

Saint Francis Ministries, Inc., and Subsidiaries

Salina, Kansas

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2020 and 2019



K C O E
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Saint Francis Ministries, Inc., and Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Saint Francis Ministries, Inc., and Subsidiaries
Salina, Kansas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Saint Francis Ministries, Inc., a Kansas not-for-profit organization, and its wholly-owned subsidiaries (collectively, Saint Francis), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019; 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 controls 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 did not audit the financial statements of HUD Projects No. 065-HD015-CA and No. 065-HD025-CA of Bridgeway Apartments, Inc., a wholly-owned subsidiary, whose statements reflect total assets of \$938,529 and \$976,881 as of June 30, 2020 and 2019, respectively, and revenues of \$198,163 and \$188,408, respectively, for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Bridgeway Apartments, Inc., is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

(Continued)

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 auditors' 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 Saint Francis' preparation and 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 Saint Francis' 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Francis 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Emphasis of Matter

As discussed in note 25 to the consolidated financial statements, Saint Francis has had recurring losses from operations over the last four years. Management's evaluation of the events, conditions, and management's plans regarding those matters also, are described in note 25. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, on our consideration of Saint Francis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Saint Francis' internal control over financial reporting or on compliance. That report is an integral part of our audit performance with *Government Auditing Standards* in considering Saint Francis' internal control over financial reporting and compliance.

KCoe Jam, LLP

November 30, 2021
Salina, Kansas

FINANCIAL SECTION

Saint Francis Ministries, Inc., and Subsidiaries
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (note 2)	\$ 548,166	\$ 10,816
Accounts and contracts receivable - net (note 3)	17,927,000	14,691,863
Unconditional promises receivable (note 4)	-	122,191
Notes receivable - current	161,680	-
Prepaid expenses	1,092,601	640,617
Other current assets (note 2)	1,241,358	540,872
Total Current Assets	20,970,805	16,006,359
Property, Plant, and Equipment - Net (note 8)	13,854,443	12,595,569
Other Assets		
Notes receivable - net of current portion (note 5)	-	174,498
Investments (notes 6 and 7)	12,672,907	11,908,803
Beneficial interest in split-interest agreements and perpetual trusts (note 7)	233,853	245,854
Land - life estate (note 18)	489,400	489,400
Other assets	34,110	887
Total Other Assets	13,430,270	12,819,442
TOTAL ASSETS	\$ 48,255,518	\$ 41,421,370

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Continued)

June 30	2020	2019
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 9,413,333	\$ 9,853,577
Current maturities of notes payable	19,368	5,272
Current maturities of gift annuities payable (note 11)	4,066	2,375
Refundable advances	5,043,648	-
Accrued salaries, fringe benefits, and security deposits	5,879,530	4,361,393
Total Current Liabilities	20,359,945	14,222,617
Long-Term Obligations - Less Current Maturities		
Line of credit (note 10)	89,110	9,100,989
Paycheck Protection Program loan (note 10)	10,000,000	-
Gift annuities payable (note 11)	-	2,083
Refundable advances (note 23)	6,023,598	-
Deferred operating revenue	108	1,335,966
Life estate liability (notes 7 and 18)	44,466	74,457
Total Long-Term Obligations	16,157,282	10,513,495
Total Liabilities	36,517,227	24,736,112
Net Assets		
Without donor restrictions (note 12)	3,249,042	8,612,759
With donor restrictions (note 13)	8,489,249	8,072,499
Total Net Assets	11,738,291	16,685,258
TOTAL LIABILITIES AND NET ASSETS	\$ 48,255,518	\$ 41,421,370

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended June 30, 2020	Without Donor Restrictions	With Donor Restrictions Specific Purpose	Perpetuity	Total
CHANGES IN NET ASSETS FROM OPERATIONS				
Operating Revenues				
Net maintenance revenue (note 14)	\$ 156,232,550	-	-	\$ 156,232,550
Grant income	1,789,091	-	-	1,789,091
Total Operating Revenues	158,021,641	-	-	158,021,641
Operating Expenses				
Program services	137,314,647	-	-	137,314,647
Fundraising	1,151,327	-	-	1,151,327
Management and general	28,305,864	-	-	28,305,864
Total Operating Expenses	166,771,838	-	-	166,771,838
TOTAL CHANGES IN NET ASSETS FROM OPERATIONS	(8,750,197)	-	-	(8,750,197)
NONOPERATING CHANGES				
Gifts and Bequests				
Contributions	739,598	324,978	-	1,064,576
In-kind contribution - property	1,650,000	-	-	1,650,000
Legacies and bequests	355,208	-	-	355,208
Net assets released from restrictions	54,704	(54,704)	-	-
Total Gifts and Bequests	2,799,510	270,274	-	3,069,784
Other Income (Expense)				
Investment income	301,093	-	41	301,134
Gain on sale of assets - net	(63,187)	131,865	-	68,678
Change in value of investments - split-interest agreements and life estate (note 6)	(11,169)	29,417	(14,847)	3,401
Other income - net	360,233	-	-	360,233
Total Other Income (Expense)	586,970	161,282	(14,806)	733,446
TOTAL NONOPERATING CHANGES - NET	386,480	431,556	(14,806)	3,803,230
Total Change in Net Assets	(5,363,717)	431,556	(14,806)	(4,946,967)
Net Assets - Beginning of Year	8,612,759	4,812,663	3,259,836	16,685,258
Net Assets - End of Year	\$ 3,249,042	\$ 5,244,219	\$ 3,245,030	\$ 11,738,291

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES

(Continued)

Year Ended June 30, 2019	Without Donor Restrictions	With Donor Restrictions Specific Purpose	Perpetuity	Total
CHANGES IN NET ASSETS FROM OPERATIONS				
Operating Revenues				
Net maintenance revenue (note 14)	\$ 133,569,022	-	-	\$ 133,569,022
Grant income	1,350,439	-	-	1,350,439
Total Operating Revenues	134,919,461	-	-	134,919,461
Operating Expenses				
Program services	119,465,392	-	-	119,465,392
Fundraising	1,219,574	-	-	1,219,574
Management and general	22,642,054	-	-	22,642,054
Total Operating Expenses	143,327,020	-	-	143,327,020
TOTAL CHANGES IN NET ASSETS FROM OPERATIONS	(8,407,559)	-	-	(8,407,559)
NONOPERATING CHANGES				
Gifts and Bequests				
Contributions	388,731	250,029	-	638,760
Legacies and bequests	431,597	-	-	431,597
Net assets released from restrictions	119,132	(119,132)	-	-
Total Gifts and Bequests	939,460	130,897	-	1,070,357
Other Income (Expense)				
Investment income	87,302	-	4	87,306
Gain on sale of assets - net	1,309,458	-	-	1,309,458
Change in value of investments - split-interest agreements and life estate (note 6)	(280,977)	415,736	(1,143)	133,616
Other income - net	1,996,144	-	-	1,996,144
Total Other Income (Expense)	3,111,927	415,736	(1,139)	3,526,524
TOTAL NONOPERATING CHANGES - NET	4,644,867	546,633	(1,139)	4,596,881
Total Change in Net Assets	(4,356,172)	546,633	(1,139)	(3,810,678)
Net Assets - Beginning of Year	12,968,931	4,266,030	3,260,975	20,495,936
Net Assets - End of Year	\$ 8,612,759	\$ 4,812,663	\$ 3,259,836	\$ 16,685,258

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020	Program Services	Fund- raising	Management and General	Total
EXPENSES				
Salaries and Related Expenses				
Salaries and wages	\$ 49,136,954	625,171	\$ 11,512,168	61,274,293
Employee health and retirement benefits	6,523,440	125,577	1,610,055	8,259,072
Payroll taxes and unemployment compensation	3,642,530	69,859	798,852	4,511,241
Total Salaries and Related Expenses	59,302,924	820,607	13,921,075	74,044,606
Other Expenses				
Patient services	6,485,678	-	14,210	6,499,888
Program expenses	245,335	-	10,755	256,090
Office and communication expense	2,243,186	85,938	2,822,353	5,151,477
Advertising and direct mail	61,144	45	19,169	80,358
Transportation and vehicle expense	1,909,641	15,608	223,583	2,148,832
Staff development expense	257,100	9,945	227,994	495,039
Consultants	128,800	66,835	5,124,225	5,319,860
Contract services	62,152,698	8,701	585,658	62,747,057
Travel and public relations	1,142,491	109,896	1,357,587	2,609,974
Bad debts	230,269	-	593,502	823,771
Board of Directors	-	-	72,287	72,287
Accreditation fees	-	-	5,320	5,320
Occupancy	2,023,610	3,876	1,387,246	3,414,732
Insurance	808,270	4,685	517,945	1,330,900
Depreciation (note 8)	142,889	8,596	637,583	789,068
Interest	-	-	293,621	293,621
Miscellaneous	180,612	16,595	491,751	688,958
Total Other Expenses	78,011,723	330,720	14,384,789	92,727,232
TOTAL EXPENSES	\$ 137,314,647	\$ 1,151,327	\$ 28,305,864	\$ 166,771,838

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

(Continued)

Year Ended June 30, 2019	Program Services	Fund- raising	Management and General	Total
EXPENSES				
Salaries and Related Expenses				
Salaries and wages	\$ 41,028,842	658,804	8,976,044	50,663,690
Employee health and retirement benefits	6,306,734	126,724	1,391,206	7,824,664
Payroll taxes and unemployment compensation	3,065,094	36,097	606,648	3,707,839
Total Salaries and Related Expenses	50,400,670	821,625	10,973,898	62,196,193
Other Expenses				
Patient services	7,048,318	-	-	7,048,318
Program expenses	302,432	-	15,755	318,187
Office and communication expense	1,763,509	67,794	1,837,927	3,669,230
Advertising and direct mail	61,714	22,578	15,263	99,555
Transportation and vehicle expense	1,750,426	18,125	98,044	1,866,595
Staff development expense	223,606	20,020	1,060,432	1,304,058
Consultants	154,216	17,789	4,604,012	4,776,017
Contract services	52,354,982	12,282	475,426	52,842,690
Travel and public relations	1,949,389	185,851	1,199,986	3,335,226
Board of Directors	-	-	37,670	37,670
Accreditation fees	-	-	5,165	5,165
Occupancy	1,891,402	2,657	1,017,538	2,911,597
Insurance	917,429	8,074	224,559	1,150,062
Depreciation (note 8)	442,796	28,066	671,165	1,142,027
Interest	-	-	272,671	272,671
Miscellaneous	204,503	14,713	132,543	351,759
Total Other Expenses	69,064,722	397,949	11,668,156	81,130,827
TOTAL EXPENSES	\$ 119,465,392	\$ 1,219,574	\$ 22,642,054	\$ 143,327,020

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 162,728,799	\$ 132,461,205
Cash received from grants	1,531,013	1,200,867
Receipts of gifts and bequests	996,331	825,039
Interest and dividends received	299,347	14,740
Miscellaneous receipts (disbursements)	(98,812)	124,537
Cash paid to employees and suppliers	(163,044,646)	(140,208,783)
Interest paid	(293,621)	(119,584)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$18,411	(5,701,979)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(997,573)	(796,306)
Proceeds from sale of property and equipment	699,104	983,690
Purchase of investments	(7,652,172)	(25,453,624)
Proceeds from sales and maturities of investments	7,024,710	23,975,628
Proceeds from surrender of annuity contracts	-	1,092,867
Proceeds from sale of oil interests	-	1,910,000
Advances on notes receivable	(429,231)	(75,693)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$55,162	1,636,562
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of annuity obligations	(392)	(2,512)
Payment on accounts payable for property and equipment	(1,230,899)	-
Payments on long-term obligations	(5,272)	(14,095)
Proceeds from long-term obligations	10,019,367	-
Net proceeds (payments) on line of credit	(9,011,879)	3,763,257
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$29,075	3,746,650
Net Change in Cash and Cash Equivalents	534,174	(318,767)
Cash and Cash Equivalents - Beginning of Year	80,393	399,160
Cash and Cash Equivalents - End of Year	\$ 614,567	\$ 80,393
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Reconciliation of Cash Flow to the Consolidated Statements Financial Position		
Cash and cash equivalents	\$ 548,166	\$ 10,816
Restricted cash included in other current assets	66,401	69,577
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	\$4,567	\$ 80,393

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

Years Ended June 30	2020	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ (4,946,967)	\$ (3,810,678)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Annuity interest reinvested	(1,787)	(73,405)
Depreciation	789,068	1,142,027
Loan forgiveness	442,049	18,943
(Gain) Loss on disposition of investments	(169,205)	(521,758)
(Gain) Loss on disposition of property and equipment	100,527	(787,700)
(Gain) Loss on sale of mineral interests	-	(1,910,000)
Property contributions	(1,650,000)	-
Changes in fair market value of:		
Investments	34,350	(129,995)
Split-interest agreements and perpetual trusts	14,847	1,143
Contributions receivable - gift annuities	(2,846)	(730)
Life estate liability	(29,991)	(4,033)
Changes in assets and liabilities:		
Accounts and contracts receivable	(3,235,137)	(783,088)
Unconditional promises receivable	122,191	-
Prepaid expenses	(451,984)	(161,943)
Other current assets	(703,661)	(110,341)
Other assets	(33,223)	-
Accounts payable	590,655	1,530,827
Accrued salaries, fringe benefits, and security deposits	1,518,137	223,481
Deferred operating revenue and refundable advances	9,731,388	(324,729)
Total Adjustments	7,065,378	(1,891,301)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 18,411	\$ (5,701,979)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property, plant, and equipment financed with accounts payable	\$ 200,000	\$ 1,230,899

The accompanying notes are an integral part of these consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Nature of Activities Saint Francis Ministries, Inc., and its wholly-owned subsidiaries (collectively, Saint Francis), are not-for-profit, child welfare organizations, with a mission of providing healing and support to children and families. Saint Francis currently operates in the states of Kansas, Oklahoma, Mississippi, Texas, and Arkansas. Under the terms of the bylaws and the operating agreements established by the parent and subsidiary corporations, the parent corporation, as sole member of the subsidiary corporations, elects the Board of Directors of each subsidiary corporation. Saint Francis Community Services Inc., changed their name to Saint Francis Ministries, Inc. on February 26, 2019.

Saint Francis Foundation, Inc. (Foundation), was organized on September 27, 2017. The Foundation is a public charity, was organized and is operated for the benefit of, and to support and carry out the purposes of Saint Francis Ministries, Inc. The initial directors of the Foundation were appointed by Saint Francis Ministries, Inc. There will be no less than three and no more than five directors of the Board of Directors. At all times, at least three of the directors shall be individuals serving as members of Saint Francis' Board of Directors. Because of the economic interest and control, the Foundation is included with Saint Francis Ministries, Inc., and its wholly-owned subsidiaries when referring to Saint Francis.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Saint Francis Ministries, Inc., and its wholly-owned subsidiaries: Saint Francis Community Services, Inc.; Saint Francis Community Residential Services, Inc.; Saint Francis Community Services in Mississippi, Inc.; Saint Francis Community Outreach Services, Inc.; Bridgeway Apartments, Saint Francis Community Services in Oklahoma, Inc.; Saint Francis Community Services in Nebraska, Inc.; Saint Francis Community Services in Arkansas, Inc.; Saint Francis Community Services in Tennessee, Inc.; Saint Francis Ministries in Nebraska, Inc.; Saint Francis Ministries and School, Inc.; and the accounts of Saint Francis Foundation, Inc. (collectively, Saint Francis). All significant intercompany transactions have been eliminated in the consolidation.

Saint Francis Ministries in Illinois, Inc., was incorporated as of June 30, 2019, but there was no activity in this corporation. Saint Francis Data Corporation was organized on October 7, 2019. Activities related to these entities, if any, were conducted in subsidiaries noted in the previous paragraph.

During the year ended June 30, 2020, the Saint Francis Community Services in Iowa, Inc., and Saint Francis Ministries in Kentucky, Inc., were established with Saint Francis Ministries, Inc. as a member. Subsequent to June 30, 2020, the corporations in Illinois, Iowa, and Kentucky were dissolved or will be dissolved.

Income Tax Exemption Saint Francis is exempt from federal income taxes under the provisions of Section 501(c)(3) of the *Internal Revenue Code* (IRC). Saint Francis and its wholly-owned subsidiaries are not private foundations. Saint Francis files a federal exempt organization income tax return. Tax returns of Saint Francis are subject to U.S. federal income tax examinations by tax authorities generally for a period of three years after the date of the tax returns.

The Foundation is a supporting organization within Section 509(a)(3) of the IRC and is supervised and controlled in connection with Saint Francis.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Consolidated Financial Statement Presentation Saint Francis reports information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions: Net assets in this category are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the Board of Directors.

Net Assets With Donor Restrictions: Net assets in this category are subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be modified or removed by passage of time. Other donor restrictions are perpetual in nature, whereby the donors have stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported in the statements of activities as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Basis of Accounting The records are maintained, and consolidated financial statements prepared on the accrual basis of accounting.

Use of Estimates The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, the reported revenues and expenses during the reporting period, and the disclosure of the consolidated financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents For purposes of the consolidated statements of cash flows, Saint Francis generally considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts and Contracts Receivable Accounts and contracts receivable are stated at unpaid balances net of allowances for uncollectible accounts and contractual adjustments. The allowance for uncollectible accounts is established through provisions charged against revenue and is maintained at a level believed adequate by management to absorb estimated bad debts based on historical experience and current economic conditions. Accounts and contracts receivable are considered past due based upon payment terms set forth at the date of the related service provided.

Notes Receivable Notes receivable are presented at the outstanding unpaid principal balance net of allowance for credit losses. The allowance for credit losses on the notes receivable is established through provisions for losses charged against revenue. The allowance for credit losses on notes receivable is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management believes that the notes receivable are fully collectible; therefore, no allowance for credit losses is recorded.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Property, Plant, Equipment, and Depreciation Property, plant, and equipment are recorded at cost if purchased or at fair market value on the date of the gift if donated. Saint Francis capitalizes property and equipment with a useful life greater than one year and cost in excess of \$5,000. Depreciation expense is determined using the straight-line method over the estimated useful life of each depreciable asset.

Software Development Costs Software development costs include costs to develop software to meet internal needs and cloud based applications used to deliver services. Saint Francis capitalizes development costs related to software applications once the preliminary project stage is complete, it is probable that the project will be completed, and the software will be used to perform the function intended.

Investments Investments in equities and mutual funds with readily determinable fair values are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are reported in the consolidated statements of activities as increases or decreases in net assets.

The unrealized gains and losses are allocated to net assets without donor restrictions unless specifically restricted by the donor. Short-term investments are stated at cost, which approximates fair value.

Beneficial Interest in Split-Interest Agreements and Perpetual Trusts Split-interest trusts are included in the consolidated statement of financial position. The assets are recorded at the present value of the expected future cash receipts from the trust assets.

Donors have established charitable gift annuities with a third party and named Saint Francis as beneficiary. The present value of the expected future cash receipts from these annuities is recorded as an asset.

Gift Annuities Payable Certain donors have entered into charitable gift annuities directly with Saint Francis. These annuities are accounted for using the actuarial method. Assets are recorded at fair market value at the date of the receipt. Liabilities for future annuity payments are recorded at present value, based upon Internal Revenue Service (IRS) life expectancy tables.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Fair Value Measurement Saint Francis determines the fair value of investments using three levels of input as defined by related accounting standards. The accounting standards define a fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy established by the standards prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1: Inputs to the valuation methodology are unadjusted, quoted prices for identical assets or liabilities in active markets that Saint Francis has access to.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be based on an observable market for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and do not have a significant effect on the fair value measurement.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Greater Salina Community Foundation: The account held at Greater Salina Community Foundation (the Community Foundation) is valued based upon information provided by the Community Foundation. Saint Francis considers the measure of this account to be a level 2 measurement within the fair value measurement hierarchy because the significant inputs are observable. (See note 9.)

Beneficial Interest in Perpetual Trusts: Saint Francis has beneficial income interests in perpetual trusts administered by third parties. The income earned from these trusts is available for organizational purposes as determined by donor restrictions. Beneficial interests are recognized in the consolidated financial statements at the fair market value of net assets held in the trusts, which approximates the present value of the future cash flows of the trusts using a discount rate of 2%. Saint Francis considers the measurement of its beneficial interest in the perpetual charitable trust to be a level 3 measurement within the fair value measurement hierarchy because, even though the measurement is based on the unadjusted fair value of trust assets reported by the trustee, Saint Francis will never receive those assets or have the ability to demand that the trustee to redeem them.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Beneficial Interest in Split-Interest Agreements: Saint Francis has a beneficial interest in charitable remainder trusts and charitable gift annuities administered by third parties. Charitable remainder trusts and gift annuities are valued using an income approach based on calculating the present value of the projected future distributions expected to be received. Saint Francis re-measures the fair value of these investments annually and adjusts the measurement inputs based on statements received from the trustee, market conditions, and other relevant data including life expectancy and a discount rate of 3.4%.

Land - Life Estate: The fair value for the life estate is determined by using information for similar property.

Exchange Traded Funds: These assets are valued at the net asset value reported on the active market on which the securities are traded. The valuation occurs throughout the day based on the market value of the underlying securities as the market supply and demand for the particular exchange trade fund.

Mutual Funds: Assets are valued at the daily closing price as reported by the fund. Mutual funds held by Saint Francis are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by Saint Francis are deemed to be actively traded.

Debt Securities: Assets are valued using pricing models maximizing the use of observable market data for similar securities.

Life Estate Liability: Saint Francis has a liability associated with a life estate. The value of the life estate is estimated based on donor life expectancy and a discount rate of 3.4%. (See note 10)

Operating Revenues, Other Income, and Expenses All non-contribution revenue/income is reported when earned/entitled and all expenses are reported when incurred in accordance with the accrual basis of accounting.

Financial Aid (Charity Care) Saint Francis provides care to youth and families who meet the criteria under its financial aid policy without charge or at amounts less than its established rates. Benefits provided by Saint Francis does not pursue collection of amounts determined to qualify as financial aid, they are reported as revenue and written off as financial aid in the same period.

Net Maintenance Revenue Net maintenance revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue is recorded when service are provided.

Contributions and Other Financial Support Contributions received are recorded as net assets with donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the reporting period are reported as net assets without donor restrictions.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Contributions received and unconditional promises receivable are measured at their fair value reported as an increase in net assets in the year in which there is sufficient evidence in the form of verifiable documentation that a promise was made and received, and when the amount of the contribution is ascertainable. Financial support includes legacies, bequests, and contributions from individuals. Saint Francis reports gifts of cash and other assets as restricted financial support if they are received in accordance with donor stipulations that limit the use of the donated assets, or if they are designated as financial support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the consolidated statements of activities as released from restrictions.

Saint Francis reports gifts of goods and equipment as net assets without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with donor restrictions that specify how the assets are to be used and gifts of cash or other assets that are used to acquire long-lived assets are reported as net assets with donor restrictions. Saint Francis reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service, unless the donor has stipulated how long those assets must be maintained.

Donated Services, Goods, and Facilities Donated professional services are reported in the consolidated statements of activities at their fair value. Professional services donated for the years ended June 30, 2020 and 2019, were \$58,412 and \$53,800, respectively. Materials and other assets donated are recorded and reflected in the accompanying consolidated financial statements at their fair values at the date of receipt.

Net Board Directed and Endowment Income The net endowment income and that income earned by the Board Directed/Quasi Endowment net assets without donor restrictions are reported as non-operating gains when the income is unrestricted. Income earned by the Endowment Fund for Provisions investments is recorded in addition to net assets with donor restrictions. Investment revenues are reported net of related expenses, such as custodial fees and investment advisor fees. Investment expenses totaled \$59,672 and \$67,630 for the years ended June 30, 2020 and 2019, respectively.

Functional Allocation of Expenses The costs of providing and supporting activities have been summarized on a functional basis in the consolidated statements of activities. The presentation of expenses by function and nature is included in the consolidated statements of functional expenses. Saint Francis charges direct expenses incurred for a specific function directly to the program or supporting service category. These costs can be specifically identified as being incurred for the activities of that program or supporting service. Other costs that are incurred by Saint Francis benefit more than one program or supporting service and are allocated on a reasonable basis that is consistent with the nature of the costs. Payroll and related costs are allocated based on estimates of time and effort; other costs include depreciation, janitorial services, certain occupancy and office costs, promotion and marketing, engineering, and computers and software are allocated based on estimates of usage or benefit by each function. Saint Francis re-evaluates its allocation method each year to determine if there are adjustments that are necessary to the allocation method, based on actual activities conducted during the year.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Expenses The subsidiary corporations have contracted with Saint Francis for the procurement of supporting services. These contract service fees paid by each corporation to the parent are eliminated in the consolidation.

Self-Insurance Saint Francis is self-insured with respect to group health insurance for eligible employees subject to plan guidelines with a specific maximum per participant. Saint Francis estimates and reports its liability for the risks covered by the program.

Advertising Costs Saint Francis expenses advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2020 and 2019, were \$80,358 and \$99,556, respectively.

New Accounting Pronouncement On July 1, 2019, Saint Francis adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities - Clarifying the Definition of a Contribution* and the Accounting Guidance for Contributions Received and Contributions Made. This ASU provides clarification on the determination of whether a resource participant in an exchange transaction and provides a framework for determining whether a resource recipient should account for a transaction as a contribution or as an exchange transaction. Saint Francis has determined that there are no significant changes affecting the timing of revenue recognition from the adoption. All contracts and grants are classified and reported as exchange transactions.

Reclassifications Certain reclassifications have been made to the prior-year consolidated financial statements to conform them to the current-year consolidated financial statements.

Evaluation of Subsequent Events Saint Francis has evaluated subsequent events through June 30, 2021, the date the consolidated financial statements were available to be issued.

2. RESTRICTED CASH, CASH EQUIVALENTS, AND OTHER CURRENT ASSETS

At June 30, 2020 and 2019, Saint Francis held cash and cash equivalents of \$540,294 and \$440,000, respectively. The board designated and temporarily donor restricted funds, respectively.

Under regulatory agreements with the U.S. Department of Housing and Urban Development (HUD), Saint Francis is required to set aside specified amounts for the Bridgeway Apartments, Inc. project for the replacement of property and other project expenditures approved by HUD. HUD-restricted funds are held in separate accounts and generally are not available for operating purposes. As of June 30, 2020 and 2019, HUD-restricted deposits of \$64,447 and \$65,082, respectively, were included in other current assets.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. ACCOUNTS AND CONTRACTS RECEIVABLE

Accounts and contracts receivable at June 30, 2020 and 2019, is net of the allowance for uncollectible accounts of \$671,358 and \$83,571, respectively.

4. UNCONDITIONAL PROMISES RECEIVABLE

Unconditional promises to give were as follows:

June 30	2020	2019
Unconditional promises to give due in:		
Less than one year	\$ -	\$ 122,191

For the year ended June 30, 2019, Saint Francis had unconditional promises receivable related to a capital campaign in the amount of \$1,172 and other unconditional promises to give totaling \$122,191.

There was no allowance for unconditional promises for the years ended June 30, 2020 and 2019. Saint Francis does not have any conditional promises as of June 30, 2020 and 2019.

5. NOTES RECEIVABLE

On June 16, 2014, Saint Francis loaned \$59,000 to a former member of management. The note is forgivable after the third year of employment at a rate of 1/5% an amount each year for the subsequent five years thereafter. Full forgiveness of the note would be achieved on year eight of employment. If employment ends at any time before year eight of employment, the remaining balance will be due in five equal annual installments beginning on the date of termination or cessation of employment and the same date each year thereafter. Interest will be applied to the outstanding amount not yet repaid at the prime rate as published by the *Wall Street Journal* at the time of termination. The balance of the loan was \$47,200 as of June 30, 2020 and 2019. The note immediately became due upon termination of the employee subsequent to June 30, 2020. Therefore, the entire balance is included in current assets as of June 30, 2020.

On November 18, 2015, Saint Francis loaned \$50,000 to a former member of management. The note is forgivable after the first year of employment at a rate of 1/7% an amount each year for the subsequent seven years thereafter. Full forgiveness of the note would be achieved on year eight of employment. If employment ends at any time before year eight of employment, the remaining balance will be due at the date of termination or cessation of employment. Interest will be applied to the outstanding amount not yet repaid at the *Wall Street Journal* prime rate at the time of signing. The balance of the loan was \$35,714 as of June 30, 2020 and 2019. The note immediately became due upon termination of the employee subsequent to June 30, 2020. Therefore, the entire balance is included in current assets as of June 30, 2020.

Saint Francis Ministries, Inc., and Subsidiaries

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On April 11, 2019, Saint Francis entered into a line of credit with Saint Francis El Salvador, S. (El Salvador) with the maximum amount of \$300,000 to be advanced. There is no guarantee. The term of the loan was for one year ending December 31, 2019, with automatic renewal each year. Interest has not been accrued on this loan. The balance at June 30, 2020 and 2019, was \$62,040 and \$75,694, respectively. Advances were made in excess of the original maximum amount authorized by the line of credit. Saint Francis is winding down the El Salvador operations and wrote off the balance of the line of credit.

Saint Francis has also provided various members of its staff loans for education and training with no guarantee or collateral, and do not accrue interest. The balance of these loans was \$15,800 at June 30, 2020 and 2019.

6. INVESTMENTS

The schedule below summarizes the investments of Saint Francis:

June 30		2020	2019
Exchange traded funds	\$	4,697,802	\$ 4,483,813
Mutual funds - index		2,796,823	2,553,584
Mutual fund - cash equivalent		185,478	755,820
Debt securities		4,933,187	4,059,237
Interest in net assets of recipient organization (note 9)		30,831	20,786
Other investments		28,786	35,563
Total Investments	\$	12,672,907	\$ 11,908,803

The change in value of investments, split-interest agreements, and life estate is computed as follows:

Years Ended June 30		2020	2019
Investments	\$	(14,589)	\$ 112,577
Annuities		-	17,418
Beneficial interest in split-interest agreements and perpetual trust		(12,001)	(413)
Life estate liability		29,991	4,034
Total Change in Value	\$	3,401	\$ 133,616

Saint Francis 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 could occur in the near term.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, Saint Francis' assets and liabilities measured at fair value:

June 30, 2020	Level 1	Level 2	Level 3	Total
ASSETS				
Other Holdings				
Exchange traded funds	\$ 4,697,802	\$ -	\$ -	\$ 4,697,802
Mutual funds	2,982,301	-	-	2,982,301
Debt securities	-	4,933,187	-	4,933,187
Interest in net assets of recipient organization	-	-	30,831	30,831
Beneficial interest in perpetual trusts	-	-	203,992	203,992
Beneficial interest in split-interest agreements	-	-	29,861	29,861
Land - life estate	-	489,400	-	489,400
Total Other Holdings	7,680,103	5,422,587	264,684	13,367,374
TOTAL ASSETS	\$ 7,680,103	\$ 5,422,587	\$ 264,684	\$ 13,367,374
LIABILITIES				
Life estate liability	\$ -	\$ -	\$ 44,466	\$ 44,466
June 30, 2019				
ASSETS				
Other Holdings				
Exchange traded funds	\$ 4,483,813	\$ -	\$ -	\$ 4,483,813
Mutual funds	3,309,404	-	-	3,309,404
Debt securities	-	4,059,237	-	4,059,237
Interest in net assets of recipient organization	-	-	20,786	20,786
Beneficial interest in perpetual trusts	-	-	218,839	218,839
Beneficial interest in split-interest agreements	-	-	27,015	27,015
Land - life estate	-	489,400	-	489,400
Total Other Holdings	7,793,217	4,548,637	266,640	12,608,494
TOTAL ASSETS	\$ 7,793,217	\$ 4,548,637	\$ 266,640	\$ 12,608,494
LIABILITIES				
Life estate liability	\$ -	\$ -	\$ 74,457	\$ 74,457

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The change in fair value of level 3 assets was as follows:

June 30		2020	2019
Balance - Beginning of Year	\$	266,640	1,326,993
Annuities surrendered		-	(1,077,358)
Total gains (losses) - realized and unrealized		(1,956)	17,005
Balance - End of Year	\$	264,684	266,640

8. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment was comprised of the following:

June 30		2020	2019
Buildings and leasehold improvements	\$	14,563,216	13,995,545
Land improvements		582,151	582,151
Furniture and equipment		3,647,681	3,430,032
Transportation equipment		4,772,300	5,571,769
Livestock and equipment		52,638	47,638
Subtotals		23,617,986	23,627,135
Deduct: Accumulated depreciation		13,702,179	14,096,220
Subtotals		9,915,807	9,530,915
Land		1,022,576	794,076
Software development costs in progress		2,759,742	2,266,276
Construction in progress		156,318	4,302
Property, Plant, and Equipment - Net	\$	13,854,443	12,595,569

Depreciation expense for the years ended June 30, 2020 and 2019, totaled \$789,068 and \$1,000,000 respectively.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. ASSETS TRANSFERRED TO A RECIPIENT ORGANIZATION

During the year ended May 31, 2001, Saint Francis permanently transferred \$10,000 to the Community Foundation for the establishment of a fund now known as the Saint Francis Community Services Fund. The Community Foundation may make annual distributions to Saint Francis of an amount up to, but not to exceed, 5% of the fund's net fair market value. The Community Foundation has variance power to invest the funds as required by the IRS. At June 30, 2020 and 2019, the fair value of this asset was \$20,786, respectively. (See note 6).

10. LINE OF CREDIT AND LONG-TERM OBLIGATIONS

Saint Francis Ministries, Inc., entered into a business loan agreement with a financial institution that provides for a line of credit in the amount of \$10,000,000 of which \$9,910,890 and \$5,272, respectively, were unused, respectively, at June 30, 2020 and 2019. Payments of all accrued unpaid interest on this line of credit are due monthly and bear an interest rate of 3.25% and 5.50% as of June 30, 2020 and 2019, respectively. The line of credit is secured by substantially all Saint Francis assets, including investments held by Saint Francis Foundation, Inc., and a \$5,000,000 real estate mortgage in the name of Saint Francis Community Services, Inc. The line of credit matures on June 29, 2022. As of June 30, 2020, the balance on the line of credit will be presented as a long-term obligation on the consolidated balance sheet for the purpose of functional expenses. As of November 30, 2021, there are no borrowings on the line of credit.

Saint Francis entered into note agreements for the purchase of vehicles. As of June 30, 2020 and 2019, the balance of the notes was \$19,368 and \$5,272, respectively. Saint Francis has pledged the vehicles as collateral on the notes.

On April 20, 2020, Saint Francis qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), from a qualified lender for an aggregate principal amount of \$10,000,000. The PPP loan bears interest at a fixed rate of 1.0% per annum, has the first 16 months of interest deferred, has a term of five years and is unsecured and guaranteed by the SBA.

Saint Francis incurred over \$10,000,000 in permitted payroll costs in the PPP covered period under the CARES Act and maintained headcount levels. Saint Francis applied for PPP loan forgiveness in August 2021 and received forgiveness from the SBA in October 2021. As a result, Saint Francis will recognize \$10,000,000 as PPP loan forgiveness in income for the year ended June 30, 2022.

PPP loan forgiveness is subject to audit by the SBA. The possible disallowances of expenses for forgiveness by the SBA cannot be determined until such time as an audit occurs. Therefore, a provision for potential disallowances has not been made in the accompanying consolidated financial statements. Management is of the opinion that disallowances, if any, will not be material to the accompanying consolidated financial statements.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The aggregate maturities of all long-term obligations following June 30, 2020, are presented

Years Ending June 30

2021	\$	19,368
2022		10,089,110
Total	\$	10,108,478

Interest expenses on the line of credit and long-term obligations for the years ended June 30, 2019, were \$293,621 and \$250,764, respectively.

11. GIFT ANNUITIES

Gift annuities were as follows:

June 30	Current	Portion Long-term	Total
2020	\$ 4,066	\$ -	\$ 4,066
2019	\$ 2,375	\$ 2,083	\$ 4,458

12. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions included the following:

Years Ended June 30	2020	2019
Board Directed		
Balance - beginning of year	\$ 7,767,077	\$ 6,429,022
Quasi-Endowment:		
Investment income	161,239	41,361
Transfer in per board authorization	99,625	27,035
Gain on sale of securities	113,277	747,004
Change in value of securities	(9,622)	69,946
Change in value of annuities	-	17,418
Contributions - trusts	355,208	431,492
Contributions - gift annuities	-	3,799
Total Board Directed	8,486,804	7,767,077
Unrestricted	(5,237,762)	845,682
Total Net Assets Without Donor Restrictions	\$ 3,249,042	\$ 8,612,759

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions included the following:

Year Ended June 30, 2020	Net Assets With Donor Restrictions		
	Specific Purpose In Perpetuity		Total
Net Assets With Donor Restrictions			
Restricted for a specific use:			
Program items	\$ 3,310,124	- \$	3,310,124
Special provisions endowment	-	475,578	475,578
Regular endowment	-	2,769,452	2,769,452
Total Restricted for a Specific Use	3,310,124	3,245,030	6,555,154
Restricted by the passage of time:			
Split-interest agreements	29,861	-	29,861
Land with life estate	444,934	-	444,934
HUD capital advance	1,459,300	-	1,459,300
Total Restricted by the Passage of Time	1,934,095	-	1,934,095
Total Net Assets With Donor Restrictions	\$ 5,244,219	\$ 3,245,030	\$ 8,489,249

Year Ended June 30, 2019	Net Assets With Donor Restrictions		
	Specific Purpose In Perpetuity		Total
Net Assets With Donor Restrictions			
Restricted for a specific use:			
Program items	\$ 2,911,405	- \$	2,911,405
Special provisions endowment	-	475,537	475,537
Regular endowment	-	2,784,299	2,784,299
Total Restricted for a Specific Use	2,911,405	3,259,836	6,171,241
Restricted by the passage of time:			
Split-interest agreements	27,015	-	27,015
Land with life estate	414,943	-	414,943
HUD capital advance	1,459,300	-	1,459,300
Total Restricted by the Passage of Time	1,901,258	-	1,901,258
Total Net Assets With Donor Restrictions	\$ 4,812,663	\$ 3,259,836	\$ 8,072,499

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Bridgeway Apartments, Inc., has agreements with the HUD whereby HUD made capital advances to Bridgeway Apartments, Inc., for Project I and Project II in the amounts of \$689,000 and \$1,311,000, respectively. The capital advances were used to finance the construction of an independent living complex for the developmentally disabled. Saint Francis is the sponsor organization. The advances bear no interest and are not required to be repaid so long as the housing remains available for very low-income persons with disabilities for at least 40 years in accordance with Section 807 of the National Housing Act. The capital advances are secured by real estate in Pearl River County, Mississippi. These advances are included in temporarily restricted net assets. If either of the projects were to discontinue maintenance of the projects for the specified resident category, a mortgage would be required and monthly payments would be required.

Changes in the components of net assets with permanent donor restrictions included the following:

	Special Provisions Endowment	Regular Endowment	Total
Balance - June 30, 2018	\$ 475,532	\$ 2,785,443	3,260,975
Change in value of perpetual trusts	-	(1,144)	(1,144)
Restricted income transferred to special provisions	5	-	5
Balance - June 30, 2019	475,537	2,784,299	3,259,836
Change in value of perpetual trusts	-	(14,847)	(14,847)
Restricted income transferred to special provisions	41	-	41
Balance - June 30, 2020	\$ 475,578	\$ 2,769,452	3,245,030

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. FINANCIAL AID AND NET MAINTENANCE REVENUE

Saint Francis has agreements with third-party payors that provide for payments to Saint Francis at amounts different from its established rates. In addition, Saint Francis maintains records to monitor the level of financial aid it provides. The following information measures the financial aid provided to clients and the discounts and contractual adjustments related to third-party payor agreements.

Years Ended June 30	2020	2019
Maintenance Revenue	\$ 163,301,945	\$ 150,581,986
Less:		
Discounts and contractual adjustments	3,271,300	3,849,007
Financial aid (charity care)	300	7,696
Cost settlement reserve (recovery)	-	(3,087,459)
Intercompany maintenance revenue	3,797,795	16,243,720
Subtotals	7,069,395	17,012,964
Net Maintenance Revenue	\$ 156,232,550	\$ 133,569,022

The subsidiary corporations operate residential facilities at Salina, Kansas and Picayune, Mississippi. Family Preservation, Reintegration/Foster Care/Adoption, and Family Foster Care services are provided in Kansas. Therapeutic and Bridge Foster Care services are also provided in Oklahoma. Supported Foster Care, Intensive Family Preservation, Family Support, and Visitation Supervision services are provided in Nebraska. Community based care is provided in Texas. Substantially all of the maintenance fees are from governmental agencies (third-party payors).

Saint Francis recognizes patient revenue associated with services provided to patients who have third-party, or other health insurance coverage on the basis of contractual rates for the services provided. For uninsured patients who do not qualify for charity care, Saint Francis recognizes revenue at its standard rates for services provided. A portion of Saint Francis' uninsured patients will be provided charity care for the services provided and Saint Francis provides charity care to patients who meet the eligibility requirements. The cost of providing this charity care was \$-0- and \$11,947 for the years ended June 30, 2020 and 2019, respectively.

15. ENDOWMENT ASSETS

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

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Saint Francis, over the long term, expects the current spending policy to allow the endowment to grow. This is consistent with Saint Francis' objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return. To meet that objective, Saint Francis has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Actual returns in any given year may vary from expectations. Investment risk is measured in terms of the total endowment fund, investment performance, and allocation between asset classes. Strategies are managed to avoid the fund to unacceptable levels of risk.

The Board of Directors of Saint Francis has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment fund, unless explicit donor stipulations to the contrary. As a result of this interpretation, Saint Francis 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 the donor-restricted endowment fund that is not classified in donor-restricted net assets in perpetuity, is classified as other donor-restricted net assets. These assets are appropriated for expenditure by Saint Francis in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Saint Francis 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 purposes of Saint Francis 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 Saint Francis; and
- (7) The investment policies of Saint Francis.

The endowment net assets composition by type was as follows:

	Net Assets Without Donor Restrictions		Net Assets With Donor Restrictions Specific Purpose In Perpetuity		Total
June 30, 2020:					
Donor-restricted	\$	-	\$	1,552,339	\$ 4,797,369
Board-directed quasi		8,486,804		-	8,486,804
Total Endowments	\$	8,486,804	\$	1,552,339	13,284,173
June 30, 2019:					
Donor-restricted	\$	-	\$	1,518,052	\$ 4,777,888
Board-directed quasi		7,767,077		-	7,767,077
Total Endowments	\$	7,767,077	\$	1,518,052	12,544,965

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(Continued)

Changes in endowment net assets were as follows:

June 30, 2020	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions Specific Purpose In Perpetuity	Total	
Endowment Net Assets - June 30, 2018	\$ 6,429,022	\$ 1,176,090	\$ 3,260,975	10,866,087
Investment income	41,361	6,448	19,561	67,370
Contributions	435,291	-	-	435,291
Transfer in per board authorization	27,035	-	(19,561)	7,474
Net appreciation - realized and unrealized	834,368	341,962	(1,143)	1,175,187
Restricted income transferred to special provisions	-	-	4	4
Appropriation of endowment assets for expenditure	-	(6,448)	-	(6,448)
Endowment Net Assets - June 30, 2019	7,767,077	1,518,052	3,259,836	12,544,965
Investment income	161,239	30,102	63,856	255,197
Contributions	355,208	-	-	355,208
Transfer in per board authorization	99,625	-	(63,856)	35,769
Net appreciation - realized and unrealized	103,655	34,287	(14,847)	123,095
Restricted income transferred to special provisions	-	-	41	41
Appropriation of endowment assets for expenditure	-	(30,102)	-	(30,102)
Endowment Net Assets - June 30, 2020	\$ 8,486,804	\$ 1,552,339	\$ 3,245,030	13,284,173

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. LEASES

Leases for building space have been entered into by Saint Francis. These leases have a provision that Saint Francis can terminate the leases under certain situations. Rent expenses on these leases totaled \$1,920,550 and \$1,656,906 for the years ended June 30, 2020 and 2019, respectively. The minimum lease payments required under these operating leases with original terms in excess of one year are as follows:

Years Ending June 30

2021	\$	1,944,155
2022		1,576,019
2023		1,346,682
2024		873,910
Total	\$	5,740,766

Saint Francis has also entered into leases for certain office equipment. All of these leases are classified as operating leases and have terms expiring annually. Rent expense on these equipment totaled \$131,703 and \$148,213 for the years ended June 30, 2020 and 2019, respectively.

During the year ended June 30, 2019, Saint Francis entered into a master-lease agreement with Enterprise Holdings, which was classified as an operating lease. As a result of this lease agreement, Enterprise Holdings now maintains all of Saint Francis' vehicles, including vehicles that are owned by Saint Francis. Total lease expense for this lease agreement was \$809,902 and \$255,600 for the years ended June 30, 2020 and 2019.

17. PENSION PLANS

Saint Francis has the following retirement plans:

Clergy Plan: Six employees who are Episcopal clergy are covered under a multi-employer pension plan with the Church Pension Fund that was established by the General Convention of the Episcopal Church. Under this defined benefit plan, the clergy accrue benefits that are determined by formula at the time of retirement, disability, or death. These benefits do not fluctuate due to market performance. Saint Francis contributed 8% of clergy's total assessable compensation. The plan also provides both life and disability benefit coverage. Reports are available upon request from the Church Pension Group. The total amounts contributed by Saint Francis for the years ended June 30, 2020 and 2019, were \$78,565 and \$91,842, respectively.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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401(k) Plan: Effective January 1, 2010, Saint Francis established the Saint Francis Community Services, Inc. 401(k) Plan. On October 10, 2019, the name of the plan was changed to Saint Francis Ministries, Inc. 401(k) Plan. Under the 401(k) plan, Saint Francis makes contributions both matching and discretionary, for employees ~~certainly~~ ^{certainly} and length of service requirements. The total amounts expensed by Saint Francis for the years ended June 30, 2018 and 2019, were \$1,366,250 and \$1,191,324, respectively.

18. CONTINGENCIES

Life Estate

During the fiscal year ended June 30, 2009, a donor established a life estate agreement naming Saint Francis as the beneficiary of the donor's farm land. Under the terms of the agreement, the donor continues to use the land as long as the donor is living. At the time of the donor's death, the land becomes unrestricted. The asset's market value of \$489,400 for the years ended June 30, 2018 and a corresponding liability of \$44,466 and \$74,457 for the years ended June 30, 2020 and 2019, have been recorded, respectively. The liability represents the value of the donor's right to use the land over the donor's life.

COVID-19

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted supply chains, and created significant uncertainty, volatility, and disruption across economic markets.

The COVID-19 pandemic remains an evolving situation. The extent of the impact of COVID-19 on Saint Francis' business financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which Saint Francis operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

Legal

Saint Francis is involved in litigation and other possible claims arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the management's opinion that the resolution of these matters will not have a material adverse effect on Saint Francis' consolidated financial position or the results of its consolidated operations.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

19. CONCENTRATION OF BUSINESS RISK

Total maintenance revenue for the years ended June 30, 2020 and 2019, was \$155,913,649 and \$135,649,287, respectively, from state agencies. Referrals and fees for services are received from state and social service agencies.

20. CONCENTRATIONS OF CREDIT RISK

Saint Francis has demand deposits, repurchase agreements, and money market funds on deposit with various financial institutions. Balances with certain financial institutions were in excess of the FDIC insurance limitation during the years ended June 30, 2020 and 2019.

21. CERTAIN SIGNIFICANT ESTIMATES

Significant estimates used in preparing these consolidated financial statements are described below.

Allocation of Functional Expenses: Functional expenses are charged to the specific purpose for which they are incurred when readily determinable and allocated proportionately to a multi-purpose function.

Deferred Operating Revenue: Saint Francis receives payments in the first 90 days for each referral under the Family Preservation contracts. Saint Francis is generally responsible for providing 12 months of services for each referral. Saint Francis estimates the time that services will be provided, and the revenue is recognized over this time period and is reported as deferred operating revenue in the consolidated statement of financial position. The Family Preservation contracts ended in the year ended June 30, 2020.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts was determined by information available to management and past history. It is at least reasonably possible that the significant estimates used will change within the next year.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

22. BRIDGEWAY APARTMENTS, INC.

Bridgeway Apartments, Inc., located in Picayune, Mississippi, operates a 13-unit apartment project (Phase I) and a 12-unit apartment project (Phase II), collectively known as the Projects, for people who are intellectually and developmentally disabled. The Projects are operated under Section 811 of the National Housing Act and regulated by the HUD with respect to rental charges and operating expenses. Under the regulatory agreement, the projects may not increase rents charged to tenants without HUD's approval. Use of the residual receipts account is contingent upon HUD's prior written approval.

The Projects' operations are concentrated in the multi-family rental estate. In addition, the Projects operate in a heavily regulated environment. The operations of the Projects are subject to various administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

23. COST SETTLEMENTS AND REFUNDABLE ADVANCES

For the year ended June 30, 2019, Saint Francis received an additional \$4,660,193 from DCF included in the operating revenues for the year ended June 30, 2019. A total of \$2,000,000 attributable to the year ended June 30, 2018, and \$2,000,000 was attributable to the year ended June 30, 2019.

In January 2021, renegotiations took place with the Nebraska Department of Health and Senior Services (NDHHS) regarding the case management services contract in the Eastern Service Area. A new agreement was signed with the NDHHS, which included \$10,563,174 of recoupment of funds for the year ended June 30, 2020. These funds were included in the consolidated statements of activities for the year ended June 30, 2020. Conversations continue with the NDHHS regarding these obligations.

In February and March 2021, Saint Francis provided the DCF with a three-year business plan, which includes \$9,429,529 related to unspent funds for Case Management Services grants in Kansas.

A significant portion of Saint Francis revenue is derived from cost reimbursement agreements with various state agencies. Amounts received are recognized as revenue when Saint Francis has provided the services in compliance with specific contract provisions. Amounts received prior to the start of services are reported as refundable advances in the statements of financial position. For the year ended June 30, 2020, advances at June 30, 2020, include \$5,043,648 which was returned to the DCF in February 2021. In addition, \$6,023,598 represents unspent funds attributable to Kansas agreements for the year ended June 30, 2020.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

24. LIQUIDITY AND AVAILABILITY OF ASSETS

The following represents the financial assets of Saint Francis as of June 30, 2020, reduced by amounts not available for general use due to donor-imposed restrictions within one year of the statement of financial position date.

Year Ended June 30, 2020

Financial Assets - End of Year

Cash and cash equivalents	\$	548,166
Accounts and contracts receivable - net		17,927,000
Notes receivable		161,680
Other current assets		1,241,358
Investments		12,672,907
Beneficial interest in split-interest agreements and perpetual trusts		233,853

Total Financial Assets - End of Year 32,784,964

**Amounts Not Available to Be Used for General Purposes
Within One Year**

Investments	(12,672,907)
Beneficial interest in split-interest agreements and perpetual trusts	(233,853)

Total Amounts Not Available to Be Used Within One Year (12,906,760)

**Financial Assets Available to Meet Cash Needs
For General Expenditures Within One Year**

\$ 19,878,204

Saint Francis manages its liquidity and reserves following three guiding principles: operating in a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund operating needs, and maintaining sufficient reserves to provide reasonable assurance of financial stability. The financial assets available to meet general expenditures over the next 12 months are approximately one month of expected expenditures. In addition, Saint Francis has a balance sheet line of credit. See note 25 for going concern and subsequent events information.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

25. GOING CONCERN AND SUBSEQUENT EVENTS

Saint Francis has sustained recurring losses and negative cash flows from operations for four consecutive years. Subsequent to the fiscal year ended June 30, 2020, there was a significant turnover in management, including four key positions: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and the General Counsel. New management developed a comprehensive action plan to alleviate the going concern doubt of a going concern and began taking steps towards stabilization in December 2020.

The goal of the comprehensive action plan is to protect the service pillars of Saint Francis: Personal Care, Out-of-Home Services, and Residential Services. The plan consists of the following phases and the expected completion dates are as follows:

	Expected Completion Date
Phase I - Stabilization	June 2022
Phase II - Internal Investment	June 2024
Phase III - Moderated Growth	June 2026

Phase I includes steps to decrease non-program expenses, increase cash flow, and improve the financial operating position of Saint Francis. Subsequent to June 30, 2020, Saint Francis has implemented numerous operational adjustments that have improved the financial results of the organization.

In December 2020, management had non-program personnel changes and staff reductions; implemented spending controls; evaluated all vendor relationships, terminating numerous; pursued program opportunities; and eliminated programs that were not supported by funding or did not align with core services. Key financial policies were reviewed and changes made as deemed necessary to strengthen the overall controls of Saint Francis. Education to all employees regarding the importance of controls and documentation were also completed.

In January 2021, renegotiations took place with the NDHHS regarding the case management contract in the Eastern Service Area and a new agreement was signed with the NDHHS, which included \$10,563,174 of recouped losses for the year ended June 30, 2020. These funds were included as revenue in the consolidated statements of activities for the year ended June 30, 2020. Conversations continue with the NDHHS regarding these operations.

In February and March 2021, Saint Francis provided DCF with a three-year business plan, and \$9,429,529 related to unspent funds for all three Case Management Services grants. Plans will be in place to reevaluate the monthly cost reports, rework discrepancies, and keep DCF well informed of change and updates.

In April and May 2021, key management staff participated in budget development. They worked alongside the financial services department to create detailed budget workbooks, state revenue models. Thirty-nine program budgets and one organization-wide operating budget were presented to the finance committee and then the Board of Directors for review and approval in June 2021.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In June 2021, significant changes were made in the Information Technology (IT) department. Inc., contract was terminated and all IT services were brought back in house. Additionally, in June 2021, the \$10,000,000 business line of credit was renewed for a 12-month term.

In July 2021, a new accounting system was implemented. The new accounting system provides advancements in financial visibility, monthly reporting, paperless workflows, streamlined data, and is cloud-based. All organizational leaders can access the accounting system at any time to view financial results against budget and approve purchasing transactions.

In October 2021, the \$10,000,000 PPP was forgiven by the SBA.

Based upon the steps noted in the previous paragraphs, Saint Francis management has made progress on their goals of stabilizing cash flow, creating a reinvestment and sustainability plan for Kansas operations, creating and utilizing operational budgets with input from stakeholders, liquidating idle assets, increasing board oversight and board education, and increasing staff training for key policies and procedures.

Phase II includes maintaining favorable cash flow, continuing with budgets and budget versus actual reporting, evaluating service delivery, and monitoring internal investment opportunities.

Phase III includes the same steps as Phase II as well as identifying growth opportunities that would be in the best interest of Saint Francis and its mission.

Saint Francis Community and Family Services, Inc. was awarded a Reintegration/Foster Care grant (case management services) for three catchment areas in Kansas for the period from October 1, 2019, through June 30, 2023. There are two additional two-year renewals by written agreements of the parties. Under the terms of the grant, Saint Francis Community and Family Services, Inc., will not receive payment for any expenditure made or incurred prior to October 1, 2019, or after June 30, 2023. The grant for Catchment Area 1 (West Region of Kansas) totaled \$71,581,377. The grant for Catchment Area 2 (West Region of Kansas) totaled \$89,357,580. The grant for Catchment Area 7 (Wichita Region of Kansas) totaled \$82,381,162. Indirect costs are not to exceed ten percent of the total grant amount. Grant funds are paid for services rendered.

Saint Francis Community Services in Texas, Inc. was awarded a contract by the Texas Department of Family and Protective Services (TDFPS) to provide Community Based Care from July 1, 2019, through June 30, 2024. The TDFPS can renew the contract for one additional sixty-month term. The contract contains various funding categories.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

On July 2, 2019, Saint Francis Community Services in Nebraska, Inc., was awarded a contract by the State of Nebraska to supply and deliver Full Service Case Management to the State of Nebraska through June 30, 2024. The contract has been subsequently amended through February 28, 2023. The current contract is approximately \$24,000,000 for administrative costs in the year ended January 31, 2023 and \$27,000,000 for administrative costs in the year ended February 23, 2023. The contract also includes cost settlement provisions and allows program cost reimbursements.

Based upon the above plans, management believes that these actions will enable Saint Francis to continue as a going concern through November 2022.

26. ACQUISITION

On September 26, 2019, Saint Francis entered into an agreement with St. John's Military School, Inc., a Kansas corporation. The name of the corporation was restated to Saint Francis Ministries and School, Inc., a not-for-profit organization. Saint Francis Ministries, Inc., became the sole member of this corporation. In accordance with FASB Accounting Standards Codification 805-10-25-1, the transaction has been accounted for as an asset acquisition. Net assets totaling \$1,850,000, the majority being real estate in Salina, Kansas, recorded at fair value, are the significant assets held in the corporation. The value of this property since the date of acquisition is reflected in the statement of activities of Saint Francis Ministries and School, Inc., for the year ended June 30, 2020.

27. NEW ACCOUNTING PRONOUNCEMENTS

In May of 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The purpose of the new standard was to eliminate industry specific revenue recognition. The ASU provides a framework for addressing revenue recognition issues comprehensively and is intended to be simpler and less complex than current guidance. The core principle is that entities should recognize revenue when they transfer or promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. Saint Francis is required to change aspects of their consolidated financial statement presentation and disclosures on judgments used in determining transaction pricing. Saint Francis' management has not yet determined the impact that implementation of this update will have on the consolidated financial statements. The standard is effective for periods beginning after December 15, 2019, and will be applied retrospectively.

Saint Francis Ministries, Inc., and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial position and disclosing key information about leasing arrangements. Previous to this ASU, entities were allowed to exclude from the consolidated statement of financial position leases classified as operating leases. This ASU required lessees to recognize lease liabilities arising from leases on the consolidated statement of financial position. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition on the consolidated statement of activities. The new standard is effective for Saint Francis for the year ending June 30, 2021. July 2018, FASB issued ASU 2018-11, *Leases: Targeted Improvements*, which amends ASU 2016-02 to provide an entity with a transition method for implementing the standard. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of net assets in the consolidated statement of financial position at the adoption date. Saint Francis' management has not yet determined the impact, if any, that implementation of this amendment will have on the consolidated financial statements.