



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

May 31, 2021 and 2020



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University of St. Francis
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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of University of St. Francis (the University), which comprise the statements of financial position as of May 31, 2021 and 2020, 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, 2021 and 2020, 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. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Sikich LLP

Naperville, Illinois
October 20, 2021

Financial Statements

University of St. Francis
Statements of Financial Position
May 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,120,626	\$ 1,565,826
Investments	21,408,144	16,016,214
Student accounts receivable, net of allowance of \$1,810,000 in 2021 and \$1,776,000 in 2020	1,423,541	2,065,616
Other receivables	395,631	225,683
Prepaid expenses and other assets	444,606	424,865
Contributions receivable, net of allowance of \$58,000 in 2021 and \$89,700 in 2020	1,067,649	1,662,811
Restricted cash	464,140	387,408
Restricted investments	1,569,082	1,236,046
Real estate held for investment	1,235,000	1,500,825
Student loans receivable, net of allowance of \$50,000	902,637	1,105,708
Interest rate swap agreements	857,204	-
Property and equipment, net of accumulated depreciation of \$55,545,831 in 2021 and \$51,426,853 in 2020	54,656,102	57,261,038
Beneficial interest in perpetual trust	2,934,174	2,417,142
Investments restricted to endowment	13,345,483	10,980,954
Total Assets	\$ 101,824,019	\$ 96,850,136
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,010,924	\$ 1,601,748
Accrued expenses	2,047,639	1,508,884
Deferred revenue	3,118,667	3,294,356
Capital lease obligations	260,879	537,330
Other liabilities	1,435,312	1,401,400
Interest rate swap agreements	-	610,707
Bonds and note payable, net of unamortized debt issuance costs of \$310,468 in 2021 and \$325,252 in 2020	34,264,627	35,634,665
U.S. Government student loan funds	860,996	945,480
Total liabilities	42,999,044	45,534,570
Net Assets		
Without donor restrictions		
Undesignated	27,255,695	24,585,308
Board designated for endowment	11,761,761	9,209,490
Total net assets without donor restrictions	39,017,456	33,794,798
With Donor Restrictions	19,807,519	17,520,768
Total net assets	58,824,975	51,315,566
Total Liabilities and Net Assets	\$ 101,824,019	\$ 96,850,136

See accompanying notes to financial statements.

University of St. Francis
Statement of Activities
Year Ended May 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Tuition and fees	\$ 64,223,123	\$ -	\$ 64,223,123
Less scholarships and aid	(25,837,394)	-	(25,837,394)
Net tuition and fees	38,385,729	-	38,385,729
Contributions	547,527	767,024	1,314,551
Grants	-	4,144,059	4,144,059
Distribution from trusts held by others	-	128,000	128,000
Investment return	325,333	480,224	805,557
Auxiliary enterprises	3,819,408	-	3,819,408
Other income	295,200	-	295,200
Net assets released from restrictions	5,917,288	(5,917,288)	-
Total revenues, gains, and other support	49,290,485	(397,981)	48,892,504
Expenses			
Instruction	18,152,966	-	18,152,966
Academic support	6,885,723	-	6,885,723
Student services	8,646,467	-	8,646,467
Auxiliary enterprises	3,988,329	-	3,988,329
Total educational program services	37,673,485	-	37,673,485
Institutional support	8,815,734	-	8,815,734
Fundraising	627,015	-	627,015
Total expenses	47,116,234	-	47,116,234
Change in Net Assets Before Other Revenues (Expenses)	2,174,251	(397,981)	1,776,270
Other Revenues (Expenses)			
Loss on disposals of property	(276,606)	-	(276,606)
Unrealized investment gain	1,982,263	2,167,700	4,149,963
Unrealized loss on real estate held for investment	(125,000)	-	(125,000)
Change in fair value of interest rate swap agreements	1,467,911	-	1,467,911
Change in value of split-interest agreements	(161)	517,032	516,871
Total other revenues (expenses)	3,048,407	2,684,732	5,733,139
Change in Net Assets	5,222,658	2,286,751	7,509,409
Net Assets, Beginning of Year	33,794,798	17,520,768	51,315,566
Net Assets, End of Year	\$ 39,017,456	\$ 19,807,519	\$ 58,824,975

(This statement is continued on the following page.)

University of St. Francis
Statement of Activities (Continued)
Year Ended May 31, 2020

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues, Gains, and Other Support			
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
Expenses			
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
Other Revenues (Expenses)			
Loss on disposals of property	(19,531)	-	(19,531)
Unrealized investment gain (loss)	(633,791)	(493,495)	(1,127,286)
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

See accompanying notes to financial statements.

University of St. Francis
Statement of Functional Expenses
Year Ended May 31, 2021

	Instruction	Academic Support	Student Services	Auxiliary	Institutional Support	Fundraising	Total
Labor							
Salaries	\$ 11,771,646	\$ 3,968,243	\$ 3,852,496	\$ 495,791	\$ 3,025,365	\$ 311,600	\$ 23,425,141
Payroll taxes	781,759	266,587	272,671	29,622	211,184	19,077	1,580,900
Medical and HSA expense	1,075,930	494,928	676,291	102,445	406,527	54,816	2,810,937
403(b) employer match	574,789	208,100	243,801	22,971	234,320	16,101	1,300,082
Other benefits	-	-	-	-	767,402	-	767,402
Total Labor	14,204,124	4,937,858	5,045,259	650,829	4,644,798	401,594	29,884,462
Operating Expenses (non-labor)							
Accreditation expense	3,170	30,425	-	-	2,508	-	36,103
Advertising	1,628	2,822	-	-	204,847	-	209,297
Bad debt expenses	-	-	-	-	599,403	-	599,403
Business insurance	25,601	-	167,427	-	427,077	298	620,403
Conferences and professional development	2,262	19,767	9,871	24	63,669	99	95,692
Contractual services	848,239	291,499	551,834	610,145	616,011	41,770	2,959,498
Equipment	50,156	7,144	20,481	5,137	9,178	2,272	94,368
Fees	5,417	3,637	38,305	5,066	207,663	11,578	271,666
Food expense	5,917	1,163	82,751	1,197,512	13,347	5,375	1,306,065
Interest expense	185,668	82,413	112,470	110,127	64,120	1,173	555,971
Memberships	16,268	47,435	75,215	-	129,601	1,853	270,372
Postage	1,576	2,710	57,211	224	74,919	19,907	156,547
Property taxes	-	-	-	45,736	-	-	45,736
Publications	4,645	165,265	2,791	-	80,368	29,608	282,677
Purchased mailing lists	-	-	1,500	-	48,988	-	50,488
Rental equipment	10,047	4,915	7,482	123,264	6,048	61	151,817
Repairs and maintenance	97,998	48,529	65,267	57,277	70,624	562	340,257
Software licensing	19,190	271,343	16,188	2,204	293,569	-	602,494
Sponsorship and community support	-	2,001	2,045	-	17,490	-	21,536
Supplies	668,590	74,409	367,943	52,582	155,520	34,035	1,353,079
Telephone expense	3,367	1,495	8,680	3,116	42,337	21	59,016
Travel	186	1,699	154,477	-	2,570	-	158,932
Utilities	320,581	142,298	276,846	222,440	292,318	2,025	1,256,508
Other	213,364	96,631	695,002	33,714	242,834	65,532	1,347,077
Depreciation and amortization	1,464,972	650,265	887,422	868,932	505,927	9,252	4,386,770
Total Operating Expenses (non-labor)	3,948,842	1,947,865	3,601,208	3,337,500	4,170,936	225,421	17,231,772
Total Expenses	\$ 18,152,966	\$ 6,885,723	\$ 8,646,467	\$ 3,988,329	\$ 8,815,734	\$ 627,015	\$ 47,116,234

(This statement is continued on the following page.)

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

	Instruction	Academic Support	Student Services	Auxiliary	Institutional Support	Fundraising	Total
Labor							
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
Total Labor	14,366,864	5,194,489	5,346,238	770,244	4,908,792	570,387	31,157,014
Operating Expenses (non-labor)							
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
Total Operating Expenses (non-labor)	3,927,532	2,027,278	3,960,561	3,334,784	3,722,428	324,742	17,297,325
Total Expenses	\$ 18,294,396	\$ 7,221,767	\$ 9,306,799	\$ 4,105,028	\$ 8,631,220	\$ 895,129	\$ 48,454,339

See accompanying notes to financial statements.

University of St. Francis
Statements of Cash Flows
Years Ended May 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 7,509,409	\$ (1,853,413)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,386,770	4,476,096
Loss on disposals of property	276,606	19,531
Bad debt expense	(599,403)	150,000
Change in contributions receivable discount	(6,310)	(58,530)
Perkins loans cancellations and adjustments	(5,271)	(14,595)
Net realized and unrealized (gains) losses on investments	(4,573,723)	13,323
Change in beneficial interest in perpetual trust	(517,032)	(75,705)
Change in fair value of interest rate swap agreements	(1,467,911)	610,707
Actuarial gain on annuity obligations	(3,339)	(9,574)
Noncash contributions	-	(35,000)
Contributions restricted for long-term investment	(372,741)	(312,111)
Contributions restricted for acquisition of long-lived assets	(10,000)	(135,500)
Loss on extinguishment of debt	-	1,111,055
Changes in operating assets and liabilities		
Student accounts receivable	1,241,478	(241,223)
Other receivables	(169,948)	8,111
Prepaid expenses	(19,741)	(32,845)
Contributions receivable	555,062	645,963
Accounts payable	(590,824)	574,864
Accrued expenses	538,755	(695,324)
Deferred revenue	(175,689)	(395,138)
Other liabilities	107,717	111,248
Net cash provided by operating activities	<u>6,103,865</u>	<u>3,861,940</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,021,893)	(1,388,135)
Proceeds from sale of property and equipment	53,868	-
Purchases of investments	(23,507,778)	(21,685,935)
Proceeds from sales and maturities of investments	20,117,006	18,711,612
Advances of student loans	(750)	-
Principal payments received on student loans	209,092	227,412
Net cash used in investing activities	<u>(5,150,455)</u>	<u>(4,135,046)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(276,451)	(273,416)
Payments on note payable	(1,384,822)	(37,157,913)
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	(84,484)	14,208
Proceeds from contributions restricted for long-term investment	372,741	312,111
Proceeds from contributions restricted for acquisition of long-lived assets	56,410	225,506
Net cash used in financing activities	<u>(1,321,878)</u>	<u>(1,722,775)</u>
Net Decrease in Cash and Cash Equivalents and Restricted Cash	<u>(368,468)</u>	<u>(1,995,881)</u>
Cash and Cash Equivalents and Restricted Cash Beginning of Year	<u>1,953,234</u>	<u>3,949,115</u>
Cash and Cash Equivalents and Restricted Cash End of Year	<u>\$ 1,584,766</u>	<u>\$ 1,953,234</u>
Supplemental Cash Flows Information		
Interest paid	\$ 555,971	\$ 880,994

See accompanying notes to financial statements.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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, 2021 and 2020, cash equivalents consisted primarily of money market funds.

At May 31, 2021 and 2020, the University's cash accounts exceeded federally insured limits by approximately \$2,148,875 and \$1,871,350, respectively. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage and hasn't experienced any loss due to the credit risk.

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.

	2021	2020
Cash and cash equivalents	\$ 1,120,626	\$ 1,565,826
Restricted cash	464,140	387,408
Total	<u>\$ 1,584,766</u>	<u>\$ 1,953,234</u>

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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.

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.

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

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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

Contributions (Continued)

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, 2021 and 2020, \$129,909 and \$216,458, respectively, was received in in-kind contributions.

Grants

A portion of the University's revenue is derived from federal grants, which are conditioned upon the incurrence of allowable qualifying expenses or provided qualifying services. Amounts received are conditional and not recognized as revenue until the University has incurred the expenditures or provided services in compliance with specific contract of grant provisions. The University has received conditional promises to give totaling \$8,519,300 and \$7,052,845 as of May 31, 2021 and 2020, respectively.

Revenue Recognition

Tuition and Fees

Revenues from tuition and fees are derived from education services provided to students. Generally, tuition and other fees are reported in the fiscal year in which educational programs are conducted, which is the period in which the performance obligations were completed, and revenue was earned. Tuition and fees received in the current fiscal year for the future years' programs are reported as deferred revenue in the statements of financial position.

The nature of tuition and fees give rise to variable consideration in the form of the institutional scholarships awarded to students to defray the costs of the academic programs, which reduce the transaction price (tuition and fees). Scholarships awarded to the students were \$25,837,394 and \$25,818,868 at May 31, 2021 and 2020, respectively. Payments for tuition are due prior to the start of the academic term, whether campus or online session. Tuition and fees are recognized ratably over the academic terms. The University generally uses the time elapsed method, an input measure, as it best depicts the simultaneous consumption and delivery of services.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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

Revenue Recognition (Continued)

Tuition and Fees (Continued)

The University's refund policy permits students who officially withdraw by the appropriate date as published to be eligible for a refund. Refunds generally result in a reduction of deferred revenue during the period that the student drops or withdraws from a class.

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 auxiliary enterprises consist of residence halls and dining facilities. Payments for housing and dining services are due prior to the start of the academic term. Performance obligations are delivered over the academic terms, consequently associated revenues are earned and are recognized over the course of each term as services are delivered. Services performed under these contracts are considered a single performance obligation, as such services are regarded as a bundled series of distinct goods and services with the same timing and pattern of transfer to the resident. Revenue is recognized for these contracts over time as the performance obligation is satisfied by transferring control of the goods and services to the resident. Auxiliary enterprises also includes revenues related to event tickets and fees, bookstore sales, and other fines and fees. Revenue for these transactions is recognized at a point in time.

Significant Judgments

The University evaluates each contract to determine the numbers of distinct performance obligations in the contract, which requires the use of judgement. Significant judgments include the methodology for recognizing revenue over the appropriate period.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and unearned revenue (contract liabilities) on the statements of financial position. Contract liabilities are reflected as deferred revenue in the statements of financial position and released as the performance obligations are met.

The opening balances for contract assets (accounts receivable) from contracts with customers at the beginning of the year were \$2,065,616 at June 1, 2020 and \$1,974,393 at June 1, 2019.

The opening balances for contract liabilities (deferred revenue) from contracts with customers at the beginning of the year were \$3,294,356 at June 1, 2020 and \$3,689,494 at June 1, 2019.

Various economic factors could affect the recognition of revenues and cash flows, including the demand for services, ability to provide services, availability of labor, and prompt payment.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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

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, 2021 and 2020 were \$209,297 and \$193,642, 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.

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 has implemented this standard on the modified retrospective basis for the year ended May 31, 2021. There was no material difference between revenue recognition under the new standard and revenue recognition under legacy USGAAP.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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

New Accounting Pronouncements (Continued)

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.

In September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. A not-for-profit will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also requires a not-for-profit to disclose contributed nonfinancial assets recognized within the statement of activities, disaggregated by category that depicts the type of nonfinancial assets. For each category of contributed nonfinancial assets recognized, the standard requires a not-for-profit to disclose additional qualitative information and policies regarding monetization or utilization of contributed nonfinancial assets; information about any donor-imposed restrictions; valuation techniques and inputs; and the principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. ASU No. 2020-07 is effective for fiscal years beginning after June 15, 2021 with early adoption permitted. The University is currently assessing the impacts of this new standard.

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 \$5,000,000 available as of May 31, 2021, 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.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 2 — Liquidity and Availability (Continued)

As of May 31, 2021 and 2020, the following table shows the total financial assets held by the University, which could be readily available within one year of the statement of financial position date:

	2021	2020
Cash and cash equivalents	\$ 1,120,626	\$ 1,565,826
Investments	21,408,144	16,016,214
Student accounts receivable, net	1,423,541	2,065,616
Other receivables	395,631	225,683
Contributions receivable, net	1,067,649	1,662,811
Restricted cash	464,140	387,408
Restricted investments	1,569,082	1,236,046
Student loans receivable, net	902,637	1,105,708
Beneficial interest in perpetual trust	2,934,174	2,417,142
Investments restricted to endowment	13,345,483	10,980,954
	<u>44,631,107</u>	<u>37,663,408</u>
Less those unavailable for general expenditures within one year, due to:		
Legal, contractual or time limitations:		
Restricted cash	(464,140)	(387,408)
Restricted investments	(487,966)	(276,427)
Student loans receivable, net	(183,119)	(301,397)
	<u>(1,135,225)</u>	<u>(965,232)</u>
Board designations:	<u>(11,761,761)</u>	<u>(9,209,490)</u>
Donor restrictions:	<u>(19,807,519)</u>	<u>(17,520,768)</u>
Financial assets available to meet the cash needs for general expenditures within one year:	<u>\$ 11,926,602</u>	<u>\$ 9,967,918</u>

Note 3 — Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2021	2020
Due within one year	\$ 925,638	\$ 1,440,511
Due in one to five years	223,101	337,364
Due after five years	12,000	16,000
	<u>1,160,739</u>	<u>1,793,875</u>
Less		
Present value discount at 2%	(35,060)	(41,370)
Allowance for uncollectible contributions	(58,030)	(89,694)
	<u>\$ 1,067,649</u>	<u>\$ 1,662,811</u>

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 4 — Investments

Investments at May 31 consisted of the following:

	2021	2020
Cash and money market funds	\$ 11,168,517	\$ 9,217,911
Common and preferred stocks	1,517,357	970,197
U.S. Treasury notes	101,425	70,424
U.S. Government agency mortgage-backed securities	-	32,106
Corporate bonds	586,904	546,902
Equity mutual funds	4,243,268	2,778,602
Fixed income mutual funds	2,350,352	1,612,298
Equity exchange-traded funds	9,485,133	6,619,162
Fixed income exchange-traded funds	5,203,449	5,208,381
Alternative strategy mutual funds	1,178,338	900,804
Alternative investment funds	487,966	276,427
Real estate held for investment	1,235,000	1,500,825
	<u>\$ 37,557,709</u>	<u>\$ 29,734,039</u>

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

	2021	2020
Investments	\$ 21,408,144	\$ 16,016,214
Restricted investments	1,569,082	1,236,046
Real estate held for investment	1,235,000	1,500,825
Investments restricted to endowment	13,345,483	10,980,954
	<u>\$ 37,557,709</u>	<u>\$ 29,734,039</u>

Investments are restricted for the following at May 31:

	2021	2020
Scholarships	\$ 1,081,116	\$ 959,619
Deferred compensation	487,966	276,427
	<u>\$ 1,569,082</u>	<u>\$ 1,236,046</u>

Student Loans Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program. These loan amounts represent 0.89% and 1.14% of total assets as of May 31, 2021 and 2020, 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, 2021 and 2020, \$183,119 and \$301,397, 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.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 4 – Investments (Continued)

Student Loans Receivable (Continued)

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, 2021 and 2020, 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				Total Past Due
	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	
2021	\$ 135,614	\$ 14,966	\$ -	\$ 1,062	\$ 151,642
2020	\$ 107,295	\$ 77,825	\$ 106,585	\$ 171,968	\$ 463,673

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 \$860,996 and \$945,480 as of May 31, 2021 and 2020, 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.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 5 — Property and Equipment

Property and equipment at May 31 consists of:

	2021	2020
Land and land improvements	\$ 14,183,475	\$ 13,360,189
Buildings and building and leasehold improvements	76,386,308	76,708,258
Equipment, furniture, and fixtures	18,232,125	17,241,610
Administrative computer software	987,845	987,845
Library books	113,789	113,789
Motor vehicles	298,391	276,200
	110,201,933	108,687,891
Less accumulated depreciation and amortization	(55,545,831)	(51,426,853)
	\$ 54,656,102	\$ 57,261,038

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, 2021 and 2020. Total interest incurred each year was:

	2021	2020
Interest costs charged to expense	\$ 555,971	\$ 880,994
Total interest incurred	\$ 555,971	\$ 880,994

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 \$2,934,174 and \$2,417,142, which represents the fair value of the trust assets at May 31, 2021 and 2020, respectively. The income from this trust for 2021 and 2020 was \$93,000 and \$81,060, 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 2021 and 2020 was \$35,000 and \$33,050, respectively.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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:

	2021	2020
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 0.98% to 1.04% in 2021, maturing through May 31, 2042, payable in monthly installments beginning May 1, 2020, ranging from \$1,922,156 to \$1,927,372 annually. The bonds are unsecured with a negative pledge on all business assets.	\$ 34,575,095	\$ 35,959,917
Total bonds and notes payable	34,575,095	35,959,917
Less unamortized debt issuance costs	(310,468)	(325,252)
Total net bonds and notes payable	34,264,627	35,634,665
Capital lease obligations for equipment	260,879	537,330
TOTAL	\$ 34,525,506	\$ 36,171,995

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, 2021 and 2020, the University believes it is in compliance with these covenants and ratios.

As of May 31, 2021, the University has \$5,000,000 available on an unsecured line of credit with a local bank. The interest rate on the line of credit is the prime rate. The line of credit was increased from \$2,000,000 on April 16, 2021 through June 30, 2023. There was no outstanding balance at May 31, 2021 and 2020.

University of St. Francis

Notes to Financial Statements May 31, 2021 and 2020

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, 2021, are:

	Bonds and Notes Payable	Capital Lease Obligations
2022	\$ 1,406,244	\$ 201,519
2023	1,427,997	65,844
2024	1,448,794	3,314
2025	1,472,498	-
2026	1,495,279	-
Thereafter	27,324,283	-
	\$ 34,575,095	270,677
Less amount representing interest		(9,798)
Present value of future minimum lease payments		\$ 260,879

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

	2021	2020
Equipment	\$ 1,481,789	\$ 1,481,789
Less accumulated depreciation	(1,224,773)	(952,116)
TOTAL	\$ 257,016	\$ 529,673

Note 8 — Derivative Financial Instruments – Interest Rate Swap Agreements

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 \$34,575,095 at May 31, 2021.

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.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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

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

	2021	2020
Fair value of asset (liability) for interest rate swap agreements		
2020 Series bond	\$ 857,204	\$ (610,707)
TOTAL	\$ 857,204	\$ (610,707)
	2021	2020
Gain (loss) recognized in change in net assets		
2020 Series Bond	\$ 1,467,911	\$ (610,707)
TOTAL	\$ 1,467,911	\$ (610,707)

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, 2021 and 2020 of \$41,386 and \$49,997, 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 1.2% and 0.8% at May 31, 2021 and 2020, respectively, and applicable mortality tables.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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:

	2021	2020
Subject to expenditure for specified purpose		
Scholarships	\$ 1,798,721	\$ 1,666,963
Educational programs and other	1,370,931	1,491,774
Property and equipment purchases	203,158	818,521
	<u>3,372,810</u>	<u>3,977,258</u>
Subject to perpetual restrictions upon receipt		
Contributions receivable	<u>155,052</u>	<u>145,414</u>
Endowments		
Subject to appropriation and expenditure when specified events occur		
Restricted by donor for		
Scholarships	3,746,906	1,861,467
Faculty development and other programs	205,961	112,302
Prizes and awards	227,735	92,995
	<u>4,180,602</u>	<u>2,066,764</u>
Investment in perpetuity, the income of which is expendable to support		
Scholarship	\$ 7,222,545	\$ 7,012,680
Faculty development and other programs	426,135	426,135
Prizes and awards	58,100	56,050
Buildings and facilities management	1,458,101	1,419,325
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	2,934,174	2,417,142
	<u>12,099,055</u>	<u>11,331,332</u>
Total endowments	<u>16,279,657</u>	<u>13,398,096</u>
	<u>\$ 19,807,519</u>	<u>\$ 17,520,768</u>

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

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:

	2021	2020
Purpose restrictions accomplished		
Scholarships	\$ 3,629,287	\$ 1,536,785
Faculty development and other programs	1,589,440	1,314,550
Prizes and awards	1,900	2,000
	<u>5,220,627</u>	<u>2,853,335</u>
Property and equipment acquired and placed in service	696,661	208,326
	<u>\$ 5,917,288</u>	<u>\$ 3,061,661</u>

Net Assets Without Donor Restrictions Designated by the Board

	2021	2020
Scholarships	\$ 1,619,133	\$ 1,327,945
Faculty development	9,292,907	7,197,837
Prizes and awards	23,328	24,186
Buildings and facilities management	826,393	659,522
	<u>\$ 11,761,761</u>	<u>\$ 9,209,490</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, 2021 and 2020

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, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 16,279,657	\$ 16,279,657
Board-designated endowment funds	11,761,761	-	11,761,761
Total endowment funds	\$ 11,761,761	\$ 16,279,657	\$ 28,041,418

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 11 — Endowment (Continued)

	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

Changes in endowment net assets for the years ended May 31, 2021 and 2020, were:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 9,209,490	\$ 13,398,096	\$ 22,607,586
Investment return			
Investment income	159,741	168,151	327,892
Net appreciation (depreciation)	2,054,460	2,742,180	4,796,640
Total investment return	2,214,201	2,910,331	5,124,532
Contributions	-	372,741	372,741
Board designation to support endowment expenditures	321,170	-	321,170
Board designation to move 25% of annual fund contributions to endowment	38,840	-	38,840
Appropriation of endowment assets for expenditure	(21,940)	(401,511)	(423,451)
Endowment net assets, end of year	\$ 11,761,761	\$ 16,279,657	\$ 28,041,418

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 11 — Endowment (Continued)

	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

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, 2021 and 2020.

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

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Notes to Financial Statements

May 31, 2021 and 2020

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 — Revenues from Contracts with customers

The University recognizes revenue from contracts with customers through three primary revenue streams, including tuition and fees, auxiliary enterprises, and other income. The following table provides disaggregation of revenue from contracts with customers based on the timing of revenue recognition for the years ended May 31, 2021 and 2020:

	2021	2020
Revenue recognized over time	\$ 41,698,047	\$ 43,727,219
Revenue recognized at a point in time	491,171	810,448
TOTAL	<u>\$ 42,189,218</u>	<u>\$ 44,537,667</u>

The portion of auxiliary enterprises revenue that does not represent revenues from contracts with customers totaled \$184,830 and \$110,216 as of May 31, 2021 and 2020, respectively, and has not been included in the table above. The portion of other income that does not represent revenues from contracts with customers totaled \$126,289 and \$0 as of May 31, 2021 and 2020, respectively and has not been included in the table above.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 13 — 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 \$273,258.

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 \$249,930 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.

Future minimum contractual payments as of May 31, 2021 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2022	\$ 517,132	\$ 216,579	\$ 332,167	\$ 1,065,878
2023	529,232	187,275	337,430	1,053,937
2024	538,411	151,459	281,653	971,523
2025	341,420	42,146	375	383,941
2026	281,299	32,305	-	313,604
Thereafter	921,227	-	-	921,227
Total minimum lease payments	\$ 3,128,721	\$ 629,764	\$ 951,625	\$ 4,710,110

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 13 — Operating Leases and Service Agreements (Continued)

Expenses for the operating leases and service agreements during 2021 totaled:

	2021	2020
Facilities leases rent expenses	\$ 598,922	\$ 601,130
Vehicle and equipment leases rent expenses	251,372	248,566
Total rent expense	850,294	849,696
Contracted services	327,026	578,592
	<u>\$ 1,177,320</u>	<u>\$ 1,428,288</u>

Note 14 — 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 \$1,300,082 and \$1,310,762 for 2021 and 2020, respectively.

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

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

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

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

During the years ended May 31, 2021 and 2020, the University made discretionary contributions to the trust of \$120,000 and \$96,000, respectively, recognized as compensation expense. The fair market value of the underlying trust assets as of May 31, 2021 and 2020, was \$487,966 and \$276,427, respectively, and are included in cash and restricted investments along with a related deferred compensation liability of \$476,996 and \$265,457, respectively, included in other liabilities on the statements of financial position.

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 15 — 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, 2021 and 2020, 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 \$263,769 (23%) and \$454,288 (25%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2021 and 2020, respectively, and approximately \$91,510 (7%) and \$12,556 (1%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2021 and 2020, respectively.

Note 16 — Disclosures About Fair Value of Assets and Liabilities

Recurring Measurements

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, 2021 and 2020

Note 16 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

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, 2021 and 2020:

	2021			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Common and preferred stocks	\$ 1,517,357	\$ -	\$ -	\$ 1,517,357
U.S. Treasury notes	-	101,425	-	101,425
U.S. Government agency mortgage-backed securities	-	-	-	-
Corporate bonds	-	586,904	-	586,904
Equity mutual funds	4,243,268	-	-	4,243,268
Fixed income mutual funds	2,350,352	-	-	2,350,352
Equity exchange-traded funds	9,485,133	-	-	9,485,133
Fixed income exchange-traded funds	5,203,449	-	-	5,203,449
Alternative strategy mutual funds	1,178,338	-	-	1,178,338
Real estate held for investment	-	1,235,000	-	1,235,000
	<u>\$ 23,977,897</u>	<u>\$ 1,923,329</u>	<u>\$ -</u>	<u>25,901,226</u>
Cash and cash equivalents carried at amortized cost	-	-	-	11,168,517
Alternative investment funds carried at NAV	-	-	-	487,966
Total investments	-	-	-	<u>\$ 37,557,709</u>
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,934,174	\$ 2,934,174
Interest rate swap agreements	-	857,204	-	857,204

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 16 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

	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>	<u>20,239,701</u>
Cash and cash equivalents carried at amortized cost	-	-	-	9,217,911
Alternative investment funds carried at NAV	-	-	-	276,427
Total investments	-	-	-	\$ 29,734,039
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,417,142	\$ 2,417,142
Liabilities				
Interest rate swap agreements	-	(610,707)	-	(610,707)

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

University of St. Francis

Notes to Financial Statements

May 31, 2021 and 2020

Note 16 — Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements (Continued)

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying 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.

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

Interest Rate Swap Agreements

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

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:

	<u>2021</u>	<u>2020</u>
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,417,142	\$ 2,341,437
Distributions to the University	(93,000)	(81,060)
Total change in value of perpetual trust	<u>610,032</u>	<u>156,765</u>
Balance, end of year	<u>\$ 2,934,174</u>	<u>\$ 2,417,142</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, 2021 and 2020

Note 17 — 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, 2021 and 2020 to be \$519,167 and \$561,302, 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 18 — 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.

Beginning around March 2020, the Covid-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity across a broad range of 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.

Note 19 — Subsequent Events

Subsequent events have been evaluated October 20, 2021 which is the date the financial statements were available to be issued.