



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

May 31, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Sikich LLP

Naperville, Illinois
October 3, 2019

Financial Statements

University of St. Francis
Statements of Financial Position
May 31, 2019

	2019	2018
Assets		
Cash and cash equivalents	\$ 3,767,445	\$ 3,593,672
Investments	10,767,980	9,839,187
Student accounts receivable, net of allowance of \$1,650,000 in 2019 and \$1,580,000 in 2018	1,974,393	2,740,233
Other receivables	233,794	225,404
Prepaid expenses and other assets	392,020	413,095
Contributions receivable, net of allowance of \$127,500 in 2019 and \$107,800 in 2018	2,340,250	2,333,429
Restricted cash	181,670	38,970
Restricted investments	1,345,587	1,267,319
Real estate held for investment	1,500,825	1,430,325
Student loans receivable, net of allowance of \$50,000	1,318,525	1,483,074
Interest rate swap agreements	142,694	692,859
Property and equipment, net of accumulated depreciation of \$47,710,511 in 2019 and \$43,496,454 in 2018	60,449,178	62,460,738
Beneficial interest in perpetual trust	2,341,437	2,451,186
Investments restricted to endowment	13,158,646	11,620,005
	Total Assets	\$ 99,914,444
	\$ 99,914,444	\$ 100,589,496
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,026,884	\$ 918,868
Accrued expenses	2,204,208	2,673,914
Deferred revenue	3,689,494	4,063,090
Capital lease obligations	810,746	1,072,749
Other liabilities	1,443,923	1,283,214
Bonds and note payable, net of unamortized debt issuance costs of \$518,975 in 2019 and \$543,952 in 2018	36,638,938	37,934,048
U.S. Government student loan funds	931,272	967,650
	Total liabilities	46,745,465
	46,745,465	48,913,533
Net Assets		
Without donor restrictions		
Undesignated	26,829,124	43,854,753
Board designated for endowment	8,657,074	(8,165,920)
	Total net assets without donor restrictions	35,486,198
	35,486,198	35,688,833
With Donor Restrictions	17,682,781	15,987,130
	Total net assets	53,168,979
	53,168,979	51,675,963
	Total Liabilities and Net Assets	\$ 99,914,444
	\$ 99,914,444	\$ 100,589,496

See accompanying notes to financial statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
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	715,920	2,548,030	3,263,950
Grants and contracts	476,844	52,500	529,344
Distribution from trusts held by others	-	150,188	150,188
Investment return	597,833	590,951	1,188,784
Auxiliary enterprises	3,774,575	-	3,774,575
Other income	755,686	-	755,686
Net assets released from restrictions	1,048,011	(1,048,011)	-
Total revenues, gains, and other support	50,135,564	2,293,658	52,429,222
Expenses			
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
Change in Net Assets Before Other Revenues (Expenses)	800,593	2,293,658	3,094,251
Other Revenues (Expenses)			
Loss on disposals of property	(103,794)	-	(103,794)
Unrealized investment loss	(415,441)	(488,258)	(903,699)
Unrealized gain 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)
Change in Net Assets	(202,635)	1,695,651	1,493,016
Net Assets, Beginning of Year	35,688,833	15,987,130	51,675,963
Net Assets, End of Year	\$ 35,486,198	\$ 17,682,781	\$ 53,168,979

See accompanying notes to financial statements.

University of St. Francis

Statement of Activities

Year Ended May 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Tuition and fees	\$ 62,772,808	\$ -	\$ 62,772,808
Less scholarships and aid	(20,302,875)	-	(20,302,875)
Net tuition and fees	42,469,933	-	42,469,933
Contributions	1,262,034	603,162	1,865,196
Grants and contracts	544,203	45,661	589,864
Distribution from trusts held by others	-	136,391	136,391
Investment return	291,893	383,661	675,554
Auxiliary enterprises	3,923,267	-	3,923,267
Other income	766,827	-	766,827
Net assets released from restrictions	1,215,280	(1,215,280)	-
Total revenues, gains, and other support	50,473,437	(46,405)	50,427,032
Expenses			
Instruction	18,545,408	-	18,545,408
Academic support	6,981,980	-	6,981,980
Student services	9,078,439	-	9,078,439
Auxiliary enterprises	4,192,465	-	4,192,465
Total educational program services	38,798,292	-	38,798,292
Institutional support	8,591,817	-	8,591,817
Fundraising	696,872	-	696,872
Total expenses	48,086,981	-	48,086,981
Change in Net Assets Before Other Revenues (Expenses)	2,386,456	(46,405)	2,340,051
Other Revenues (Expenses)			
Loss on disposals of property	(984,246)	-	(984,246)
Unrealized investment gain	211,765	215,958	427,723
Change in fair value of interest rate swap agreements	668,396	-	668,396
Change in value of split-interest agreements	1,144	22,924	24,068
Total other revenues (expenses)	(102,941)	238,882	135,941
Change in Net Assets	2,283,515	192,477	2,475,992
Net Assets, Beginning of Year	33,405,318	15,794,653	49,199,971
Net Assets, End of Year	\$ 35,688,833	\$ 15,987,130	\$ 51,675,963

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

University of St. Francis
Statement of Functional Expenses
Year Ended May 31, 2018

	Academic Support	Auxiliary	Institutional Support	Fundraising	Instruction	Student Services	Total
Labor							
Salaries	\$ 4,032,496	\$ 621,010	\$ 2,773,459	\$ 357,150	\$ 12,168,752	\$ 3,917,947	\$ 23,870,814
Payroll taxes	277,836	38,266	193,767	21,864	903,048	279,423	1,714,204
Medical and HSA expense	396,462	115,566	355,299	22,032	1,155,355	568,467	2,613,181
403(b) employer match	233,180	25,520	196,257	25,626	550,541	228,835	1,259,959
Other benefits	-	-	1,066,225	-	-	-	1,066,225
Total Labor	4,939,974	800,362	4,585,007	426,672	14,777,696	4,994,672	30,524,383
Operating Expenses (non-labor)							
Accreditation expense	81,547	-	10,168	-	700	-	92,415
Advertising	24,416	-	644,498	-	3,694	5,318	677,926
Business insurance	-	-	380,321	303	5,661	210,266	596,551
Conferences and professional development	34,949	51	15,852	-	12,413	32,892	96,157
Contractual services	212,853	407,465	435,381	65,188	598,839	519,414	2,239,140
Equipment	35,478	44,212	33,230	457	145,100	64,820	323,297
Fees	8,260	7,289	168,319	12,869	7,259	66,694	270,690
Food expense	22,956	1,356,530	71,499	57,042	22,700	174,047	1,704,774
Interest expense	89,262	116,769	67,987	1,243	209,663	119,253	604,177
Memberships	48,614	-	125,204	-	13,445	72,951	260,214
Postage	5,607	46,788	95,933	16,756	1,576	66,255	232,915
Property taxes	-	98,101	-	-	-	-	98,101
Publications	146,458	-	9,450	15,402	6,276	11,311	188,897
Purchased mailing lists	-	-	8,294	-	-	1,790	10,084
Rental equipment	3,921	155,573	3,391	905	8,321	7,523	179,634
Repairs and maintenance	21,928	5,137	9,293	-	15,050	8,931	60,339
Software licensing	263,511	-	249,700	-	2,200	6,965	522,376
Sponsorship and community support	-	-	41,941	1,242	55	5,568	48,806
Supplies	82,436	79,544	165,532	31,992	531,651	426,060	1,317,215
Telephone expense	1,457	4,590	106,469	19	3,182	8,127	123,844
Travel	56,527	135	135,069	1,026	43,982	332,317	569,056
Utilities	175,317	275,829	277,233	2,442	411,791	334,092	1,476,704
Other	119,477	-	489,699	54,858	298,334	798,188	1,760,556
Depreciation and amortization	607,032	794,090	462,347	8,456	1,425,820	810,985	4,108,730
Total Operating Expenses (non-labor)	2,042,006	3,392,103	4,006,810	270,200	3,767,712	4,083,767	17,562,598
Total Expenses	\$ 6,981,980	\$ 4,192,465	\$ 8,591,817	\$ 696,872	\$ 18,545,408	\$ 9,078,439	\$ 48,086,981

See accompanying notes to financial statements.

University of St. Francis
Statements of Cash Flows
Years Months May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,493,016	\$ 2,475,992
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,444,362	4,108,730
Loss on disposals of property	103,794	984,246
Bad debt expense	192,000	70,390
Change in contributions receivable discount	(42,590)	(56,158)
Perkins loans cancellations and adjustments	-	15,329
Net realized and unrealized (gains) losses on investments	161,830	(1,103,276)
Change in beneficial interest in perpetual trust	109,749	(22,924)
Change in fair value of interest rate swap agreements	550,165	(668,395)
Actuarial (gain) loss on annuity obligations	(4,328)	1,144
Noncash contributions	(1,639,432)	(185,917)
Contributions restricted for long-term investment	(1,083,191)	(232,345)
Contributions restricted for acquisition of long-lived assets	-	(611,847)
Changes in operating assets and liabilities		
Student accounts receivable	573,840	55,922
Other receivables	(8,390)	3,079,670
Prepaid expenses	21,075	(25,652)
Contributions receivable	35,769	490,424
Accounts payable	92,501	(968,186)
Accrued expenses	(469,706)	(467,827)
Deferred revenue	(373,596)	(52,761)
Other liabilities	195,399	83,458
Net cash provided by operating activities	<u>4,352,267</u>	<u>6,970,017</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,585,419)	(11,761,790)
Proceeds from sale of property and equipment	38,225	128,746
Purchases of investments	(26,217,761)	(8,517,358)
Proceeds from sales and maturities of investments	24,105,161	11,205,414
Advances of student loans	-	(184,000)
Principal payments received on student loans	164,549	156,326
Net cash used in investing activities	<u>(3,495,245)</u>	<u>(8,972,662)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(262,003)	(246,359)
Payments on note payable	(1,320,087)	(922,000)
Payments on annuities payable	(5,272)	(5,272)
(Increase) decrease in U.S. Government student loan funds	(36,378)	(29,777)
Proceeds from contributions restricted for long-term investment	1,083,191	232,345
Proceeds from contributions restricted for acquisition of long-lived assets	-	611,847
Net cash used in financing activities	<u>(540,549)</u>	<u>(359,216)</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	316,473	(2,361,861)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	3,632,642	5,994,503
Cash and Cash Equivalents and Restricted Cash, End of Year	\$ 3,949,115	\$ 3,632,642
Supplemental Cash Flows Information		
Interest paid	\$ 997,013	\$ 985,354
Property and equipment purchases included in accounts payable	99,941	84,426
Noncash contribution of property	939,000	-
Equipment acquired by capital lease	-	498,330

See accompanying notes to financial statements

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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 charisma 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, 2019 and 2018, cash equivalents consisted primarily of money market funds.

At May 31, 2019 and 2018, the University's cash accounts exceeded federally insured limits by approximately \$4,413,768 and \$5,121,380, 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 that sum to the total of the same such amounts shown in the statements of cash flows as of May 31.

	2019	2018
Cash and cash equivalents	\$ 3,767,445	\$ 3,593,672
Restricted cash	181,670	38,970
Total	<u>\$ 3,949,115</u>	<u>\$ 3,632,642</u>

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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, any unspent bond proceeds, 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, 2019 and 2018

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 corpus 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, 2019 and 2018

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. Tuition and fees on the statement of activities for 2018 have been adjusted to reflect the reclassification of course fee revenue from other income in the amount of \$451,693. There was no effect on net assets or the change in net assets as of and for the year ended May 31, 2018.

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, 2019 and 2018

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

Contributions (Continued)

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

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

In-Kind Contributions

In addition to receiving cash contributions, the University receives in-kind contributions of investments, auction items for fundraising events, and property from various donors. It is the policy of the University to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended May 31, 2019 and 2018, \$729,510 and \$222,080, respectively, was received in in-kind contributions.

Grants and Contracts

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

Auxiliary Enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliary enterprises consist of residence halls, dining facilities, conference services, and the University bookstore. Auxiliary enterprise revenues and expenses are reported in the accompanying statements of activities in 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, 2019 and 2018 were \$467,413 and \$677,926, 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, 2019 and 2018

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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. ASU No. 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled net assets without donor restrictions and net assets with donor restrictions, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the place-in-service approach to recognize the expirations or restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The University has adjusted the presentation of these statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented.

In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. Both of these ASUs will be effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The University has adjusted the presentation of the statements of cash flows accordingly. ASU No. 2016-15 has been applied retrospectively to all periods presented.

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

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

New Accounting Pronouncements (Continued)

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as amended by ASU No. 2015-14, which supersedes or replaces nearly all USGAAP revenue recognition guidance. 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, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018 and interim periods within the annual period beginning after December 15, 2019. 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. It also requires additional disclosures about leasing arrangements. ASU No. 2016-02 is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. 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 retained earnings in the period of adoption. The University is currently assessing the impacts of this new standard, including the two optional transition methods.

In June 2018, FASB issued ASU No. 2018-08, *Not For Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance helps distinguish if grants and contracts with resource providers are exchange transactions or contributions. Once a transaction is deemed to be a contribution, the ASU also provides guidance to help determine when a contribution is conditional and evaluates the possibility that a condition will not be met is remote. Unconditional contributions are recognized immediately and classified as either net assets with or without donor restrictions, while conditional contributions received are accounted for as a liability until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with or without restrictions. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018. The University is currently assessing the impact of this new standard.

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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, 2019, 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, 2019 and 2018, 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:

	2019	2018
Cash and cash equivalents	\$ 3,767,445	\$ 3,593,672
Investments	10,767,980	9,839,187
Student accounts receivable, net	1,974,393	2,740,233
Other receivables	233,794	225,404
Contribution receivable, net	2,340,250	2,333,429
Restricted cash	181,670	38,970
Restricted investments	1,348,587	1,267,319
Student loans receivable, net	1,318,525	1,483,074
Beneficial interest in per perpetual trust	2,341,437	2,451,186
Investments restricted for endowment	13,158,646	11,620,005
	<u>37,429,727</u>	<u>35,592,479</u>
Less those unavailable for general expenditures within one year, due to:		
Legal, contractual or time limitations:		
Restricted cash	(181,670)	(38,970)
Restricted investments	(1,345,587)	(1,267,319)
Student loans receivable, net	(559,502)	(732,521)
	<u>(2,086,759)</u>	<u>(2,038,810)</u>
Board designations:		
Scholarships	(1,298,194)	(1,290,042)
Faculty development	(6,691,207)	(6,211,638)
Prizes and awards	(23,760)	(23,739)
Building and facilities management	(643,913)	(640,501)
	<u>(8,657,074)</u>	<u>(8,165,920)</u>
Donor restrictions:	<u>(17,682,685)</u>	<u>(15,987,130)</u>
Financial assets available to meet the cash needs for general expenditures within one year:	<u>\$ 9,003,209</u>	<u>\$ 9,400,619</u>

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

Note 3 — Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 763,657	\$ 609,386
Due in one to five years	1,791,463	1,946,833
Due after five years	12,500	27,500
	<u>2,567,620</u>	<u>2,583,719</u>
Less		
Present value discount at 2%	(99,870)	(142,490)
Allowance for uncollectible contributions	(127,500)	(107,800)
	<u>\$ 2,340,250</u>	<u>\$ 2,333,429</u>

Note 4 — Investments

Investments at May 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 6,005,903	\$ 5,163,218
Common and preferred stocks	8,190,603	5,454,701
U.S. Treasury notes	1,815,636	1,336,405
U.S. Government agency mortgage-backed securities	127,232	173,510
Corporate bonds	2,112,567	1,667,433
Equity mutual funds	1,975,216	4,806,610
Fixed income mutual funds	2,387,363	2,774,074
Fixed income exchange-traded funds	700,185	628,763
Alternative strategy mutual funds	1,762,478	599,921
Alternative investment funds	195,030	121,876
Real estate held for investment	1,500,825	1,430,325
	<u>\$ 26,773,038</u>	<u>\$ 24,156,836</u>

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

	<u>2019</u>	<u>2018</u>
Restricted investments	\$ 1,345,587	\$ 1,267,319
Investments	10,767,980	9,839,187
Real estate held for investment	1,500,825	1,430,325
Investments restricted to endowment	13,158,646	11,620,005
	<u>\$ 26,773,038</u>	<u>\$ 24,156,836</u>

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

Note 4 — Investments (Continued)

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

	2019	2018
Scholarships	\$ 1,150,557	\$ 1,145,443
Deferred compensation	195,030	121,876
	\$ 1,345,587	\$ 1,267,319

Student Loans Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program. These loan amounts represent 1.32% and 1.33% of total assets as of May 31, 2019 and 2018, 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, 2019 and 2018, \$559,502 and \$732,521, 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, 2019 and 2018, 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	
2019	\$ 78,500	\$ 80,959	\$ 84,686	\$ 171,240	\$ 415,385
2018	\$ 75,757	\$ 47,347	\$ 89,467	\$ 146,604	\$ 359,175

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

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 \$931,272 and \$967,650 as of May 31, 2019 and 2018, 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:

	2019	2018
Land and land improvements	\$ 12,958,626	\$ 11,862,742
Buildings and building and leasehold improvements	76,960,126	75,642,318
Equipment, furniture, and fixtures	16,803,463	16,404,115
Administrative computer software	987,845	987,845
Library books	160,714	241,628
Motor vehicles	276,200	410,133
Construction in progress	12,715	408,411
	108,159,689	105,957,192
Less accumulated depreciation and amortization	(47,710,511)	(43,496,454)
	\$ 60,449,178	\$ 62,460,738

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

	2019	2018
Interest costs capitalized	\$ -	\$ 383,566
Interest costs charged to expense	996,973	604,177
Total interest incurred	\$ 996,973	\$ 987,743

The following construction commitments exist as of May 31:

	2019	2018
Science building	\$ -	\$ 545,090
	\$ -	\$ 545,090

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

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 \$2,341,437 and \$2,451,186, which represents the fair value of the trust assets at May 31, 2019 and 2018, respectively. The income from this trust for 2019 and 2018 was \$123,000 and \$105,500, 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 2019 and 2018 was \$45,750 and \$24,100, 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:

	2019	2018
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 2.61% to 2.99% in 2019, and from 1.92% to 2.54% in 2018, maturing through December 1, 2037, payable in annual installments beginning December 1, 2017, ranging from \$770,000 to \$1,440,000	\$ 22,537,000	\$ 23,478,000
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 2.73% to 3.11% in 2019, and from 2.04% to 2.66% in 2018, maturing through September 30, 2041, payable in monthly installments beginning September 30, 2018, ranging from \$228,000 to \$485,000 annually.	8,772,276	9,000,000

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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

	2019	2018
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.	\$ 5,848,637	\$ 6,000,000
Total bonds and notes payable	37,157,913	38,478,000
Less unamortized debt issuance costs	(518,975)	(543,952)
Total net bonds and notes payable	36,638,938	37,934,048
Capital lease obligations for equipment	810,746	1,072,749
TOTAL	\$ 37,449,684	\$ 39,006,797

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, 2019 and 2018, the University believes it is in compliance with these covenants and ratios.

The 2016 Illinois Finance Authority Revenue Bonds are subject to a mortgage that grants a security interest in certain real and personal property of the University and a security agreement that grants a security interest in the University's gross revenues, as defined in the security agreement.

Aggregate annual maturities of bonds and notes payable, the line of credit and payments on capital lease obligations at May 31, 2019, are:

	Bonds and Notes Payable	Capital Lease Obligations
2020	\$ 1,476,039	\$ 303,886
2021	1,511,223	295,699
2022	1,544,648	201,519
2023	1,579,322	65,854
2024	1,613,249	3,314
Thereafter	29,433,432	-
	\$ 37,157,913	870,272
Less amount representing interest		(59,526)
Present value of future minimum lease payments		\$ 810,746

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

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

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

	2019	2018
Equipment	\$ 1,481,789	\$ 1,481,789
Less accumulated depreciation	(679,458)	(406,815)
	\$ 802,331	\$ 1,074,975

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 and \$23,478,000 at May 31, 2019 and 2018, respectively. 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 and \$9,000,000 at May 31, 2019 and 2018, respectively.

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

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

	2019	2018
Fair value of asset for interest rate swap agreements		
2013 Series bond	\$ 61,116	\$ 247,825
2016 Series B bond	81,578	445,034
	\$ 142,694	\$ 692,859

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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

	2019	2018
Gain (loss) recognized in change in net assets		
2013 Series bond	\$ (186,709)	\$ 379,087
2013 Term loan	-	(76)
2016 Series B bond	(363,456)	289,385
	\$ (550,165)	\$ 668,396

Note 9 — Annuities Payable

The University has been the recipient of charitable gift annuities which require future payments to the donor. The assets received from the donor are recorded at fair value. The University has recorded a liability at May 31, 2019 and 2018 of \$45,694 and \$46,638, 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 2.8% and 3.2% at May 31, 2019 and 2018, respectively, and applicable mortality tables.

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:

	2019	2018
Subject to expenditure for specified purpose		
Scholarships	\$ 1,403,348	\$ 1,423,598
Educational programs and other	1,853,947	2,398,426
Property and equipment purchases	1,055,074	525,101
	4,312,369	4,347,125
Subject to passage of time		
Contributions	212,365	20,000
Endowments		
Subject to appropriation and expenditure when specified events occur		
Restricted by donor for		
Scholarships	1,908,468	2,197,101
Faculty development and other programs	106,639	103,121
Prizes and awards	78,122	80,282
	2,093,229	2,380,504

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

Note 10 — Net Assets (Continued)

Net Assets With Donor Restrictions (Continued)

	2019	2018
Endowments (continued)		
Investment in perpetuity, the income of which is expendable to support		
Scholarship	\$ 6,822,521	\$ 6,308,278
Faculty development and other programs	426,135	425,136
Prizes and awards	55,400	54,901
Buildings and facilities management	1,419,325	-
Beneficial interest in perpetual trust the income of which is to be spent on scholarships	2,341,437	2,451,186
	<u>11,064,818</u>	<u>9,239,501</u>
Total endowments	<u>13,158,047</u>	<u>11,620,005</u>
	<u>\$ 17,682,781</u>	<u>\$ 15,987,130</u>

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:

	2019	2018
Purpose restrictions accomplished		
Scholarships	\$ 644,401	\$ 553,389
Faculty development and other programs	280,468	550,360
Prizes and awards	1,600	1,900
	<u>926,469</u>	<u>1,105,649</u>
Property and equipment acquired and placed in service	121,542	114,631
Pledges written off	-	(5,000)
	<u>\$ 1,048,011</u>	<u>\$ 1,215,280</u>

Net Assets Without Donor Restrictions Designated by the Board

	2019	2018
Scholarships	\$ 1,298,194	\$ 1,290,042
Faculty development	6,691,207	6,211,638
Prizes and awards	23,760	23,739
Buildings and facilities management	643,913	640,501
	<u>\$ 8,657,074</u>	<u>\$ 8,165,920</u>

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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.

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, 2019 and 2018, was:

	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

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

Note 11 — Endowment (Continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 11,620,005	\$ 11,620,005
Board-designated endowment funds	8,166,920	-	8,166,920
Total endowment funds	\$ 8,166,920	\$ 11,620,005	\$ 19,786,925

Changes in endowment net assets for the years ended May 31, 2019 and 2018, were:

	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 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 from 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

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

Note 11 — Endowment (Continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 7,230,394	\$ 11,310,019	\$ 18,540,413
Investment return			
Investment income	192,594	209,741	402,335
Net appreciation	271,703	376,267	647,970
Total investment return	464,297	586,008	1,050,305
Contributions	-	370,360	370,360
Board designation endowment expenditures	331,191	-	331,191
Board designation to move 25% of annual fund contributions to endowment	142,788	-	142,788
Board designation to move gifts without donor restriction to endowment	16,217	-	16,217
Reallocation of temporarily restricted scholarships from the endowment	-	(188,807)	(188,807)
Appropriation of endowment assets for expenditure	(17,967)	(457,574)	(475,541)
Endowment net assets, end of year	\$ 8,166,920	\$ 11,620,005	\$ 19,786,925

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, 2019 and 2018.

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, 2019 and 2018

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 new location for its campus located in Albuquerque, New Mexico, which will expire in August 2024. The lease requires the University to pay all executory costs (maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately \$257,500 to \$273,300.

The University entered into two lease agreements for space in the Rialto Theater building located in downtown Joliet, Illinois. The lease agreements are for 10 and 20 years, respectively, and expire in February 2020 and June 2029, respectively. These leases require the University to pay all executory costs (property taxes, maintenance, utilities, and insurance). Future annual minimum rental payments range from approximately \$17,600 to \$23,000 and \$228,700 to \$307,400, respectively.

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

Note 12 — Operating Leases and Service Agreements (Continued)

Effective July 2016, the University entered into a license agreement to lease space in an athletic facility in Joliet, Illinois, through June 2021. This agreement is renewable for an additional five-year term. For the final year of the term of the agreement, a usage fee ranging from approximately \$87,700 to \$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, 2019 on the above commitments are:

	Facilities	Equipment	Contracted Services	Total
2020	\$ 601,130	\$ 129,293	\$ 256,913	\$ 987,336
2021	598,922	88,250	-	687,172
2022	517,132	31,778	-	548,910
2023	529,232	27,452	-	556,684
2024	538,411	10,422	-	548,833
Thereafter	1,543,945	-	-	1,543,945
<hr/>				
Total minimum lease payments	\$ 4,328,772	\$ 287,195	\$ 256,913	\$ 4,872,880

Expenses for the operating leases and service agreements during 2019 totaled:

	2019	2018
Facilities leases rent expenses	\$ 596,991	\$ 582,150
Vehicle and equipment leases rent expenses	332,224	288,627
Total rent expense	929,215	870,777
Contracted services	298,041	279,380
	<hr/>	<hr/>
	\$ 1,227,256	\$ 1,150,157

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 \$1,291,823 and \$1,259,959 for 2019 and 2018, respectively.

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

Note 13 — Retirement Plans (Continued)

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, 2019 and 2018, the University made discretionary contributions to the trust of \$72,000 and \$48,000, respectively, recognized as compensation expense. The fair market value of the underlying trust assets as of May 31, 2019 and 2018, was \$195,030 and \$121,876, respectively, and are included in cash and restricted investments along with a related deferred compensation liability of \$195,030 and \$121,876, 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, 2019 and 2018, 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 \$310,833 (12%) and \$719,528 (28%) of all contributions receivable were due from related parties, including certain members of the Board of Trustees, in 2019 and 2018, respectively, and approximately \$257,379 (8%) and \$269,666 (14%) of contribution revenue was received from related parties, including certain members of the Board of Trustees, in 2019 and 2018, respectively.

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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

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, 2019 and 2018:

	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>

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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

Recurring Measurements (Continued)

	2019			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents carried at amortized cost				\$ 6,005,903
Alternative investment funds carried at NAV				195,030
Total investments				\$ 26,773,038
Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,341,437	\$ 2,341,437
Interest rate swap agreements	-	142,694	-	142,694
	2018			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Common and preferred stocks	\$ 5,454,701	\$ -	\$ -	\$ 5,454,701
U.S. Treasury notes	-	1,336,405	-	1,336,405
U.S. Government agency mortgage-backed securities	-	173,510	-	173,510
Corporate bonds	-	1,667,433	-	1,667,433
Equity mutual funds	4,806,610	-	-	4,806,610
Fixed income mutual funds	2,774,074	-	-	2,774,074
Fixed income exchange- traded funds	628,763	-	-	628,763
Alternative strategy mutual funds	599,921	-	-	599,921
Real estate held for investment	-	1,430,325	-	1,430,325
	\$ 14,264,069	\$ 4,607,673	\$ -	18,871,742

University of St. Francis
Notes to Financial Statements
May 31, 2019 and 2018

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

Recurring Measurements (Continued)

	2018			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents carried at amortized cost				\$ 5,163,218
Alternative investment funds carried at NAV				121,876
Total investments				<u>\$ 24,156,836</u>
 Other Assets				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 2,451,186	\$ 2,451,186
Interest rate swap agreements	-	692,859	-	692,859

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.

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.

University of St. Francis

Notes to Financial Statements

May 31, 2019 and 2018

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

Recurring Measurements (Continued)

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.

Transfers Between Fair Value Hierarchy Levels

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

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:

	2019	2018
Beneficial interest in perpetual trust		
Balance, beginning of year	\$ 2,451,186	\$ 2,428,562
Total change in value of perpetual trust	(109,749)	22,924
Balance, end of year	<u>\$ 2,341,437</u>	<u>\$ 2,451,186</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>\$ (109,749)</u>	<u>\$ 22,924</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.

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May 31, 2019 and 2018

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, 2019 and 2018 to be \$645,894 and \$525,484, 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

No significant events to report.

Subsequent events have been evaluated October 3, 2019, which is the date the financial statements were available to be issued.