

# **Saint Francis University**

Consolidated Financial Statements

June 30, 2020 and 2019

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## **Independent Auditors' Report**

To the Board of Trustees of  
Saint Francis University

We have audited the accompanying consolidated financial statements of Saint Francis University, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saint Francis University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly US, LLP*

Baker Tilly US, LLP  
(formerly known as Baker Tilly Virchow Krause, LLP)  
State College, Pennsylvania  
October 22, 2020

**Saint Francis University**

## Consolidated Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,873,103	\$ 1,278,757
Accounts receivable:		
Student, net	1,841,199	2,166,826
Government agencies	259,293	340,272
Other	595,708	506,593
Unconditional promises to give	1,781,535	1,334,947
Inventory	285,689	252,007
Prepaid expenses and other	949,413	904,943
Investments	51,537,560	51,793,305
Student loans receivable	966,830	1,079,687
Debt service reserve fund	2,801,321	2,816,779
Bond project fund	-	804,609
Beneficial interest in remainder trust	56,857	56,485
Cash restricted for purchase of property and equipment	1,336,891	897,240
Plant assets, net	<u>70,656,556</u>	<u>70,868,281</u>
 Total assets	 <u><u>\$ 135,941,955</u></u>	 <u><u>\$ 135,100,731</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,004,589	\$ 1,512,256
Construction accounts payable	603,016	1,624,204
Accrued payroll and related liabilities	3,053,243	3,503,096
Deferred revenue	337,524	773,253
Deferred summer tuition	3,152,073	3,032,823
Other accrued liabilities	142,100	145,765
Student deposits and prepayments	1,318,465	465,891
Bonds payable	25,320,208	26,105,968
Notes payable	5,143,498	3,753,811
Obligations under capital leases	96,014	130,859
Annuities payable	78,895	78,751
Advance from federal government for student loans	<u>892,771</u>	<u>1,060,553</u>
 Total liabilities	 <u>41,142,396</u>	 <u>42,187,230</u>
<b>Net Assets</b>		
Without donor restrictions	44,859,713	44,668,178
With donor restrictions	<u>49,939,846</u>	<u>48,245,323</u>
 Total net assets	 <u>94,799,559</u>	 <u>92,913,501</u>
 Total liabilities and net assets	 <u><u>\$ 135,941,955</u></u>	 <u><u>\$ 135,100,731</u></u>

See notes to consolidated financial statements

**Saint Francis University**

## Consolidated Statement of Activities

Year Ended June 30, 2020

(With Comparative Totals for 2019)

	<b>2020</b>			<b>2019</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Total</b>
<b>Operating Revenues</b>				
Tuition and fees, net	\$ 39,584,782	\$ -	\$ 39,584,782	\$ 39,234,242
Federal grants and contracts	1,989,468	663,593	2,653,061	1,280,679
State and local grants	963,018	-	963,018	1,376,503
Private gifts, grants and bequests	1,974,477	4,565,003	6,539,480	6,086,683
Interest and dividends, net	298,596	649,375	947,971	908,072
Other income	2,369,482	-	2,369,482	3,060,054
Auxiliary enterprises, net	11,300,940	-	11,300,940	14,062,712
Transfer from nonoperating to fund depreciation	768,077	-	768,077	815,824
Net assets released from restrictions:				
Satisfaction of program restrictions	2,679,077	(2,679,077)	-	-
Appropriation from donor endowment	1,350,511	(1,350,511)	-	-
<b>Total operating revenues</b>	<b>63,278,428</b>	<b>1,848,383</b>	<b>65,126,811</b>	<b>66,824,769</b>
<b>Operating Expenses</b>				
Educational and general:				
Program expenses:				
Instructional	22,253,577	-	22,253,577	24,212,012
Research and public service	2,353,145	-	2,353,145	2,410,067
Academic support	1,795,410	-	1,795,410	1,916,876
Student services	14,144,577	-	14,144,577	16,194,168
Student aid	602,915	-	602,915	-
Institutional support	11,650,345	-	11,650,345	11,344,337
<b>Total educational and general</b>	<b>52,799,969</b>	<b>-</b>	<b>52,799,969</b>	<b>56,077,460</b>
Auxiliary enterprises	9,513,395	-	9,513,395	10,284,593
<b>Total operating expenses</b>	<b>62,313,364</b>	<b>-</b>	<b>62,313,364</b>	<b>66,362,053</b>
Change in net assets from operating activities	965,064	1,848,383	2,813,447	462,716
<b>Nonoperating Activities</b>				
Realized and unrealized (loss) gain on investments	(5,452)	(154,232)	(159,684)	2,346,877
Transfer to operations to fund depreciation	(768,077)	-	(768,077)	(815,824)
Capital grants, state	-	-	-	929,704
Change in value of split-interest agreements	-	372	372	1,764
Change in net assets from nonoperating activities	(773,529)	(153,860)	(927,389)	2,462,521
Change in net assets	191,535	1,694,523	1,886,058	2,925,237
<b>Net Assets, Beginning</b>	<b>44,668,178</b>	<b>48,245,323</b>	<b>92,913,501</b>	<b>89,988,264</b>
<b>Net Assets, Ending</b>	<b>\$ 44,859,713</b>	<b>\$ 49,939,846</b>	<b>\$ 94,799,559</b>	<b>\$ 92,913,501</b>

See notes to consolidated financial statements

**Saint Francis University**

## Consolidated Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenues</b>			
Tuition and fees, net	\$ 39,234,242	\$ -	\$ 39,234,242
Federal grants and contracts	1,280,679	-	1,280,679
State and local grants	1,376,503	-	1,376,503
Private gifts, grants and bequests	2,161,059	3,925,624	6,086,683
Interest and dividends, net	290,391	617,681	908,072
Other income	3,060,054	-	3,060,054
Auxiliary enterprises, net	14,062,712	-	14,062,712
Transfer from nonoperating to fund depreciation	815,824	-	815,824
Net assets released from restrictions:			
Satisfaction of program restrictions	2,037,348	(2,037,348)	-
Appropriation from donor endowment	1,322,208	(1,322,208)	-
<b>Total operating revenues</b>	<b>65,641,020</b>	<b>1,183,749</b>	<b>66,824,769</b>
<b>Operating Expenses</b>			
Educational and general:			
Program expenses:			
Instructional	24,212,012	-	24,212,012
Research and public service	2,410,067	-	2,410,067
Academic support	1,916,876	-	1,916,876
Student services	16,194,168	-	16,194,168
Institutional support	11,344,337	-	11,344,337
<b>Total educational and general</b>	<b>56,077,460</b>	<b>-</b>	<b>56,077,460</b>
Auxiliary enterprises	10,284,593	-	10,284,593
<b>Total operating expenses</b>	<b>66,362,053</b>	<b>-</b>	<b>66,362,053</b>
<b>Change in net assets from operating activities</b>	<b>(721,033)</b>	<b>1,183,749</b>	<b>462,716</b>
<b>Nonoperating Activities</b>			
Realized and unrealized gain on investments	420,201	1,926,676	2,346,877
Transfer to operations to fund depreciation	(815,824)	-	(815,824)
Capital grants, state	929,704	-	929,704
Change in value of split-interest agreements	-	1,764	1,764
<b>Change in net assets from nonoperating activities</b>	<b>534,081</b>	<b>1,928,440</b>	<b>2,462,521</b>
<b>Change in net assets</b>	<b>(186,952)</b>	<b>3,112,189</b>	<b>2,925,237</b>
<b>Net Assets, Beginning</b>	<b>44,855,130</b>	<b>45,133,134</b>	<b>89,988,264</b>
<b>Net Assets, Ending</b>	<b>\$ 44,668,178</b>	<b>\$ 48,245,323</b>	<b>\$ 92,913,501</b>

See notes to consolidated financial statements

**Saint Francis University**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Expenses						Facilities, Operations and Maintenance		
	Instruction	Research and Public Service	Academic Support	Student Services	Student Aid	Institutional Support	Auxiliary Enterprises		Total
Operating Expenses									
Compensation:									
Salaries and wages	\$ 13,042,138	\$ 1,064,760	\$ 429,195	\$ 5,468,148	\$ -	\$ 3,859,918	\$ 1,772,980	\$ 1,866,374	\$ 27,503,512
Benefits	3,270,516	308,876	117,059	1,520,076	-	2,995,762	1,002,697	799,405	10,014,391
Other	218,620	155,850	346,714	1,866,581	-	1,503,597	649,460	175,685	4,916,507
Depreciation and amortization	1,250,874	105,857	69,174	659,487	-	226,104	1,888,462	521,475	4,721,433
Professional services	253,310	28,881	-	517,216	-	1,780,117	1,613,934	154,459	4,347,917
Travel, conferences, recruitment, meals and lodging	268,558	257,993	123	1,773,282	-	176,018	11,662	4,737	2,492,373
Supplies, equipment maintenance and repairs	721,383	60,242	4,514	384,225	-	296,609	309,050	457,772	2,233,795
Utilities	15,512	3,340	251	55,316	-	124,597	664,225	874,135	1,737,376
Food	-	-	-	-	-	-	1,288,996	-	1,288,996
Interest on indebtedness	-	-	-	38,080	-	53,301	73,150	984,502	1,149,033
Insurance	1,003	-	-	108,875	-	-	232,611	335,068	677,557
Marketing and advertising	283,659	-	93	56,012	-	281,626	6,168	-	627,558
Student emergency assistance fund (HEERF)	-	-	-	-	602,915	-	-	-	602,915
	19,325,573	1,985,799	967,123	12,447,298	602,915	11,297,649	9,513,395	6,173,612	62,313,364
Allocation of facilities, operations and maintenance	2,928,004	367,346	828,287	1,697,279	-	352,696	-	(6,173,612)	-
Total operating expenses	\$ 22,253,577	\$ 2,353,145	\$ 1,795,410	\$ 14,144,577	\$ 602,915	\$ 11,650,345	\$ 9,513,395	\$ -	\$ 62,313,364

See notes to consolidated financial statements



**Saint Francis University**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Expenses					Facilities, Operations and Maintenance		
	Instruction	Research and Public Service	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises		Total
Operating Expenses								
Compensation:								
Salaries and wages	\$ 13,750,859	\$ 1,009,441	\$ 500,610	\$ 5,926,520	\$ 4,001,788	\$ 1,892,647	\$ 1,840,982	\$ 28,922,847
Benefits	3,794,573	314,119	141,263	1,726,738	3,189,218	1,096,849	813,017	11,075,777
Other	834,651	240,514	363,009	2,614,641	1,144,822	1,092,464	137,748	6,427,849
Depreciation and amortization	1,277,708	99,662	75,283	667,800	336,503	1,635,140	544,757	4,636,853
Professional services	521,561	18,388	-	363,651	1,443,562	1,543,308	162,356	4,052,826
Travel, conferences, recruitment, meals and lodging	473,495	317,809	3,181	2,402,337	221,411	15,910	1,798	3,435,941
Supplies, equipment maintenance and repairs	446,477	40,295	7,823	476,252	219,648	484,645	495,062	2,170,202
Utilities	21,924	3,860	246	58,230	113,132	758,011	900,310	1,855,713
Food	-	-	-	-	-	1,460,887	-	1,460,887
Interest on indebtedness	-	-	-	49,507	46,696	86,206	894,791	1,077,200
Insurance	2,896	-	-	112,075	-	218,392	359,827	693,190
Marketing and advertising	170,755	-	255	105,451	276,173	134	-	552,768
	21,294,899	2,044,088	1,091,670	14,503,202	10,992,953	10,284,593	6,150,648	66,362,053
Allocation of facilities, operations and maintenance	2,917,113	365,979	825,206	1,690,966	351,384	-	(6,150,648)	-
Total operating expenses	\$ 24,212,012	\$ 2,410,067	\$ 1,916,876	\$ 16,194,168	\$ 11,344,337	\$ 10,284,593	\$ -	\$ 66,362,053

See notes to consolidated financial statements

**Saint Francis University**

Consolidated Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	2020	2019 (As Adjusted)
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,886,058	\$ 2,925,237
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,710,673	4,633,832
Loss (gain) on disposal of plant assets	394,413	(10,858)
Realized and unrealized loss (gain) on investments	159,684	(2,346,877)
Private gifts restricted for long-term investment	(588,201)	(1,248,850)
Private gifts restricted for purchase of property and equipment	(439,651)	(445,213)
Change in value of split-interest agreements	(372)	(1,764)
Changes in assets and liabilities:		
Accounts receivable	317,491	(1,377,238)
Unconditional promises to give	141,613	152,441
Inventory	(33,682)	12,040
Prepaid expenses and other	(44,470)	230,243
Accounts payable	(507,667)	194,103
Accrued payroll and related liabilities	(449,853)	(418,633)
Deferred revenue	(316,479)	(341,025)
Other accrued liabilities	(3,665)	15,306
Student deposits and prepayments	852,574	52,692
Net cash provided by operating activities	<u>6,078,466</u>	<u>2,025,436</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	16,141,048	17,365,326
Purchases of investments	(17,811,674)	(15,197,711)
Capital grants received	223,218	776,782
Purchases of plant assets	(3,772,432)	(2,929,066)
Purchase of property and equipment with restricted contributions	(457,271)	(445,213)
Proceeds from the sale of plant assets	11,176	269,057
Payments on student loans receivable	112,857	118,564
Net cash used in investing activities	<u>(5,553,078)</u>	<u>(42,261)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on bonds and loans payable and capital leases	(1,350,158)	(1,787,833)
Proceeds from contributions restricted for long-term investments	685,824	1,248,850
Proceeds from contributions restricted for purchase of property and equipment	439,651	445,213
Decrease (increase) in debt service reserve fund assets	15,458	(16,924)
Decrease in bond project fund	804,609	1,250,392
Proceeds (payments) of annuity obligations	144	(9,544)
Net payments on line of credit	-	(1,250,000)
Net repayments to federal government for student loans	(167,782)	(10,543)
Net cash provided by (used) in financing activities	<u>427,746</u>	<u>(130,389)</u>
Net increase in cash and cash equivalents and restricted cash and cash equivalents	953,134	1,852,786
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>9,339,442</u>	<u>7,486,656</u>
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 10,292,576</u>	<u>\$ 9,339,442</u>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents to Statements of Financial Position</b>		
Cash and cash equivalents	\$ 2,873,103	\$ 1,278,757
Cash and cash equivalents restricted for purchase of property and equipment	1,336,891	897,240
Cash and cash equivalents included in debt service reserve fund, bond project fund and investments	<u>6,082,582</u>	<u>7,163,445</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 10,292,576</u>	<u>\$ 9,339,442</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,152,391</u>	<u>\$ 1,080,075</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Plant assets in accounts payable	<u>\$ 603,016</u>	<u>\$ 1,624,204</u>
Asset acquired under capital lease	<u>\$ -</u>	<u>\$ 133,286</u>
Assets acquired with notes payable	<u>\$ 1,930,000</u>	<u>\$ 3,234,663</u>

See notes to consolidated financial statements

**1. Nature of Operations and Summary of Significant Accounting Policies****Nature of Operations**

Saint Francis University (the College) is a not-for-profit educational institution located in Loretto, Pennsylvania. The College awards grants-in-aid and scholarships from its net assets with and without donor restrictions to individuals who meet the College's academic standards. The amounts of such awards are determined primarily based upon the academic performance of each applicant. Additional financial aid is provided to students from federal and state programs in which the College participates and from monies contributed to the College by alumni and friends.

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

**Principles of Consolidation**

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

The University evaluated subsequent events for recognition or disclosure through October 22, 2020, the date the consolidated financial statements were available to be issued.

**Basis of Presentation**

The consolidated financial statements of the University have been prepared in conformity with accounting principles generally accepted in the United States of America including accounting standards as they relate to financial statements of not-for-profit organizations. The FASB guidance requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; and reporting the sources and uses of cash and cash equivalents in a statement of cash flows

Net assets and revenues, gains, expenses and losses are classified as without donor restriction or with donor restriction based on the existence or absence of donor-imposed restrictions as follows.

**Net Assets Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees. The Board of Trustees has earmarked \$8,151,314 and \$8,752,495, as of June 30, 2020 and 2019, respectively, as designated for endowment.

**Net Assets With Donor Restrictions** - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restriction are reclassified to net assets without restriction and reported in the consolidated statements of activities as net assets released from restriction. Additionally, funds received as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

**Accounts Receivable, Students**

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

**Promises to Give**

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

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

**Donor-Restricted Gifts**

All contributions are considered to be available without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as gifts with donor restrictions that increase that net asset classification. When a donor restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**Capital Gifts to Acquire or Construct Long-Lived Assets**

Capital gifts to acquire or construct long-lived assets are recorded as a donor restricted gift until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions and subsequently amortized into operations over the estimated useful life of the acquired or constructed asset. This depreciation, which amounted to \$768,077 and \$815,824 in 2020 and 2019, respectively, is recorded as a reclassification between the nonoperating and operating sections of the change in net assets without donor restrictions in the consolidated statements of activities.

**Investments**

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

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

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments and all income from investments, are reported as changes in net assets without donor restrictions unless their use is restricted by explicit donor-imposed stipulations, or by law.

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

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

**Plant Assets**

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

**Advance From Federal Government for Student Loans**

The University is a participant in the Federal Perkins Loan program, a program which makes student loans available to eligible participants. This program is funded by both the federal government and the University, with the portion estimated to be allocable to the federal government recorded as a liability in the consolidated statements of financial position, and the portion allocable to the University included in net assets without donor restrictions.

**Revenue Recognition**

Tuition and fees revenue is recognized in the fiscal year in which the academic programs are delivered. Sales and services of auxiliary enterprises revenue, which consists of room and board and related services, is recognized when the related service is provided or performed. Tuition and fees and auxiliary enterprise contracts are considered to have a duration of less than one year.

Transaction prices for tuition, fees, room and board are determined based on the approved University tuition and fees schedules. Institutional financial aid and discounts provided by the University are reflected as a reduction of tuition and fees revenue with the exception of specifically identified auxiliary and athletic awards, which are reflected as a reduction in auxiliary revenue. The University awards grants-in-aid and scholarships to individuals who meet the University's academic standards. The amounts of such awards are based upon merit, the financial needs and/or athletic sport participation of each applicant.

# Saint Francis University

## Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Amounts are due for tuition, fees, room and board at the beginning of each semester. In accordance with the University's refund policies, full time undergraduate students may receive a full or partial refund until 60 percent of the semester has expired.

Deferred summer tuition for billed services not yet performed totaled \$3,152,073 at June 30, 2020 and consists primarily of amounts related to 2020 summer sessions. This amount will be recognized as revenue in fiscal 2021 as academic services are provided. In 2019, the University's deferred summer tuition consisted only of billed services not yet performed of \$3,032,823. This amount was recognized in full as revenue in 2020.

Student deposits and prepayments totaled \$1,318,465 at June 30, 2020 and represents deposits for tuition, fees and room and board and trips from currently enrolled students for the 2020-21 academic year and these will be recognized as revenue in fiscal 2021 as the performance obligation is satisfied. At June 30, 2019, the University's student deposits and prepayments were \$465,891. This amount was recognized in full as revenue in 2020.

### Tuition and Fees, Net

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

A discount to tuition and fees results when the University reduces the obligation of a student by granting financial aid. The following details the gross and net amounts of tuition and fees for the years ended June 30:

	2020	2019
Tuition and fees	\$ 69,007,170	\$ 67,136,327
Less scholarship allowances	(29,422,388)	(27,902,085)
Tuition and fees, net	<u>\$ 39,584,782</u>	<u>\$ 39,234,242</u>

### Auxiliary Enterprises, Net

Auxiliary enterprises are presented net of grants-in-aid, discounts, scholarships and fellowships.

A discount to auxiliary enterprises results when the University reduces the obligation of a student by granting financial aid. The following details the gross and net amounts of auxiliary enterprises for the years ended June 30:

	2020	2019
Auxiliary enterprises	\$ 12,811,305	\$ 15,714,348
Less scholarship allowances	(1,510,365)	(1,651,636)
Auxiliary enterprises, net	<u>\$ 11,300,940</u>	<u>\$ 14,062,712</u>

### Contributions and Grants

All contributions are considered to be available for use without restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. When a donor restriction expires, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a discount rate which approximates current market rates. Amortization of the discount is included in contribution revenue.

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

A portion of the University's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position.

**Nonoperating Activities**

For the purpose of the consolidated statements of activities, the University considers its changes in net assets without donor restrictions to be operational changes, except for changes related to gains or losses on investments, transfers to operations to fund depreciation, capital grants and changes in the valuation of split-interest agreements.

**Advertising Costs**

Advertising costs are expensed as incurred and amounted to approximately \$1,146,000 in 2020 and \$1,188,000 in 2019.

**Fund-Raising Costs**

Fund-raising costs are expensed as incurred and amounted to approximately \$1,112,000 in 2020 and \$1,225,000 in 2019 and are included in institutional support in the consolidated statements of activities.

**Cash Equivalents and Restricted Cash Equivalents**

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

**Functional Expenses**

The University allocates depreciation, interest and plant operations and maintenance costs to program and supporting activities. Depreciation is allocated based upon the purpose, program and location of each asset. Interest is allocated based upon the project or asset purpose of each loan. Plant operations and maintenance costs are allocated based upon square footages of all nonauxiliary facilities' primary uses.

**Income Taxes**

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

The University accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in fiscal 2020 and 2019.

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

**Title IV Requirements**

The University participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of ending accounts receivable as of June 30, 2020 and 2019 are dependent upon the University's continued participation in the Title IV programs.

Institutions participating in the Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in the regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2020 and 2019 and for the years then ended, the University's composite score exceeded 1.5.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Coronavirus Disease (COVID-19) and Emergency Relief Funding**

In January 2020, an outbreak of a new strain of the coronavirus disease, COVID-19, was identified. The World Health Organization declared COVID-19 a public health emergency on March 11, 2020. Currently, no vaccine has been made available to the public. In response, various governmental agencies have mandated stricter procedures to address the health and safety of both employees and patrons including, in certain cases, requiring the closure of operations. On March 16, 2020, following guidance from Pennsylvania Governor Tom Wolf, students, staff and faculty were transitioned to remote operations. For the fiscal year ended June 30, 2020, the COVID-19 outbreak has had an adverse impact on the University's operations. While this disruption is anticipated to be temporary, with full operations and services resuming in the near future, the exact timing of a return to normal is uncertain. Furthermore, the extent of the impact of COVID-19 on the University's operational and financial performance will depend on the developments of COVID-19, including the duration and spread of the outbreak, development of a vaccine, impact on students, employees and vendors, all of which are uncertain and cannot be reasonably predicted at the current time. The Board of Trustees and the University's management are monitoring the outbreak and potential financial impact, which are currently uncertain.



As a result of closing the majority of on campus operations in response to the Governor's order, in April 2020 the University issued refunds to students for room and board of \$1,497,687 and \$1,225,380, respectively. Refunds issued reduce the amount of auxiliary enterprises revenue recognized in the consolidated statement of activities for the year ended June 30, 2020. The University implemented a number of internal measures to address the negative financial impact of COVID-19. The measures included suspending the University 403B pension match and the freezing of all non-essential operating expenses.

As a response to COVID-19, the Coronavirus Aid, Relief and Economics Security (CARES) Act was established and provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given 1 calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant.

The University was awarded \$1,409,610 of HEERF funding. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief as of June 30, 2020. As of June 30, 2020, approximately \$603,000 of the student relief portion of the grant was expended and recognized as federal grants and contracts revenue and student aid expense and approximately \$61,000 of the institutional portion of the grant was expended and recognized as federal grants and contracts revenue and recorded to various functional expenses, as well as property and equipment capitalized.

**Reclassifications**

Certain 2019 amounts have been reclassified to conform to the 2020 reporting format.

**New Accounting Standard Adopted**

In November 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The University has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-18 has been applied retrospectively to all periods presented.

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

As a result of the adoption of ASU 2016-18, the consolidated statement of cash flows of the University as of June 30, 2019 was adjusted as follows:

	After Adoption of ASU No. 2016-18	As Originally Presented	Change
Proceeds from sales and maturities of investments	\$ 17,793,033	\$ 16,050,077	\$ 1,742,956
Change in cash and cash equivalents (includes restricted cash and cash equivalents after adoption)	1,852,786	109,830	1,742,956
Cash and cash equivalents, beginning (includes restricted cash and cash equivalents after adoption)	7,486,656	1,168,927	6,317,729
Cash and cash equivalents, ending (includes restricted cash and cash equivalents after adoption)	9,339,442	1,278,757	8,060,685

### New Accounting Standard Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 is intended to improve financial reporting about leasing transactions by requiring organizations that lease assets, referred to as "lessees", recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Since 2018, the FASB issued several amendments to Topic 842, which among other things, deferred the effective date of implementation for certain entities. Topic 842 (as amended) is effective for the University for the fiscal year beginning July 1, 2020. The University is currently assessing the effect that Topic 842 (as amended) will have on its consolidated financial statements.

## 2. Accounts Receivable, Student

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

Student accounts receivable consists of the following at June 30:

	2020	2019
Accounts receivable	\$ 2,186,299	\$ 2,405,226
Allowance for doubtful accounts	(345,100)	(238,400)
Net	\$ 1,841,199	\$ 2,166,826

**3. Unconditional Promises to Give**

Unconditional promises to give at June 30 are as follows:

	2020	2019
In one year or less	\$ 850,950	\$ 577,250
Between one year and five years	1,208,550	982,250
Allowance for doubtful collections	(197,948)	(148,327)
Discount	(80,017)	(76,226)
Unconditional promises to give, net	<u>\$ 1,781,535</u>	<u>\$ 1,334,947</u>

The net present value of these cash flows was determined by using risk adjusted discount rates between 1.17 percent and 2.73 percent to account for the time value of money for 2020 and 2019.

Management believes the University's allowance for doubtful collections at June 30, 2020 and 2019 is adequate based upon information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

**4. Fair Value Measurements, Investments and Other Financial Instruments**

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

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

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

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

# Saint Francis University

## Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The following tables present the financial instruments measured at fair value as of June 30, 2020 and 2019 by caption on the consolidated statements of financial position by the valuation hierarchy defined above:

	2020			
	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Cash and cash equivalents	\$ 3,281,261	\$ -	\$ -	\$ 3,281,261
Equity mutual funds:				
Large cap	6,278,550	-	-	6,278,550
International	6,749,287	-	-	6,749,287
Fixed income mutual funds:				
Core fixed income	3,922,423	-	-	3,922,423
Real return	2,246,532	-	-	2,246,532
Short term	4,387,764	-	-	4,387,764
International	2,367,667	-	-	2,367,667
Equity securities:				
Large-cap	11,279,175	-	-	11,279,175
Small-cap	4,833,667	-	-	4,833,667
Bonds:				
U.S. government	-	945,509	-	945,509
Asset backed	-	1,535,685	-	1,535,685
U.S. corporate	-	2,403,143	-	2,403,143
Total investments by valuation hierarchy	<u>\$ 45,346,326</u>	<u>\$ 4,884,337</u>	-	50,230,663
Alternative investments reported at net asset value				1,170,729
Cash surrender value of life insurance at contract value				136,168
Total investments				51,537,560
Beneficial interest in remainder trust			56,857	56,857
Total			<u>\$ 56,857</u>	<u>\$ 51,594,417</u>

The Level 3 reconciliation for the year ended June 30, 2020 is as follows:

	Beneficial Interest in Remainder Trust
Balance at June 30, 2019	\$ 56,485
Addition:	
Change in the value of split-interest agreements, restricted	372
Balance at June 30, 2020	<u>\$ 56,857</u>

# Saint Francis University

## Notes to Consolidated Financial Statements

June 30, 2020 and 2019

	2019			
	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Cash and cash equivalents	\$ 3,542,057	\$ -	\$ -	\$ 3,542,057
Equity mutual funds:				
Large cap	6,202,343	-	-	6,202,343
International	9,156,681	-	-	9,156,681
Fixed income mutual funds:				
Core fixed income	6,152,589	-	-	6,152,589
Real return	2,407,418	-	-	2,407,418
Short term	1,817,661	-	-	1,817,661
Equity securities:				
Large-cap	11,214,263	-	-	11,214,263
Small-cap	4,776,006	-	-	4,776,006
Bonds:				
U.S. government	-	1,556,308	-	1,556,308
Asset backed	-	2,160,135	-	2,160,135
U.S. corporate	-	2,453,163	-	2,453,163
Total investments by valuation hierarchy	<u>\$ 45,269,018</u>	<u>\$ 6,169,606</u>	-	51,438,624
Alternative investments reported at net asset value				221,250
Cash surrender value of life insurance at contract value				<u>133,431</u>
Total investments				51,793,305
Beneficial interest in remainder trust			<u>56,485</u>	<u>56,485</u>
Total			<u>\$ 56,485</u>	<u>\$ 51,849,790</u>

The Level 3 reconciliation for the year ended June 30, 2019 is as follows:

	Beneficial Interest in Remainder Trust
Balance at June 30, 2018	\$ 54,721
Addition:	
Change in the value of split-interest agreements, restricted	<u>1,764</u>
Balance at June 30, 2019	<u>\$ 56,485</u>

Change in the value of split interest agreements is reported as nonoperating activity in the consolidated statements of activities.

**Valuation Methodologies**

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2020 and 2019.

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

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

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

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

- Commonfund Capital Partners VII, L.P. is a 2019 vintage, private equity fund of funds focused on delivering long-term capital appreciation and risk-adjusted net returns through equity investments. Strategic focus areas include the following: venture capital: early stage information technology; private equity: growth equity, small/middle market and leveraged buyout; global private equity ex-US: European and other non-U.S. private equity and natural Resources: oil, natural gas, oilfield services, mining, power and other natural resources. The University has monies invested in this alternative investment for fiscal 2020 and 2019.
- LEM Multifamily Fund V, L.P. was formed in 2020 and has a term of eight years. The fund was established to generate current income and appreciation primarily through the origination of structured equity investments in multifamily real estate properties in select markets in the United States. The University has monies invested in this alternative investment for fiscal 2020.

The preceding tables include cash surrender value of life insurance in the amount of \$136,168 and \$133,431 at June 30, 2020 and 2019, respectively, which approximates estimated fair value and which is included in investments in the consolidated statements of financial position.

There are no redemption restrictions associated with the alternative investments.

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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

	2020	2019
Interest and dividend income	\$ 1,409,553	\$ 1,234,505
Investment fees	(461,582)	(326,433)
Subtotal, operating activities	947,971	908,072
Realized gains on sale of investments	218,342	1,637,540
Unrealized gains (losses) on investments	(378,026)	709,337
Subtotal, nonoperating activities	(159,684)	2,346,877
Net investment return	\$ 788,287	\$ 3,254,949

## 5. Student Loans Receivable

Student loans are made with funds advanced to the University by the federal government under the Federal Perkins Loan program (the Program). The Extension Act amended section 461 of the Higher Education Act to end the University's authority to make new Perkins Loans after June 30, 2018. The University is not required to assign the outstanding Perkins Loans to the Department or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program, however, the University may choose to liquidate at any time in the future. As of June 30, 2020, the University continues to service the Perkins Loan Program. In the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2020 and 2019 was \$892,771 and \$1,060,553, respectively.

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

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

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 6. Plant Assets, Net

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

	2020	2019
Land	\$ 380,284	\$ 380,284
Land improvements	11,210,375	11,210,375
Buildings	100,515,718	95,978,648
Furniture and equipment	17,361,908	15,919,896
Equipment held under capital leases	133,286	162,757
Vehicles	1,031,582	1,077,483
Library books	5,051,356	5,051,356
Collections	342,895	287,445
Construction in progress	1,156,273	3,493,195
Total	137,183,677	133,561,439
Accumulated depreciation	(66,527,121)	(62,693,158)
Plant assets, net	<u>\$ 70,656,556</u>	<u>\$ 70,868,281</u>

Depreciation expense was approximately \$4,721,000 in 2020 and \$4,637,000 in 2019.

#### 7. Lines of Credit

The University has a \$3,750,000 line of credit available from a bank which is due on demand. At June 30, 2020, no amounts were outstanding under this line of credit. Variable interest is paid monthly at prime rate (3.25 percent at June 30, 2020). The line of credit matures June 30, 2021 and is secured by all accounts and revenues of the University.

The University also has a \$3,750,000 unsecured line of credit available from a bank which is due on demand. There were no borrowings outstanding at June 30, 2020 and 2019. Variable interest is paid monthly at prime rate (3.25 percent at June 30, 2020).



## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 8. Bonds Payable

Bonds payable at June 30, 2020 and 2019 are comprised of the following issues:

	<u>2020</u>	<u>2019</u>
Revenue Bonds, Series 2012 LL2 (issued through Pennsylvania Higher Educational Facilities Authority), due in varying annual installments through November 2023; fixed interest rate ranging from 2% to 3.25%	\$ 3,260,000	\$ 4,035,000
Revenue Bonds, Series 2017 PP3 (issued through Cambria County General Financing Authority), due in varying annual installments beginning November 2024 through November 2041; fixed interest rate ranging from 2.25% to 5%	<u>21,620,000</u>	<u>21,620,000</u>
	24,880,000	25,655,000
Deferred financing costs	(274,230)	(295,460)
Unamortized bond premium	<u>714,438</u>	<u>746,428</u>
Total	<u>\$ 25,320,208</u>	<u>\$ 26,105,968</u>

The aggregate future principal payments on bonds payable at June 30, 2020 is as follows:

Years ending June 30:	
2021	\$ 795,000
2022	820,000
2023	845,000
2024	800,000
2025	755,000
Thereafter	<u>20,865,000</u>
Total	<u>\$ 24,880,000</u>

As required by the loan agreements, the University has established debt service reserve funds. These funds are reflected in the consolidated statements of financial position as of June 30, 2020 and 2019. These funds are invested in cash and cash equivalents and are subject to Federal Deposit Insurance Corporation limits.

In connection with the issuance of these bonds, the University has agreed to certain financial covenants with which it must comply, including a rate covenant. The University was in compliance with these financial covenants at June 30, 2020.

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 9. Notes Payable

Notes payable at June 30, 2020 and 2019 are comprised of the following:

	2020	2019
Note payable to Somerset Trust Company, payable in annual installments of \$193,309, including principal and interest at 2.39%; matured June 2020	\$ -	\$ 184,792
Note payable to Northwest Savings Bank, payable in monthly installments of \$8,555, including principal and interest at 1.7%, matured March 2020	-	76,444
Note payable to First National Bank, payable in monthly installments of \$4,315, including principal and interest at 2.73%; matures April 2022; secured by the computer equipment acquired with the borrowing	92,461	140,942
Note payable to Ameriserv Financial, payable in monthly installments of \$39,969, including principal and interest at 2.49%; matured July 2019	-	39,862
Note payable to 1st Summit Bank, payable in monthly installments of \$4,098, including principal and interest at 3.24%; matures May 2021; secured by the equipment acquired by the borrowing	44,352	91,259
Note payable to First National Bank, payable in monthly installments of \$736, including principal and interest at 4.23%; matures November 2023; secured by the equipment acquired by the borrowing	28,004	35,452
Note payable to Reliance Bank, payable in monthly installments of \$6,234, including principal and interest at 3.75% first 24 months, 4.75% next 24 months, 5.50% last 24 months; matures April 2025; unsecured	329,073	390,060
\$4,000,000 Note payable to Northwest Savings Bank, interest only payments until October 1, 2024 with principal and interest payments to follow for a term of 240 months thereafter, interest at 3.84%; matures October 2044; secured by the gross revenues of the University	4,000,000	2,795,000
\$725,000 Note payable to First National Bank, payable in monthly installments of \$9,995, including principal and interest at 4.19%; matures August 2026; secured by the equipment acquired by the borrowing	649,608	-
Total	\$ 5,143,498	\$ 3,753,811

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The aggregate future principal payments on notes payable at June 30, 2020, is as follows:

Years ending June 30:	
2021	\$ 259,316
2022	213,897
2023	178,933
2024	181,372
2025	263,521
Thereafter	<u>4,046,459</u>
Total	<u>\$ 5,143,498</u>

Interest expense on all long-term debt was approximately \$1,149,000 and \$1,077,000 in 2020 and 2019, respectively.

## 10. Net Assets

Net assets without donor restrictions are available for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net investment in plant	\$ 38,597,136	\$ 38,807,168
Board designated endowment	8,151,314	8,752,495
Undesignated	<u>(1,888,737)</u>	<u>(2,891,485)</u>
Total net assets without restrictions	<u>\$ 44,859,713</u>	<u>\$ 44,668,178</u>

Net assets with donor restrictions are available for the following purposes or in future periods as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accumulated income and gains on donor restricted endowments (Note 11)	\$ 14,108,727	\$ 14,960,530
Gifts available for scholarships and other academic purposes	4,789,054	3,846,206
Gifts for capital expenditures	1,336,891	897,239
Beneficial interest in remainder trust	16,424	18,556
Unconditional promises to give	1,639,614	1,064,362
Investments to be held in perpetuity by donor stipulation or by Pennsylvania law, the income from which is generally available for services and programs (Note 11)	27,788,549	27,072,725
Unconditional promises to give, endowment	141,921	270,584
Beneficial interest in remainder trusts	40,433	37,928
Restricted loan fund	<u>78,233</u>	<u>77,193</u>
Total net assets with restrictions	<u>\$ 49,939,846</u>	<u>\$ 48,245,323</u>

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors. Net assets released from restrictions consisted of the following as of June 30, 2020 and 2019, respectively:

	<u>2020</u>	<u>2019</u>
Satisfaction of program restrictions	\$ 2,679,077	\$ 2,037,348
Appropriation from donor endowment	<u>1,350,511</u>	<u>1,322,208</u>
Total	<u>\$ 4,029,588</u>	<u>\$ 3,359,556</u>

During the course of the year, net assets whose use by the University was subject to donor-imposed restrictions were fulfilled by actions of the University pursuant to those restrictions, the expiration of time, or the designation of law. These assets are shown in the consolidated statements of activities as a release of net assets from donor restrictions.

The Board of the University has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are designated for long-term investment (board designated endowment). The board designated endowment fund balance totaled \$8,151,314 and \$8,752,495 at June 30, 2020 and 2019, respectively.

## **11. Endowment Funds**

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

The Board of Trustees of the University has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classified as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in net assets with donor restrictions is classified as either net assets with donor restrictions or net assets without donor restrictions based on the existence of donor restrictions or by law.

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

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

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

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

Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of endowment return. The law allows not-for-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage by law must be between 2 percent and 7 percent. The University's policy for fiscal years 2020 and 2019 allowed for a payout of 5 percent of the three-year average balance as measured by the last six semi-annual balance points excluding the current period, which is based on market value net of investment management fees. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4.5 percent annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for fiscal years ended June 30:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2020 Total</b>
Endowment net assets, beginning of year	\$ 8,752,495	\$ 42,033,255	\$ 50,785,750
Investment return, net	108,130	498,708	606,838
Contributions	7,184	715,824	723,008
Appropriation of endowment assets for expenditure	(716,495)	(1,350,511)	(2,067,006)
Endowment net assets, end of year	<u>\$ 8,151,314</u>	<u>\$ 41,897,276</u>	<u>\$ 50,048,590</u>

# Saint Francis University

## Notes to Consolidated Financial Statements

June 30, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Endowment net assets, beginning of year	\$ 8,916,329	\$ 39,673,125	\$ 48,589,454
Investment return, net	560,086	2,544,359	3,104,445
Contributions	240	1,137,979	1,138,219
Appropriation of endowment assets for expenditure	(724,160)	(1,322,208)	(2,046,368)
Endowment net assets, end of year	<u>\$ 8,752,495</u>	<u>\$ 42,033,255</u>	<u>\$ 50,785,750</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law. At June 30, 2020 and 2019, there were no deficiencies reported in net assets with donor restrictions. Management has interpreted state law to permit prudent spending from underwater endowments.

	Without Donor Restrictions	With Donor Restrictions		Total Funds June 30, 2020
		Original Gift	Accumulated Gain (Losses)	
Board-designated funds	\$ 8,151,314	\$ -	\$ -	\$ 8,151,314
Donor-restricted funds	-	27,788,549	14,108,727	41,897,276
Total	<u>\$ 8,151,314</u>	<u>\$ 27,788,549</u>	<u>\$ 14,108,727</u>	<u>\$ 50,048,590</u>

	Without Donor Restrictions	With Donor Restrictions		Total Funds June 30, 2019
		Original Gift	Accumulated Gain (Losses)	
Board-designated funds	\$ 8,752,495	\$ -	\$ -	\$ 8,752,495
Donor-restricted funds	-	27,072,725	14,960,530	42,033,255
Total	<u>\$ 8,752,495</u>	<u>\$ 27,072,725</u>	<u>\$ 14,960,530</u>	<u>\$ 50,785,750</u>

## 12. Pension Plan

The University sponsors a defined contribution pension plan. Pension expense was approximately \$1,239,000 and \$1,983,000 in 2020 and 2019, respectively. The University match was suspended in April 2020 contributing to the significant decrease in expense compared to last year.

## 13. Franciscan Sponsorship

The University paid full salaries to the religious faculty and staff of approximately \$723,000 and \$774,000 during the years ended June 30, 2020 and 2019, respectively.

**14. Significant Group Concentration of Credit Risk**

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

**15. Contingencies**

The University participates in a Private College Consortium (the Consortium), a cooperative effort between educational institutions to purchase medical services for their collective group. The Consortium uses "cost plus funding", a fully insured product under Highmark Blue Cross Blue Shield (Highmark). Under this arrangement, the Consortium pays a predetermined premium based on Highmark's underwriting projections. At the close of each contract period, Highmark calculates an amount by which the Consortium has either overfunded or underfunded the trust fund created in connection with the arrangement. This calculation takes into consideration the premiums paid by the group, claims paid during the contract period, claims paid but not incurred during the contract period, claims incurred but not paid during the contract period and a reserve deposit. The Consortium limits its claims exposure through the purchase of stop loss insurance, which pays 100 percent of the sum of all actual claim payments for covered health benefits made to a covered individual in a policy year that exceed \$275,000, with an unlimited lifetime maximum. The University's share of the Consortium's trust fund surplus was approximately \$1,181,000 and \$1,175,000 at June 30, 2020 and 2019, respectively. The University's premium payments to the Consortium amounted to approximately \$4,250,000 in 2020 and \$4,568,000 in 2019. Although there is a potential refund due if the University elects to terminate participation in the Consortium, management has concluded that it would not be appropriate to record this potential refund in the consolidated financial statements due to the uncertainties surrounding its realization.

The University participates in the University and College Insurance Consortium (UCIC). UCIC is a self-insurance group providing workers' compensation coverage to member educational institutions. As part of the agreement with UCIC, the University is contingently liable for possible additional workers compensation premiums. As of June 30, 2020, management does not expect any significant contingencies.

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

## Saint Francis University

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 16. Liquidity and Availability of Resources

The following reflects the University's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year.

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 4,209,994	\$ 2,175,997
Accounts receivable and unconditional promises to give	4,477,735	4,348,638
Investments	51,537,560	51,793,305
Debt service reserve fund	2,801,321	2,816,779
Bond project fund	-	804,609
Financial assets at year end	63,026,610	61,939,328
Less those unavailable for general expenditures within one year due to:		
Unconditional promises to give an accounts receivable collectible beyond one year	(1,208,550)	(982,250)
Restricted gifts available for scholarships and other academic purposes	(4,789,054)	(3,846,206)
Restricted gifts for capital purposes	(1,336,891)	(897,239)
Board designated endowments	(8,151,314)	(8,752,495)
Perpetual and term endowments and accumulated earnings	(41,897,276)	(42,033,255)
Debt service reserve fund	(2,801,321)	(2,816,779)
Add back appropriations scheduled for next year from:		
Perpetual and term endowments and accumulated earnings	1,325,848	1,322,208
Investments in board designated endowments	716,495	724,160
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,884,547</u>	<u>\$ 4,657,472</u>

The University has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Including the \$8,151,314 and \$8,752,495 of board designated investments as of June 30, 2020 and 2019, respectively, which it could use, the University had \$13,035,861 and \$13,409,967 available for general expenditure and unanticipated liquidity needs as of June 30, 2020 and 2019, respectively. To help manage unanticipated liquidity needs, the University has two available lines of credit each in the amount of \$3,750,000 and \$3,750,000, which it could draw upon (Note 7).