

PALM BEACH ATLANTIC UNIVERSITY, INC.
AUDIT REPORT PACKAGE
FOR THE YEAR ENDED JUNE 30, 2018

PALM BEACH ATLANTIC UNIVERSITY, INC.

AUDIT REPORT PACKAGE

Table of Contents

	<u>Page</u>
Independent auditor's report	1–2
Financial statements:	
Statements of financial position	3
Statements of activities	4
Statements of cash flows	5
Notes to financial statements	6–24
Schedule of expenditures of federal awards and state financial assistance	25
Notes to schedule of expenditures of federal awards and state financial assistance	26–28
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	29–30
Independent auditor's report on compliance with requirements for each major federal program and state financial assistance project and on internal control over compliance required by the Uniform Guidance and Chapter 10.650, <i>Rules of the Florida Auditor General</i>	31–32
Schedule of findings and questioned costs – major federal programs and state financial assistance projects	33–34
Summary schedule of prior audit findings and questioned costs for major federal programs and state financial assistance projects	35
Independent auditor's management letter in accordance with the State of Florida Rules of the Auditor General	36
Summary of population, items tested, and findings for Florida student financial assistance projects	37

Independent Auditor's Report

Board of Trustees
Palm Beach Atlantic University, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Palm Beach Atlantic University, Inc. (the University) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palm Beach Atlantic University, Inc. as of June 30, 2018 and 2017, 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.



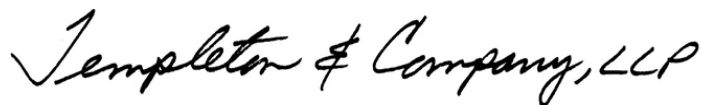
Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Palm Beach Atlantic University, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and Chapter 10.650, *Rules of the Florida Auditor General*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018, on our consideration of the University's 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



West Palm Beach, Florida
October 26, 2018

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

(Rounded to the nearest thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 18,069	\$ 21,256
Portfolio investments	55,033	51,768
Tuition and other receivables, net	1,089	1,003
Unconditional promises to give, net	2,503	3,833
Contribution receivable from foundation	24,000	24,000
Contributions receivable from charitable trusts	1,282	1,238
Prepaid expenses and other assets	2,660	3,014
Non-marketable investments	2,797	2,677
Property, plant, and equipment, net	114,200	110,087
Total assets	\$ 221,633	\$ 218,876
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 815	\$ 1,044
Construction costs payable	90	1,672
Accrued expenses	3,344	3,482
Deferred tuition revenue	1,540	1,572
Deposits and other liabilities	624	1,189
Advances from federal government for student loans	433	433
Annuities payable	278	331
Cash flow hedge value	1,330	2,198
Long-term debt, net	38,597	38,987
Total liabilities	47,051	50,908
Net assets:		
Unrestricted	97,196	93,251
Temporarily restricted	53,506	53,014
Permanently restricted	23,880	21,703
Total net assets	174,582	167,968
Total liabilities and net assets	\$ 221,633	\$ 218,876

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017
(Rounded to the nearest thousands)

	For the Year Ended June 30, 2018				For the Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:								
Revenues and other support:								
Tuition and fees	\$ 86,211	\$ -	\$ -	\$ 86,211	\$ 83,424	\$ -	\$ -	\$ 83,424
Less scholarship allowances:								
Sponsored scholarships	(2,931)	-	-	(2,931)	(3,398)	-	-	(3,398)
Un-sponsored scholarships	(25,631)	-	-	(25,631)	(24,359)	-	-	(24,359)
Athletic scholarships	(2,390)	-	-	(2,390)	(2,247)	-	-	(2,247)
Tuition and fees, net	55,259	-	-	55,259	53,420	-	-	53,420
Auxiliary services	12,141	-	-	12,141	11,732	-	-	11,732
Miscellaneous revenue	839	-	-	839	832	-	-	832
Private gifts and grants	3,354	-	-	3,354	571	-	-	571
Net investment return	1,229	-	-	1,229	1,478	-	-	1,478
Net assets released from restrictions	6,882	(6,882)	-	-	10,947	(10,947)	-	-
Total revenues and other support	79,704	(6,882)	-	72,822	78,980	(10,947)	-	68,033
Expenses:								
Educational and general:								
Instruction	28,090	-	-	28,090	28,820	-	-	28,820
Academic support	3,849	-	-	3,849	3,663	-	-	3,663
Student services	11,751	-	-	11,751	10,908	-	-	10,908
General administrative and institutional support	20,352	-	-	20,352	19,343	-	-	19,343
Total educational and general	64,042	-	-	64,042	62,734	-	-	62,734
Auxiliary enterprises	12,585	-	-	12,585	12,257	-	-	12,257
Total expenses	76,627	-	-	76,627	74,991	-	-	74,991
Increase (decrease) in net assets								
from operating activities	3,077	(6,882)	-	(3,805)	3,989	(10,947)	-	(6,958)
Non-operating:								
Private gifts and grants	-	3,141	2,177	5,318	-	4,884	1,188	6,072
Net investment return	-	2,836	-	2,836	-	3,867	-	3,867
Change in value of split-interest trusts, net	-	1,397	-	1,397	-	1,342	-	1,342
Unrealized cash flow hedge gain	868	-	-	868	1,151	-	-	1,151
Increase in net assets from non-operating activities	868	7,374	2,177	10,419	1,151	10,093	1,188	12,432
Increase (decrease) in net assets	3,945	492	2,177	6,614	5,140	(854)	1,188	5,474
Net assets - beginning of year	93,251	53,014	21,703	167,968	88,111	53,868	20,515	162,494
Net assets - end of year	\$ 97,196	\$ 53,506	\$ 23,880	\$ 174,582	\$ 93,251	\$ 53,014	\$ 21,703	\$ 167,968

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017
(Rounded to the nearest thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 6,614	\$ 5,474
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on portfolio investments	(1,440)	(3,107)
Unrealized gain on non-marketable investments	(140)	(9)
Unrealized cash flow hedge gain	(868)	(1,151)
Amortization of loan costs	10	10
Depreciation	6,807	6,629
Contributions received in-kind	(2,998)	-
Contributions received restricted for long-term investment	(2,331)	(3,892)
Changes in operating assets and liabilities:		
Tuition and other receivables	(86)	83
Unconditional promises to give, net	1,330	784
Contributions receivable from charitable trusts	(44)	20
Prepaid expenses and other assets	354	(194)
Accounts payable	(229)	338
Accrued expenses	(138)	4
Deferred tuition revenue and other support	(597)	310
Annuities payable	(53)	91
Net cash provided by operating activities	6,191	5,390
Cash flows from investing activities:		
Construction costs paid	(4,573)	(7,691)
Purchases of property, plant, and equipment	(4,931)	(3,266)
Distributions received from non-marketable investments	20	169
Purchases of portfolio investments, net	(1,825)	(1,822)
Net cash used in investing activities	(11,309)	(12,610)
Cash flows from financing activities:		
Proceeds from long-term debt	1,500	-
Payments on long-term debt	(1,900)	(1,888)
Contributions received restricted for long-term investment	2,331	3,892
Net cash provided by financing activities	1,931	2,004
Decrease in cash and cash equivalents	(3,187)	(5,216)
Cash and cash equivalents - beginning of year	21,256	26,472
Cash and cash equivalents - end of year	\$ 18,069	\$ 21,256

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies

General

Founded in 1968, Palm Beach Atlantic University, Inc. (the University) is a non-for-profit, private, Christian, interdenominational, four-year, University with its main campus in West Palm Beach, Florida comprised of a 22.7 acre downtown campus, a 77.6 acre athletic campus and a satellite campus in Orlando, Florida. The University provides higher education in over 50 academic disciplines to both full-time and part-time traditional and non-traditional undergraduate students. The University also offers multiple masters and continuing education programs as well as Doctor of Pharmacy and Doctor of Nursing Practice programs.

Basis of presentation

The University's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The University classifies net assets and revenue, expenses, gains and losses as temporarily restricted, permanently restricted, or unrestricted based on the existence or absence, respectively, of donor-imposed restrictions under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Accordingly, net assets of the University and changes therein are classified as follows:

Unrestricted net assets – Net assets available for the support of the University's operations. The unrestricted net assets may be used at the discretion of the University and are free from donor restriction.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the earnings on related investments for general or specific purposes.

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. The expirations of temporary donor-imposed restrictions on net assets are reported as reclassifications to unrestricted net assets in the period in which the restriction expires. A restriction expires when the stipulated time period has elapsed and/or the stipulated purpose has been fulfilled.

Unconditional promises to give (pledges) are recorded as contributions at fair value at the date the promises are received. Contributions from charitable trusts, for which the University is the trustee, are recorded at the fair value of the assets received, and a liability is recorded for the present value of the expected payments to be made to the beneficiaries (annuities payable). Grants from foundations or charitable trusts for which the University does not serve as trustee are recorded as contributions receivable at the present value of the expected cash to be received from the grant. The University distinguishes between promises received for each net asset category in accordance with donor restrictions, if any.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

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 financial statements and the reported amounts of revenues and expenses during the reporting period. The University considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements, including valuation of receivables, including student accounts, pledges and other contribution agreements and certain investments. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from those estimates.

Tuition and fees

Revenues from tuition and fees are reported in the fiscal year in which educational programs are predominantly conducted. Deferred tuition revenue represents tuition and fees collected in advance of the academic term and a proration of summer undergraduate and graduate programs.

The University offers qualified applicants assistance in the form of financial aid. Financial aid is provided to students in the form of sponsored and unsponsored scholarships, direct grants and loans from the state and federal government, as well as employment during the academic year. In addition, for the years ended June 30, 2018 and 2017, the University granted tuition reductions to faculty and staff as well as their spouses and children in the amount of \$1,700 and \$1,500, respectively, which are recorded in general administrative and institutional support expense in the accompanying statements of activities.

Auxiliary enterprises

Auxiliary enterprise operations consist primarily of student housing, food services and other student services. Fee charges are directly related to the costs of services rendered and are recognized as revenue when the services or goods are delivered.

Contributions

Contributions, including unconditional promises (pledges) to give, are recognized in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. Amounts pledged are recorded as contributions of permanently restricted net assets, if designated by the donors as such, or temporarily restricted net assets until donor restrictions are met.

Contributions of assets other than cash are reported at their estimated fair value at the date of the gift. The University reports non-cash contributions as unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit donor restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

Contributions, continued

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The University periodically receives artwork from donors for public exhibition purposes. Such artwork collection has not been recorded since the University does not have objective and measurable fair values to assign to the artwork.

Split-interest agreements

Contributions receivable from foundations or charitable trusts, of which the University is a beneficiary, are recorded at the net present value of the stream of anticipated receipts using a risk-based discount rate. Related cash collections are recorded as reductions of contributions receivable and adjustments to reflect the contributions receivable from charitable trusts at their net present value are recorded as “change in value of split-interest trusts” in the accompanying statements of activities.

Cash and cash equivalents

Cash and cash equivalents include demand deposit and money market accounts and other highly liquid investments with an original maturity of three months or less. The University has restricted cash accounts related to the Federal Perkins Loan Program and federal awards that require amounts to be segregated from the University’s general operating accounts. Such restricted cash balances as of June 30, 2018 and 2017, were \$49 and \$29, respectively.

Portfolio investments

Portfolio investments include marketable equity securities and public and private funds that trade at net asset value. Marketable equity securities are measured at fair values based on quoted market prices. The public fund is valued based on the fair value of the underlying assets. Certain private funds may invest a portion of their net assets in securities for which market quotations are not readily available. In such cases, the private fund manager prices such securities using other fair value estimation techniques. The resulting fair value is intended to represent a good faith approximation of the amount that the fund could reasonably expect to receive from the investment if the interest were sold at the time of valuation, based on information reasonably available to the manager at the time the valuation is made.

Interest and dividends are included as investment income in the accompanying statements of activities. Investment income and realized gains and losses on portfolio investments are recognized upon realization. Unrealized gains and losses are recognized based on changes in fair values during the period. Net investment returns are reported in appropriate net asset classifications based upon the existence of donor restrictions, if any.

Portfolio investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain portfolio investments, it is at least reasonably possible that changes in values of portfolio investments will occur in the near-term.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

Tuition and other receivables

The University grants credit without collateral to a large portion of its students. These tuition receivables are evaluated for collectability annually.

Allowances for amounts deemed uncollectible are determined based on historical trends and the aging of these balances. Allowances for doubtful accounts as of June 30, 2018 and 2017, approximated \$293 and \$324, respectively.

Non-marketable investments

Non-marketable investments include non-controlling common stock investments in certain closely-held corporations and an investment in a private enterprise. The common stock investments are accounted for using the equity method. The investment in a private enterprise is carried at cost unless circumstances indicate a lower value.

Functional expense allocation

Plant and related expenses such as depreciation and interest costs are allocated to functional expense categories on the basis of ratios determined by management.

Property, plant, and equipment

Property, plant, and equipment additions are stated at cost if purchased or, if acquired by contribution, at the estimated fair market value on the date of contribution. The University's policy is to capitalize assets acquired for greater than \$2.5. Donated assets are recorded at fair value at the time of receipt of the contributions. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. The University provides for depreciation over the estimated useful lives of the related assets using the straight-line method.

These estimated useful lives are summarized in the following table:

Land improvements	20-40 years
Leasehold improvements	Lease term
Buildings and improvements	20-40 years
Equipment and furnishings	3-10 years

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying value of the asset exceeds the cash flows, the asset is considered to be impaired. The impairment charge to be recognized is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. There were no impairments during the fiscal years 2018 and 2017.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

Income taxes

The University has been recognized by the Internal Revenue Service as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been recorded in the financial statements. The University is required to operate in conformity with the provisions of the IRC to maintain its exempt status.

The University recognizes the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The University does not believe there are any uncertain tax positions.

For the years ended June 30, 2018 and 2017, there were no interest or penalties recorded or included in the University's financial statements. The University is no longer subject to income tax examinations for years prior to 2015.

Earnings from unrelated business activities were not significant for the years ended June 30, 2018 and 2017; therefore no related income taxes are accrued in the accompanying financial statements.

Annuities payable

Annuities payable represents amounts due to beneficiaries under various split-interest arrangements in which the University is the trustee. The related assets under these arrangements, approximating \$0.95 million and \$1.13 million at June 30, 2018 and 2017, respectively, are included in portfolio investments. The amounts due are calculated using risk-adjusted discount rates ranging from 3% to 7% and the Internal Revenue Service's life expectancy tables.

Advertising

Advertising is expensed as incurred and approximated \$1,000 and \$900 for the years ended June 30, 2018 and 2017, respectively.

Fund raising expenses

Fund raising expenses, approximating \$1,200 and \$1,100 for the years ended June 30, 2018 and 2017, respectively, are expensed as incurred and included in general administrative and institutional support in the accompanying statements of activities.

Valuation techniques

Investments in non-marketable investment companies are valued at the net asset value of the private fund provided by the underlying investment company manager. Management considers subscription and redemption rights, including restrictions on the disposition of the interest, in its determination of fair value.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

Fair value of financial instruments

The fair value of financial instruments held by the University as of June 30, 2018 and 2017, are based on a variety of factors and assumptions and may not necessarily be representative of the actual gains or losses that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement of such financial instruments. The carrying values of the University's cash and cash equivalents, tuition and other receivables, and liabilities approximate their fair values based on their short-term nature.

The fair values of the University's portfolio investments and beneficial interest in trusts, which are amounts reported in the statements of financial position, are based on quoted market prices (active and not active).

Derivative financial instruments

Cash flow hedges, including interest rate swap agreements (see Note 10), are used to manage exposure to market risk associated with changes in interest rates. Interest rate changes are accounted for on the accrual basis and payments made or received are recognized as an adjustment to interest expense.

Reclassifications

Certain amounts appearing in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

New accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require all leases to be recognized in the statement of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The new pronouncement is effective for years beginning after December 15, 2018. The University is currently evaluating the effects the ASU will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 makes certain revisions that address many, but not all, of the identified issues about the current financial reporting for Not-for-Profit Entities. The ASU addresses key qualitative and quantitative matters such as expenses and related information, presentation of operating cash flows, net asset classes, and availability of resources.

The amendments in ASU 2016-14 are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this update are permitted. The amendments are applied on a retrospective basis in the year the update is first applied. In the period the update is first applied, the entity must disclose the nature of any reclassifications or restatements and their effects, if any, on changes in net assets for each period presented.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer or nonfinancial assets unless those contracts are within the scope of other standards. For nonpublic entities, the amendments of ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted under certain circumstances. The University has not yet determined if ASU 2014-09 will have a material effect on its financial statements.

Note 2 – Portfolio Investments

A summary of portfolio investments, by investment type, at June 30, 2018 and 2017 is as follows:

	2018	2017
Public fund	\$ 51,591	\$ 48,223
Private funds	2,683	2,672
Marketable equity securities	659	819
Other investments	100	54
	<u>\$ 55,033</u>	<u>\$ 51,768</u>

As of June 30, 2018 and 2017, public and private funds represent investments in open-end management investment companies advised by TIFF Advisory Services, Inc. (the Funds). Investments in the Funds are solely available to large 501(c)(3) organizations and other accredited investors. The University may liquidate a portion or all of its investments in the Funds at their respective net asset value at any time, subject to an exit fee of 0.5%. At June 30, 2018 and 2017, the University had approximately 94% and 93% of its portfolio investments invested in the public fund. At June 30, 2018 and 2017, the University has outstanding commitments to make future investments in private funds aggregating \$2,700 and \$2,000, respectively.

The following schedule summarizes the net investment return on portfolio and non-marketable investments (see Note 6) for the years ended June 30, 2018 and 2017 and its classification in the statements of activities:

	Year Ended June 30, 2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net investment income	\$ 696	\$ 1,789	\$ -	\$ 2,485
Net realized gains	1,288	3,792	-	5,080
Net unrealized losses	(755)	(2,745)	-	(3,500)
Net investment return	<u>\$ 1,229</u>	<u>\$ 2,836</u>	<u>\$ -</u>	<u>\$ 4,065</u>

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 2 – Portfolio Investments, Continued

	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net investment income	\$ 647	\$ 1,582	\$ -	\$ 2,229
Net realized gains	86	244	-	330
Net unrealized gains	<u>745</u>	<u>2,041</u>	-	<u>2,786</u>
Net investment return	<u>\$ 1,478</u>	<u>\$ 3,867</u>	<u>\$ -</u>	<u>\$ 5,345</u>

Net investment return includes \$40 and \$25 of investment expenses for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, net unrealized gains (losses) includes \$141 and \$9 respectively, of net unrealized gains attributable to the University's non-marketable investments.

Note 3 – Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30, 2018 and 2017:

	2018	2017
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 2,937	\$ 4,670
Less: unamortized discount	<u>(154)</u>	<u>(433)</u>
Subtotal	2,783	4,237
Less: allowance for uncollectible pledges	<u>(280)</u>	<u>(404)</u>
Net unconditional promises to give	<u>\$ 2,503</u>	<u>\$ 3,833</u>

Unconditional promises to give consist of the following at June 30, 2018 and 2017:

	2018	2017
Amounts due in:		
Less than one year	\$ 1,927	\$ 1,926
One to five years	<u>1,010</u>	<u>2,744</u>
Total	<u>\$ 2,937</u>	<u>\$ 4,670</u>

The University applies a 5.0% discount rate to its pledges with terms in excess of one year.

Note 4 – Contribution Receivable from Foundation

At June 30, 2018 and 2017, the University has a contribution receivable from the Theodore R. and Vivian M. Johnson Foundation, Inc. (the Foundation) in the amount of \$24,000. Under the bylaws of the Foundation, the University is entitled to receive the lesser of the stated percentages of income from the assets held by the Foundation or \$1,200 annually. Contributions receivable from the Foundation are reflected based on the present value of the expected cash flows using a 5% discount rate. The University received \$1,200 from the Foundation for each of the years ended June 30, 2018 and 2017 which was recorded in change in value of split-interest trusts in the accompanying statements of activities.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 5 – Contributions Receivable from Charitable Trusts

The University is a beneficiary of a Charitable Lead Trust (the Lead Trust) under which it receives 45% of the Lead Trust’s annual distributions which are equal to 7% of the fair market value of the Lead Trust. Such distributions will continue through September 2037. Contributions receivable from the Lead Trust are reflected at the present value of the estimated future cash flows from the Lead Trust using a 4% discount rate. For the years ended June 30, 2018 and 2017, the University received \$110 and \$109, respectively, as distributions from the Lead Trust.

The University is the beneficiary of a Charitable Remainder Annuity Trust. The beneficial interest is reported at fair value, which is measured as the present value of the payments expected to be received at the termination of the trust. The fair value is re-measured at each fiscal year end, using updated life expectancies, interest rates, and estimated cash flows to estimate the fair value of the beneficial interest. At June 30, 2018, the interest rate assumption used was 5%, which is approximately equal to the expected return on the trust assets over time.

Note 6 – Non-marketable Investments

Non-marketable investments include the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Common stock investments	\$ 2,697	\$ 2,556
Limited liability company investment	-	21
Other investment	<u>100</u>	<u>100</u>
Total non-marketable investments	<u>\$ 2,797</u>	<u>\$ 2,677</u>

The common stock investments represent 100%, non-controlling interests in corporations that own and operate a pre-school and day-care center located in Lantana, Florida.

Aggregate unaudited summarized financial information for the common stock investments as of June 30, 2018 and 2017 and for the years then ended is presented in the following table:

	<u>2018</u>	<u>2017</u>
<u>At year-end:</u>		
Assets, principally land and certificates of deposit	\$ 2,712	\$ 2,560
Liabilities, principally income taxes	<u>15</u>	<u>4</u>
Shareholder’s equity	<u>\$ 2,697</u>	<u>\$ 2,556</u>
<u>For the year ended:</u>		
Revenue	\$ 930	\$ 851
Expenses	<u>789</u>	<u>803</u>
Net income	<u>\$ 141</u>	<u>\$ 48</u>

The investment in the limited liability company represented a 24.75% non-marketable, partnership interest in Gallatin Investors, LLC (Gallatin). During the years ended June 30, 2018 and 2017, the University received distributions of \$0 and \$169, respectively, from this investment which were recorded as reductions to the investment cost. The Gallatin investment was liquidated during the year ended June 30, 2018.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 7 – Fair Value Measurements

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The University’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table summarizes the University’s determination of fair value as of June 30, 2018 and 2017 on the following financial assets and liabilities using these input levels that are measured at fair value on a recurring basis:

	2018			Fair Value Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Public fund	\$ -	\$ 51,591	\$ -	\$ 51,591
Private funds	-	-	2,683	2,683
Marketable equity securities	659	-	-	659
Other investments	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Total assets	<u>\$ 759</u>	<u>\$ 51,591</u>	<u>\$ 2,683</u>	<u>\$ 55,033</u>
Liabilities:				
Annuities payable	\$ -	\$ (278)	\$ -	\$ (278)
Fair value of cash flow hedge	<u>-</u>	<u>(1,330)</u>	<u>-</u>	<u>(1,330)</u>
Total liabilities	<u>\$ -</u>	<u>\$ (1,608)</u>	<u>\$ -</u>	<u>\$ (1,608)</u>

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 7 – Fair Value Measurements, Continued

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Public fund	\$ -	\$ 48,223	\$ -	\$ 48,223
Private funds	-	-	2,672	2,672
Marketable equity securities	819	-	-	819
Other investments	<u>54</u>	<u>-</u>	<u>-</u>	<u>54</u>
Total assets	<u>\$ 873</u>	<u>\$ 48,223</u>	<u>\$ 2,672</u>	<u>\$ 51,768</u>
Liabilities:				
Annuities payable	\$ -	\$ (331)	\$ -	\$ (331)
Fair value of cash flow hedge	<u>-</u>	<u>(2,198)</u>	<u>-</u>	<u>(2,198)</u>
Total liabilities	<u>\$ -</u>	<u>\$ (2,529)</u>	<u>\$ -</u>	<u>\$ (2,529)</u>

There were no significant transfers between levels during 2018 and 2017. The University's policy is to recognize transfers in and out of levels at the end of the fiscal year.

The following is a schedule of Level 3 investment activity for the year ended June 30, 2018 measured on a recurring basis using significant unobservable inputs:

	Investments in private funds
Balance as of July 1, 2017	\$ 2,672
Purchases	256
Net unrealized appreciation	440
Distributions	<u>(685)</u>
Balance as of June 30, 2018	<u>\$ 2,683</u>

The following is a description of the valuation methodologies used for Level 2 and Level 3 investments measured at fair value. There have been no significant changes in the methodologies used during the years ended June 30, 2018 and 2017:

Public fund investment - represents an interest in the TIFF Multi-Asset Fund (TIFF-MAF) which maintains a diversified portfolio of marketable securities. The objective of TIFF-MAF is to attain a growing stream of current income and appreciation of principal that at least offsets inflation. The investment is valued based on the market value of the underlying assets.

Private funds - recorded at an estimate of fair value using metrics such as security prices of comparable public companies, discounted cash flow models, original investment purchase price multiples, while also incorporating a portfolio company's financial performance and specific factors.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 7 – Fair Value Measurements, Continued

Cash flow hedges - interest rate swaps are valued using widely accepted valuation techniques, including discounted cash flows. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves.

The University's Level 2 investment in the public fund may be redeemed daily. The investments in Level 3 private funds may be redeemed on a quarterly basis upon proper notice being given to the fund manager.

Note 8 – Property, Plant, and Equipment

The following is a summary of property, plant, and equipment and related accumulated depreciation as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 23,227	\$ 18,401
Land improvements	13,286	14,367
Leasehold improvements	146	704
Buildings and improvements	141,179	131,681
Equipment and furnishings	<u>16,094</u>	<u>42,383</u>
	193,932	207,536
Less accumulated depreciation	<u>(80,747)</u>	<u>(106,193)</u>
	113,185	101,343
Construction in progress	<u>1,015</u>	<u>8,744</u>
Property, plant, and equipment, net	<u>\$ 114,200</u>	<u>\$ 110,087</u>

Depreciation totaled \$6,807 and \$6,629 for the years ended June 30, 2018 and 2017, respectively. Construction in progress as of June 30, 2018 and June 30, 2017 relates to the University's athletic center located in West Palm Beach, Florida and building renovations.

Total interest incurred and capitalized for the years ended June 30, 2018 and 2017 are presented as follows:

	<u>2018</u>	<u>2017</u>
Interest incurred	\$ 1,414	\$ 1,284
Interest capitalized	<u>-</u>	<u>21</u>
Interest expense, net	<u>\$ 1,414</u>	<u>\$ 1,263</u>

Note 9 – Revolving Credit Agreement

The University has a revolving credit agreement (revolving credit agreement) with a financial institution with a borrowing capacity of \$2,000 that expires in April 2019. Borrowings under the revolving credit agreement bear interest at the LIBOR daily floating rate plus 1.25% (3.19% at June 30, 2018) and are collateralized by the University's business assets, excluding restricted promises to give. The University had no outstanding borrowings under this credit agreement as of June 30, 2018.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 9 – Revolving Credit Agreement, Continued

The University’s revolving credit agreement contains various restrictive covenants, including the maintenance of certain liquidity and debt service ratios. All covenants have been met through June 30, 2018.

Note 10 – Long-Term Debt, Net

Long-term debt at June 30, 2018 and 2017 consists of the following:

	2018	2017
Variable rate tax-exempt Educational Facilities Revenue Bonds, Series 2012 (Series 2012 Bonds)	\$ 31,650	\$ 33,350
Promissory Note – (Promissory note payable)	1,500	-
Term note payable – financial institution (Term note payable)	5,492	5,692
	\$ 38,642	\$ 39,042

2012 Series Bonds

The 2012 Series Bonds bear interest at a variable rate equal to 70% of the 30-day LIBOR rate + 1.15% (2.54% at June 30, 2018). Interest is payable monthly and the principal balance is payable semi-annually through maturity in April 2033. Under the terms of the 2012 Series Bonds, the University is required to meet certain financial covenants and may not encumber its properties or incur additional debt beyond certain limits. All financial and other restrictive covenants have been met as of June 30, 2018.

Term note payable

The University is obligated under a term note payable to finance the purchase of certain real property in West Palm Beach, Florida used for student housing. Principal and interest are payable monthly through June 2019. The term note payable bears interest at the 30-day LIBOR rate plus 2.25% (4.34% at June 30, 2018) and is collateralized by certain real property. At June 30, 2018, the outstanding loan balance was \$5,492. The term note payable is subject to certain financial covenants all of which were met as of June 30, 2018.

Subsequent to June 30, 2018, the University refinanced the term note payable with the financial institution. The new maturity date for the term loan is December 1, 2022. There were no changes to the existing agreement related to financial covenants or reporting requirements.

Promissory note payable

In June 2018, the University borrowed \$1,500 from a foundation, in which a member of the University’s Board of Trustees serves an officer, to finance the purchase of certain real property in West Palm Beach, Florida to be used for future classroom space. The promissory note is uncollateralized and bears interest at 5% per annum. Interest is payable quarterly through June 13, 2023. The entire outstanding principal balance shall be due and payable in June 2023.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 10 – Long-Term Debt, Continued

Debt issuance costs

Amortization of debt issuance costs is reported in the statements of activities as an operating expense and amounted to \$10 for each of the years ended June 30, 2018 and 2017. The outstanding balance of long-term debt, net at June 30, 2018 and 2017 is as follows:

	2018	2017
Long-term debt	\$ 38,642	\$ 39,042
Less: unamortized debt issuance costs	(45)	(55)
Total long-term debt, net	\$ 38,597	\$ 38,987

Principal payments

Principal payments due on long-term debt in each of the five years subsequent to June 30, 2018, and thereafter, are presented as follows:

Year Ending June 30,	Series 2012 Bonds	Promissory Note Payable	Term Note Payable	Total Payments
2019	\$ 1,700	\$ -	\$ 174	\$ 1,874
2020	1,800	-	438	2,238
2021	1,800	-	457	2,257
2022	1,900	-	477	2,377
2023	1,900	1,500	3,946	7,346
Thereafter	22,550	-	-	22,550
Total	\$ 31,650	\$ 1,500	\$ 5,492	\$ 38,642

Interest rate swap agreements

Interest rate swap agreements outstanding at June 30, 2018 and 2017 are accounted for as cash flow hedges and summarized as follows:

Notional Amount		Fair Value		Maturity	Interest Rate at June 30, 2018
2018	2017	2018	2017		
\$ 18,100	\$ 19,300	\$ (1,330)	\$ (2,198)	2024	3.65%

The aggregate fair value of the cash flow hedges at June 30, 2018 and 2017 represents the estimated amount at which the cash flow hedges could be settled and is included in the accompanying statements of financial position as a cash flow hedge. The changes in the aggregate fair value during the years ended June 30, 2018 and 2017 of \$868 and \$1,151, respectively, are included in the accompanying statements of activities as an unrealized cash flow hedge gain. If terminated prior to maturity, the cash flow hedges would be settled at the current value at the time of the settlement.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 11 – Retirement Plan

Retirement benefits are provided through a qualified 403(b) defined contribution plan. For each of the years ended June 30, 2018 and 2017, the University contributed 1% of the annual compensation for all participating employees. For the years ended June 30, 2018 and 2017, the University also matched employee contributions up to 8% of the annual compensation for participating employees. Retirement plan expense for the years ended June 30, 2018 and 2017 amounted to \$1,900 and \$1,930, respectively.

Note 12 – Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available to support the following purposes:

	2018	2017
Instruction	\$ 4,079	\$ 3,826
Academic support	456	361
Student services	944	906
General administrative and institutional support	2,158	2,104
Plant facilities and maintenance	3,915	4,812
Scholarships and student aid	41,954	41,005
	\$ 53,506	\$ 53,014

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to investment in perpetuity, the income from which is expendable to support the following purposes:

	2018	2017
Instruction	\$ 2,899	\$ 2,864
Academic support	905	898
Student services	90	89
General administrative and institutional support	2,232	2,232
Plant facilities and maintenance	5,604	5,395
Scholarships and student aid	12,150	10,225
	\$ 23,880	\$ 21,703

The University's endowment is established for the purposes expressed in the University's charter and consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The endowment consists of 220 individual endowments established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 12 – Temporarily and Permanently Restricted Net Assets

Changes in endowment net assets for the year ended June 30, 2018 follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of July 1, 2017	\$ 14,292	\$ 45,176	\$ 21,703	\$ 81,171
Investment return	<u>1,124</u>	<u>2,837</u>	<u>-</u>	<u>3,961</u>
Contributions	<u>7</u>	<u>1</u>	<u>2,177</u>	<u>2,185</u>
Change in value of split-interest trusts	<u>-</u>	<u>1,344</u>	<u>-</u>	<u>1,344</u>
Appropriations for endowment expenditures	<u>(463)</u>	<u>(2,539)</u>	<u>-</u>	<u>(3,002)</u>
Endowment gifts and designations as of June 30, 2018	14,960	46,819	23,880	85,659
Non-endowment net assets	<u>82,236</u>	<u>6,687</u>	<u>-</u>	<u>88,923</u>
Total net assets	<u>\$ 97,196</u>	<u>\$ 53,506</u>	<u>\$ 23,880</u>	<u>\$ 174,582</u>

Interpretation of relevant law

The University adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). FUPMIFA requires the Board of Trustees (the Board) to use reasonable care, skill and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the purchasing power of the endowment fund.

The Board considers the following factors in making its determination:

- 1) The purpose of the University,
- 2) The intent of the donor of the endowment funds,
- 3) The term of the applicable instrument,
- 4) General economic conditions,
- 5) The possible effect of inflation or deflation,
- 6) The long-term and short-term needs of the University in carrying out its exempt purpose,
- 7) Perpetuation of the endowment.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Any such losses are recorded as reductions in unrestricted net assets in accordance with accounting principles generally accepted in the United States of America. Future gains are used to restore any deficiencies in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 12 – Temporarily and Permanently Restricted Net Assets, Continued

Return objectives and risk parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to scholarship and other activities supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of multiple benchmarks based on the type of investment while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return that will meet its spending rate plus the inflation rate. Actual returns in any given year may vary from this amount.

Strategies employed to achieve objectives

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 allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The University's spending policy is designed to provide for positive growth in the market value of its endowment, net of distributions, over an extended period of time. Over the long-term, the spending policy is designed to return a net positive gain in the market value (growth) after spendable transfers. The budgeted spending rate is based upon 5.5% of the prior year's trailing average fund balance through June 30, provided that such spending will not cause the balance in that fund to drop below the corpus of that fund.

Note 13 – Net Assets Released from Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events as specified by the donors. Net assets were released from restrictions during the years ended June 30, 2018 and 2017 for the following purposes:

	<u>2018</u>	<u>2017</u>
Instruction	\$ 858	\$ 998
Academic support	7	73
Student services	803	832
General administrative and institutional support	649	755
Plant facilities for capital expenditures	1,360	4,857
Plant facilities for maintenance	163	9
Scholarships and student aid	<u>3,042</u>	<u>3,423</u>
	<u>\$ 6,882</u>	<u>\$ 10,947</u>

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 14 – Description of Leasing Arrangements

As Lessor:

The University leases certain office facilities and property to third parties under short-term operating leases. Rental income for the years ended June 30, 2018 and 2017 approximated \$374 and \$317, respectively.

As Lessee:

The University is obligated under various non-cancelable operating lease agreements for certain campus facilities and equipment, as well as a 99-year lease for certain land, building and improvements which is accounted for as an operating lease. Certain leases contain renewal options and escalation provisions. At June 30, 2018, future minimum payments due under all operating leases with initial or remaining lease terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 896
2020	557
2021	313
2022	271
2023	253
Thereafter	<u>14,500</u>
Total	<u>\$ 16,790</u>

Rent expense for the years ended June 30, 2018 and 2017 approximated \$1,030 and \$1,700, respectively.

Note 15 – Insurance

The University is a member of the Florida Independent Colleges and Universities Risk Management Association, LLC (FICURMA), a claims-made insurance program which provides coverage for workers' compensation, general liability, property, and auto liability exposure. FICURMA's members make annual contributions into the program based on an independent actuarial valuation to cover the members' retained deductible components, which include \$400 per occurrence for covered insurance claims. Claims in excess of the self-insured retention limits are covered under excess coverage policies with the program's carrier up to various aggregate limits. Previously, the University advanced \$285 to FICURMA to allow FICURMA to work independently of its members. The advance bears interest at a variable rate determined by FICURMA's annual aggregate return of its invested capital. The advance is fully reserved as of June 30, 2018 and 2017.

FICURMA was fully funded by its members as of June 30, 2018 and 2017, and management believes that the program has the ability to cover the members' known and incurred, but not reported, claims exposure related to the retained deductible components.

Insurance expense related to the program approximated \$1,730 and \$1,670, respectively, for the years ended June 30, 2018 and 2017 and is included in institutional support in the accompanying statements of activities.

During 2018, the University sustained property damage to its West Palm Beach, Florida campus as a result of Hurricane Irma. The University incurred costs related to the damage, net of estimated insurance recoveries of \$500 which is included in expenses in the accompanying statement of activities for the year ended June 30, 2018.

PALM BEACH ATLANTIC UNIVERSITY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Dollars in thousands)

Note 16 – Legal Proceedings

From time to time, the University is a party to various litigation and other claims in the ordinary course of conducting its activities. The University recognizes liabilities for legal proceedings when a loss is probable and estimable. In the event that a loss is probable and estimable within a range, the University accrues the amount most likely to be incurred.

Note 17 – Risks and Concentrations

Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents. The University maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts.

A substantial number of the University's students independently receive state and federal grants and tuition loans. A significant reduction in state and federal grants and student loans, if this were to occur, would have a significant effect on the University's operations and activities.

Note 18 – Supplemental Statement of Cash Flows Disclosure

Interest paid for the years ended June 30, 2018 and 2017 approximated \$1,400 and \$1,300, respectively.

Note 19 – Subsequent Events

The University evaluated its activities subsequent to June 30, 2018 through October 26, 2018, the date on which the financial statements were available to be issued, for events that require recognition in the financial statements or disclosure in the notes thereto.

PALM BEACH ATLANTIC UNIVERSITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2018

Federal/State Agency, Federal Programs/State Projects	CFDA CSFA Number	Expenditures
Federal Awards		
U.S. Department of Education		
Student Financial Aid Cluster:		
Federal Direct Student Loans Programs (Note 2)	84.268	\$ 33,641,448
Federal Pell Grant Program	84.063	4,077,678
Federal Work Study Program	84.033	305,157
Federal Supplemental Educational Opportunity Grant	84.007	172,792
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	<u>11,208</u>
Total expenditures of federal awards		<u>\$ 38,208,283</u>
State Financial Assistance		
Florida Department of Education:		
Florida Student Financial Assistance Programs:		
Florida Resident Access Grant (FRAG)	48.064	\$ 3,952,575
The Florida Bright Futures Scholarship Program -		
Florida Medallion Scholars Award (FMSA)	48.059	448,910
Florida Academic Scholars Award (FASA)	48.059	1,045,164
Florida Student Assistance Grant (FSAG)	48.054	1,034,760
Florida Work Experience Program (FWEP)	48.053	16,957
Scholarships for Children and Spouses of Deceased or Disabled Veterans and Service Members (CSDDV)	48.055	16,960
Honorably Discharged Graduate Assistance Program (HDGAP)	48.118	4,700
Florida Fund for Minority Teachers (FFMT)	48.049	<u>4,000</u>
Total expenditures under Florida Department of Education programs		6,524,026
Florida Department of Highway Safety and Motor Vehicles:		
Palm Beach Atlantic University License Plate Project	76.054	<u>6,910</u>
Total expenditures of state financial assistance		<u>\$ 6,530,936</u>
Total expenditures of federal awards and state financial assistance		<u>\$ 44,739,219</u>

See notes to schedule of expenditures of federal awards and state financial assistance.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**

Note 1 – Basis of Presentation

The purpose of the accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) is to present, in summary form, total federal award expenditures and state financial assistance expended by Palm Beach Atlantic University, Inc. (the University) for the year ended June 30, 2018 which have been funded under various federal programs and state financial assistance projects. The Schedule is prepared on the accrual basis of accounting. The Schedule is presented in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *Rules of the Florida Auditor General*. Therefore, certain amounts presented in this Schedule may differ from amounts presented in the basic financial statements.

Note 2 – Federal Awards

Program Clusters

The Uniform Guidance defines a cluster of programs as a grouping of closely related federal programs with different CFDA numbers that share common compliance requirements. According to this definition, we have determined the federal student financial assistance programs of the University to be a cluster of programs.

Federal Direct Student Loans

Federal student loans processed during the fiscal year ended June 30, 2018 are as follows:

	<u>Federal CFDA</u>	<u>Loans Made During Year</u>
Direct Subsidized Loans	84.268	\$ 4,787,096
Direct Unsubsidized Loans	84.268	19,146,570
Parent PLUS Loans	84.268	4,424,154
Graduate PLUS Direct Loans	84.268	<u>5,283,628</u>
Total Federal Student Loans		<u>\$ 33,641,448</u>

Note 3 – Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE, CONTINUED**

Note 4 – Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement by the grantor agency would become a liability to the University. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements, and applicable federal and state laws and regulations.

Note 5 – Summary of Florida Student Financial Assistance Programs

The state financial assistance presented in the Schedule presents, in summary form, student financial assistance activities of the University for the year ended June 30, 2018, which have been financed by the State of Florida Department of Education (FDOE). The administration of each program is the responsibility of the FDOE's Office of Student Financial Assistance and the University.

The following is a brief description of each Florida student financial assistance program administered by the University:

Florida Resident Access Grant (FRAG)

FRAG is a State of Florida financial aid program which provides certain qualified, full-time, undergraduate students with assistance in paying for tuition and fees. FRAG is available only to Florida residents attending eligible private, non-profit colleges and universities located in the State of Florida.

Florida Medallion Scholars Award (FMSA)

FMSA is a State of Florida scholarship program under the Florida Bright Futures Scholarship Program, which provides certain qualified, first-time-in college, full-time, undergraduate students assistance in paying for costs of education. FMSA is available only to Florida residents attending eligible colleges and universities located in the State of Florida.

Florida Academic Scholars Award (FASA)

FASA is a State of Florida scholarship program under the Florida Bright Futures Scholarship Program, which provides certain qualified, first-time-in college, full-time, undergraduate students with assistance in paying for costs of education. FASA is available only to Florida residents attending eligible colleges and universities located in the State of Florida.

Florida Student Assistance Grant Program (FSAG)

FSAG is a State of Florida financial aid program which provides certain qualified, full-time, undergraduate students with assistance in paying for costs of education including tuition, fees, and living expenses. FSAG is available only to Florida residents attending eligible private, non-profit colleges and universities located in the State of Florida.

Florida Work Experience Program (FWEP)

FWEP is a need-based program providing eligible Florida students work experiences to compliment and reinforce their educational careers and goals.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE, CONTINUED**

Note 4 – Summary of Florida Student Financial Assistance Programs, Continued

Scholarships for Children and Spouses of Deceased or Disabled Veterans and Service Members (CSDDV)

CSDDV provides scholarships for dependent children or un-remarried spouses of Florida veterans or service members who died as a result of service-connected injuries, diseases, or disabilities sustained while on active duty or who have been verified by the Florida Department of Veterans' Affairs as having service-connected, 100% total and permanent disabilities. This program provides a fixed award amount at an eligible public or private post-secondary institution.

Florida Fund for Minority Teachers (FFMT)

The Minority Teacher Education Scholars (MTES) program is a collaborative performance-based scholarship program for African-American, Hispanic-American, Asian-American, and native American students administered by the FFMT.

Honorably Discharged Graduate Assistance Program (HDGAP)

HDGAP is a need-based program providing scholarships to current active duty or honorably discharged members of the Armed Forces who served on or after September 11, 2001. Eligible awardees must be residents of Florida who are enrolled in an eligible post-secondary institution. Funds are intended to assist active duty and honorably discharged members of the Armed Forces pay for living expenses during holiday and semester breaks.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Palm Beach Atlantic University, Inc.

We have audited, 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, the financial statements of Palm Beach Atlantic University, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palm Beach Atlantic University, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palm Beach Atlantic University, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Palm Beach Atlantic University, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palm Beach Atlantic University, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Templeton & Company, LLP

West Palm Beach, Florida
October 26, 2018

Independent Auditor's Report on Compliance with Requirements for Each Major Federal Program and State Financial Assistance Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, Rules of the Florida Auditor General

Board of Trustees
Palm Beach Atlantic University, Inc.

Report on Compliance for Each Major Federal Program and State Financial Assistance Project

We have audited Palm Beach Atlantic University, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and Section 215.97, Florida Single Audit Act Compliance Supplement, that could have a direct and material effect on each of Palm Beach Atlantic University, Inc.'s major federal programs and state financial assistance projects for the year ended June 30, 2018. Palm Beach Atlantic University, Inc.'s major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs and state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Palm Beach Atlantic University, Inc.'s major federal programs and state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Florida Auditor General*. Those standards, the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Palm Beach Atlantic University, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of Palm Beach Atlantic University, Inc.'s compliance.

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, Palm Beach Atlantic University, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2018.



Report on Internal Control over Compliance

Management of Palm Beach Atlantic University, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palm Beach Atlantic University, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palm Beach Atlantic University, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*. Accordingly, this report is not suitable for any other purpose.

Templeton & Company, LLP

West Palm Beach, Florida
October 26, 2018

PALM BEACH ATLANTIC UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS

For the Year Ended June 30, 2018

Part A – Summary of Auditor’s Results:

Financial statement, section:
 Type of auditors report issued Unmodified

Internal control over financial reporting:
 Material weakness(es) identified No
 Significant deficiencies identified No
 Noncompliance material to financial statements noted No

Major federal programs and state financial assistance projects section:
 Federal Dollar threshold used to determine federal Type A programs \$ 1,146,248
 State financial assistance project Type A program \$300,000
 Auditee qualified as low-risk auditee? Yes
 Type of auditors’ report on compliance for major federal programs and state financial assistance projects Unmodified

Internal control over compliance:
 Material weaknesses identified No
 Significant deficiencies identified No
 Audit findings relative to the major federal programs required to be reported under the Uniform Guidance or Chapter 10.650, *Rules of the Florida Auditor General* Yes

The programs/projects tested as major programs/projects included the following:

<u>Name of Federal Program or Cluster</u>	<u>Federal CFDA No.</u>
Federal Student Financial Assistance Cluster	84.007, 84.033, 84.063, 84.268, 84.379

<u>Name of State Project (Student Financial Assistance)</u>	<u>State CSFA No.</u>
Florida Resident Access Grant	48.064
Florida Student Assistance Grant	48.054
Florida Academic Scholars Award	48.059
Florida Medallion Scholars Award	48.059
Honorably Discharged Graduate Assistance Program	48.118
Scholarships for Children and Spouses of Deceased or Disabled Veterans and Servicemembers	48.055
Florida Work Experience Program	48.053
Florida Fund for Minority Teachers	48.049

Part B – Financial Statement Findings

This section should identify significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

No matters were identified.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL
PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS, CONTINUED
For the Year Ended June 30, 2018**

Part C – Federal Award Programs - Findings and Questioned Costs

No matters were identified.

Part D – State Financial Assistance Projects – Findings and Questioned Costs

No matters were identified.

Part E – Other Issues

- (a) No comments pertaining to federal programs and state financial assistance projects were identified.
- (b) A summary schedule of prior audit findings is presented on Summary Schedule of Prior Audit Findings and Questioned Costs for Federal Programs and State Financial Assistance Projects.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS FOR
MAJOR FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2018**

Part A – Major Federal Programs – Prior Year Findings and Questioned Costs

None.

Part B – State Financial Assistance Projects – Prior Year Findings and Questioned Costs

Finding 2017-001

Finding – A student received an over advance under the Florida Bright Futures Academic Scholarship Program for a course not taken during the Fall semester of the 2017 fiscal year.

Criteria – Requirement for students receiving a Florida Bright Futures Scholarship award to complete courses for which they receive awards in the same semester the award is received.

Condition – Funds were disbursed to a student for a course not attended by the student in the academic semester the Florida Bright Futures Academic Scholarship was received.

Cause – Faculty over the related course neglected to notify the Registrar throughout the entire semester and marked the course incomplete after the semester had ended. The student should have been dropped from the class immediately following the drop/add period, which would have resulted in the appropriate amount of funding issued to the student.

Recommendation – Review University policies with faculty to ensure they mark attendance records to update the student’s status and track with the semester’s drop/add period. In accordance with Chapter 2 of the *2016-17 Bright Futures Student Handbook*, the student must reimburse the post-secondary institution for the cost of the course withdrawn after the initial drop/add period. The student is ineligible to renew their Bright Futures award for any subsequent academic year until repayment or satisfactory arrangement to reimburse the institution is made. After repayment, those hours are returned to the student’s hours remaining for funding purposes.

View of the Responsible Officials and Planned Corrective Actions – The Registrar’s Office, in agreement with the Financial Aid Office, will review with faculty the University Policy on adding and dropping a class. Communication will be in verbal and written form. The Registrar’s Office will not drop or withdraw anyone from classes after the published withdraw deadline. If they need to do so in rare cases then they will notify the Financial Aid Office of this change. This will ensure that no student will be paid for a class in which they are not actively participating.

In accordance with Chapter 2 of the *2016-17 Bright Futures Student Handbook*, the student made a written appeal to PBA for hours dropped after the last day of the drop/add period and it was approved. The appeal is on record and no funds have been returned to the state. The student is back in good standing with the state.

Independent Auditor's Management Letter in Accordance with the State of Florida Rules of the Auditor General

To the Board of Trustees
Palm Beach Atlantic University, Inc.
West Palm Beach, Florida

Report on the Financial Statements

We have audited the financial statements of Palm Beach Atlantic University, Inc. (the University), as of and for the year ended June 30, 2018, and have issued a report thereon dated October 26, 2018.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.650, *Rules of the Florida Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance with Requirements for Each Major Federal Program and State Financial Assistance Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*; and Report on Schedule of Expenditures of Federal Awards and State Financial Assistance. Those reports and schedule, which are dated October 26, 2018, should be considered in conjunction with this management letter.

Other Matter

Section 10.654(1)(e), *Rules of the Florida Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements or state project amounts that is less than material but which warrants the attention of those charged with governance. No such matters were identified in connection with the current year audit.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Trustees, and applicable management and is not intended to be, and should not be, used by anyone other than those specified parties.

Templeton & Company, LLP

West Palm Beach, Florida
October 26, 2018



PALM BEACH ATLANTIC UNIVERSITY, INC.

**SUMMARY OF POPULATION, ITEMS TESTED, AND FINDINGS FOR
FLORIDA STUDENT FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2018**

	Description of Category	Number of Students	Percent of Population	Amount of Awards	Percent of Population
FRAG	Population	1,332	100.0%	\$ 3,952,575	100.0%
	Tested	50	3.8%	\$ 146,025	3.7%
	Findings	0	0.0%	\$ -	0.0%
FMSA	Population	223	100.0%	\$ 448,910	100.0%
	Tested	50	22.4%	\$ 100,870	22.5%
	Findings	0	0.0%	\$ -	0.0%
FASA	Population	156	100.0%	\$ 1,045,164	100.0%
	Tested	39	25.0%	\$ 251,768	24.1%
	Findings	0	0.0%	\$ -	0.0%
FSAG	Population	511	100.0%	\$ 1,034,760	100.0%
	Tested	50	9.8%	\$ 95,645	9.2%
	Findings	0	0.0%	\$ -	0.0%
FWEP	Population	10	100.0%	\$ 16,957	100.0%
	Tested	10	100.0%	\$ 16,957	100.0%
	Findings	0	0.0%	\$ -	0.0%
CSDDV	Population	4	100.0%	\$ 16,960	100.0%
	Tested	4	100.0%	\$ 16,960	100.0%
	Findings	0	0.0%	\$ -	0.0%
HDGAP	Population	7	100.0%	\$ 4,700	100.0%
	Tested	7	100.0%	\$ 4,700	100.0%
	Findings	0	0.0%	\$ -	0.0%