Contributions	-	1,985,712	1,985,712
Board designation to support endowment expenditures	12,900	-	12,900
Board designation to move 25% of annual fund contributions to endowment	58,627	-	58,627
Board designation to move gifts without donor restriction to endowment	339,318	-	339,318
Reallocation of temporarily restricted scholarships to the endowment	-	101,000	101,000
Appropriation of endowment assets for expenditure	(6,192)	(536,500)	(542,692)
Endowment net assets, end of year	\$ 8,657,074	\$ 13,158,047	\$ 21,815,121

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Illinois UPMIFA. Such endowments are often referred to as “underwater” endowments. There were no such deficiencies at May 31, 2020 and 2019.

The University has interpreted Illinois UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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### **Note 11 — Endowment (Continued)**

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

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

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

### **Note 12 — Operating Leases and Service Agreements**

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

The University entered into an approximately ten-year lease for classroom and office space at a location for its campus located in Albuquerque, New Mexico, which will expire in August 2024. The lease requires the University to pay all executory costs (maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately \$68,315 to \$273,300.

The University entered into a lease agreement for space in the Rialto Theater building located in downtown Joliet, Illinois. The lease agreement is 20 years, and expires in June 2029. This lease requires the University to pay all executory costs (property taxes, maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately \$242,650 to \$307,400.

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

In addition, the University has several other noncancelable operating leases and service agreements for office equipment and laundry facilities equipment that expire in various years through 2024.

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

### Note 12 — Operating Leases and Service Agreements (Continued)

Future minimum contractual payments as of May 31, 2020 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2021	\$ 598,922	\$ 209,937	\$ 327,026	\$ 1,135,885
2022	517,132	153,466	332,167	1,002,765
2023	529,232	149,139	337,430	1,015,801
2024	538,411	132,109	281,653	952,173
2025	341,420	4,010	375	345,805
Thereafter	1,202,525	525	-	1,203,050
Total minimum lease payments	<u>\$ 3,727,642</u>	<u>\$ 649,186</u>	<u>\$ 1,278,651</u>	<u>\$ 5,655,479</u>

Expenses for the operating leases and service agreements during 2020 totaled:

	2020	2019
Facilities leases rent expenses	\$ 601,130	\$ 596,991
Vehicle and equipment leases rent expenses	248,566	332,224
Total rent expense	849,696	929,215
Contracted services	578,592	298,041
	<u>\$ 1,428,288</u>	<u>\$ 1,227,256</u>

### Note 13 — Retirement Plans

The University has a defined contribution benefit plan (the Plan) covering substantially all full-time faculty, administrative, and staff personnel who agree to make contributions of at least 5% of the employee's base salary to the Plan. The University's annual contribution to the Plan ranges between 5% and 10% of the employees' base salaries depending upon years of service. The retirement benefit expense was \$1,310,762 and \$1,291,823 for 2020 and 2019, respectively.

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

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



# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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### **Note 13 — Retirement Plans (Continued)**

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

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

During the years ended May 31, 2020 and 2019, the University made discretionary contributions to the trust of \$96,000 and \$72,000, respectively, recognized as compensation expense. The fair market value of the underlying trust assets as of May 31, 2020 and 2019, was \$276,427 and \$195,030, respectively, and are included in cash and restricted investments along with a related deferred compensation liability of \$265,457 and \$192,061, respectively, included in other liabilities on the statements of financial position.

### **Note 14 — Related Party Transactions**

The University conducts business with various vendors throughout the Joliet and greater Chicagoland areas. Several of the University's vendors have principals or employees currently serving on its Board of Trustees. In accordance with the University's Conflict of Interest Policy, each Trustee is required to disclose her or his business relationship with the University on an annual basis. For the years ended May 31, 2020 and 2019, the University did not purchase any products or services from these related parties. Where applicable, expenditures are competitively bid and management believes that having relationships with the Trustees saves the University money on both an aggregate and individual basis.

Approximately \$454,288 (25%) and \$310,833 (12%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2020 and 2019, respectively, and approximately \$12,556 (1%) and \$257,379 (8%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2020 and 2019, respectively.

### **Note 15 — Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full-term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2020 and 2019:

	2020			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Common and preferred stocks	\$ 970,197	\$ -	\$ -	\$ 970,197
U.S. Treasury notes	-	70,424	-	70,424
U.S. Government agency mortgage-backed securities	-	32,106	-	32,106
Corporate bonds	-	546,902	-	546,902
Equity mutual funds	2,778,602	-	-	2,778,602
Fixed income mutual funds	1,612,298	-	-	1,612,298
Equity exchange-traded funds	6,619,162	-	-	6,619,162
Fixed income exchange-traded funds	5,208,381	-	-	5,208,381
Alternative strategy mutual funds	900,804	-	-	900,804
Real estate held for investment	-	1,500,825	-	1,500,825
	<u>\$ 18,089,444</u>	<u>\$ 2,150,257</u>	<u>\$ -</u>	20,239,701
Cash and cash equivalents carried at amortized cost	-	-	-	\$ 9,217,911
Alternative investment funds carried at NAV	-	-	-	<u>276,427</u>
Total investments	-	-	-	<u>\$ 29,734,039</u>
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,417,142	\$ 2,417,142
Liabilities				
Interest rate swap agreements	-	(610,707)	-	(610,707)

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### Recurring Measurements (Continued)

	2019			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Common and preferred stocks	\$ 8,190,603	\$ -	\$ -	\$ 8,190,603
U.S. Treasury notes	-	1,815,636	-	1,815,636
U.S. Government agency mortgage-backed securities	-	127,232	-	127,232
Corporate bonds	-	2,112,567	-	2,112,567
Equity mutual funds	1,975,216	-	-	1,975,216
Fixed income mutual funds	2,387,363	-	-	2,387,363
Fixed income exchange-traded funds	700,185	-	-	700,185
Alternative strategy mutual funds	1,762,478	-	-	1,762,478
Real estate held for investment	-	1,500,825	-	1,500,825
	<u>\$ 15,015,845</u>	<u>\$ 5,556,260</u>	<u>\$ -</u>	<u>20,572,105</u>
Cash and cash equivalents carried at amortized cost				\$ 6,005,903
Alternative investment funds carried at NAV				<u>195,030</u>
Total investments				<u>\$ 26,773,038</u>
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,341,437	\$ 2,341,437
Interest rate swap agreements	-	142,694	-	142,694

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

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

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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

#### Recurring Measurements (Continued)

##### Investments and Real Estate Held for Investment

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

##### Beneficial Interest in Perpetual Trust

Fair value is determined using the current value of the trust. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

##### Interest Rate Swap Agreements

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

#### Unobservable (Level 3) Inputs

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

	2020	2019
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,341,437	\$ 2,451,186
Total change in value of perpetual trust	75,705	(109,749)
Balance, end of year	<u>\$ 2,417,142</u>	<u>\$ 2,341,437</u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u>\$ 75,705</u>	<u>\$ (109,749)</u>

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

# University of St. Francis

## Notes to Financial Statements

May 31, 2020 and 2019

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### **Note 16 — Significant Estimates, Concentrations, and Contingencies**

USGAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### **Student Accounts Receivable**

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

#### **Asset Retirement Obligation**

The University's conditional asset retirement obligations primarily relate to the remediation of asbestos contained in buildings that the University owns. Environmental regulations exist that require the University to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. Determination of the recorded liability is based on a number of estimates and assumptions including discount rate, abatement cost estimates, and estimates of dates of abatement. The University estimated its liability at May 31, 2020 and 2019 to be \$561,302 and \$645,894, respectively, which is included in the other liabilities line in the statements of financial position.

#### **Litigation**

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

### **Note 17 — Risks and Uncertainties**

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

### **Note 18 — Subsequent Events**

Beginning around March 2020, the Covid-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Subsequent events have been evaluated October 8, 2020 which is the date the financial statements were available to be issued.