

PALM BEACH ATLANTIC UNIVERSITY, INC.
AUDIT REPORT PACKAGE
FOR THE YEAR ENDED JUNE 30, 2019

PALM BEACH ATLANTIC UNIVERSITY, INC.

AUDIT REPORT PACKAGE

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



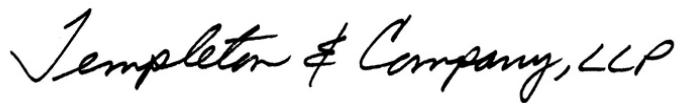
Other Matters

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 November 13, 2019, 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
November 13, 2019

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

(Rounded to the nearest thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 17,401	\$ 18,069
Portfolio investments	55,886	55,033
Tuition and other receivables, net	1,580	1,089
Unconditional promises to give, net	2,747	2,503
Contribution receivable from foundation	24,000	24,000
Contributions receivable from charitable trusts	1,287	1,282
Prepaid expenses and other assets	2,956	2,660
Non-marketable investments	2,820	2,797
Property, plant, and equipment, net	110,669	114,200
Total assets	\$ 219,346	\$ 221,633
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 895	\$ 815
Construction costs payable	-	90
Accrued expenses	3,104	3,344
Deferred tuition revenue	1,438	1,540
Deposits and other liabilities	803	624
Advances from federal government for student loans	433	433
Annuities payable	231	278
Cash flow hedge value	1,548	1,330
Long-term debt, net	36,738	38,597
Total liabilities	45,190	47,051
Net assets:		
Without donor restrictions	93,565	97,196
With donor restrictions	80,591	77,386
Total net assets	174,156	174,582
Total liabilities and net assets	\$ 219,346	\$ 221,633

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.

**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018
(Rounded to the nearest thousands)**

	For the Year Ended June 30, 2019			For the Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating:						
Revenues and other support:						
Tuition and fees	\$ 89,021	\$ -	\$ 89,021	\$ 86,211	\$ -	\$ 86,211
Less scholarship allowances:						
Sponsored scholarships	(3,034)	-	(3,034)	(2,931)	-	(2,931)
Un-sponsored scholarships	(27,782)	-	(27,782)	(25,631)	-	(25,631)
Athletic scholarships	(2,661)	-	(2,661)	(2,390)	-	(2,390)
Tuition and fees, net	55,544	-	55,544	55,259	-	55,259
Auxiliary enterprises	12,168	-	12,168	12,141	-	12,141
Miscellaneous revenue	936	-	936	839	-	839
Private gifts and grants	554	-	554	3,354	-	3,354
Net investment return	220	-	220	1,229	-	1,229
Net assets released from restrictions	5,255	(5,255)	-	6,882	(6,882)	-
Total revenues and other support	74,677	(5,255)	69,422	79,704	(6,882)	72,822
Expenses:						
Program services:						
Instruction	33,853	-	33,853	28,090	-	28,090
Academic support	4,229	-	4,229	3,849	-	3,849
Student services	12,891	-	12,891	11,751	-	11,751
Total program services	50,973	-	50,973	43,690	-	43,690
Supporting services:						
General administrative and institutional support	14,460	-	14,460	20,352	-	20,352
Auxiliary enterprises	12,656	-	12,656	12,585	-	12,585
Total expenses	78,089	-	78,089	76,627	-	76,627
Change in net assets						
from operating activities	(3,412)	(5,255)	(8,667)	3,077	(6,882)	(3,805)
Non-operating:						
Private gifts and grants	-	6,388	6,388	-	5,318	5,318
Net investment return	-	737	737	-	2,836	2,836
Change in value of split-interest trusts	-	1,335	1,335	-	1,397	1,397
Unrealized cash flow hedge gain (loss)	(219)	-	(219)	868	-	868
Change in net assets from non-operating activities	(219)	8,460	8,241	868	9,551	10,419
Change in net assets	(3,631)	3,205	(426)	3,945	2,669	6,614
Net assets - beginning of year	97,196	77,386	174,582	93,251	74,717	167,968
Net assets - end of year	\$ 93,565	\$ 80,591	\$ 174,156	\$ 97,196	\$ 77,386	\$ 174,582

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services				Supporting Services			Total Expenses
	Instruction	Academic Support	Student Services	Subtotal	General Administrative and Institutional Support	Auxiliary Enterprises		
Salaries, wages and benefits	\$ 25,847	\$ 823	\$ 7,355	\$ 34,025	\$ 6,974	\$ 496	\$ 41,495	
Services, supplies, and other	3,523	75	1,939	5,537	620	4,201	10,358	
Facilities, utilities, and maintenance	1,967	1,232	1,215	4,414	4,401	3,698	12,513	
Information technology	225	405	194	824	1,188	33	2,045	
Advertising and promotion	155	-	144	299	821	-	1,120	
Insurance	405	321	388	1,114	87	802	2,003	
Depreciation and amortization	1,416	1,123	1,355	3,894	302	2,803	6,999	
Interest	315	250	301	866	67	623	1,556	
Total expenses	\$ 33,853	\$ 4,229	\$ 12,891	\$ 50,973	\$ 14,460	\$ 12,656	\$ 78,089	

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF CASH FLOWS
June 30, 2019 and 2018
(Rounded to the nearest thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (426)	\$ 6,614
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on portfolio investments	11	(1,440)
Unrealized gain on non-marketable investments	(23)	(140)
Amortization of loan costs	10	10
Unrealized cash flow hedge (gain) loss	219	(868)
Depreciation and amortization	6,988	6,807
Contributions received in-kind	-	(2,998)
Contributions received restricted for long-term investment	(1,236)	(2,331)
Changes in operating assets and liabilities:		
Tuition and other receivables	(491)	(86)
Unconditional promises to give, net	(244)	1,330
Contributions receivable from charitable trusts	(5)	(44)
Prepaid expenses and other assets	(296)	354
Accounts payable	80	(229)
Accrued expenses	(240)	(138)
Deferred tuition revenue and deposits	77	(597)
Annuities payable	(47)	(53)
Net cash provided by operating activities	4,377	6,191
Cash flows from investing activities:		
Construction costs paid	(698)	(4,573)
Purchases of property, plant, and equipment	(2,850)	(4,931)
Distributions received from non-marketable investments	-	20
Purchases of portfolio investments, net	(864)	(1,825)
Net cash used in investing activities	(4,412)	(11,309)
Cash flows from financing activities:		
Payments on long-term debt	(1,869)	(1,900)
Proceeds from long-term debt	-	1,500
Contributions received restricted for long-term investment	1,236	2,331
Net cash provided by (used in) financing activities	(633)	1,931
Decrease in cash and cash equivalents	(668)	(3,187)
Cash and cash equivalents - beginning of year	18,069	21,256
Cash and cash equivalents - end of year	\$ 17,401	\$ 18,069

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 accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the University, the environment in which it operates, the purpose specified in the corporate documents and its application for tax-exempt status, and any limits resulting from contractual arrangements with creditors or others that are entered into in the course of operations.

Net assets with donor restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the University must continue to use the resources in accordance with the donor's instructions.

The University's unspent contributions are included in this class if the donor limited their use, as are donor-imposed endowment funds.

When a donor's restriction is satisfied either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Net assets restricted for acquisition of building or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the assets are placed in service by the University, unless the donor provided more specific directions about the period of its use.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statements of activities unless the donor specified the use of the related resources for a particular purpose or in a future period.

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

Classification of transactions, continued

All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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, 2019 and 2018, the University granted tuition reductions to faculty and staff as well as their spouses and children in the amount of \$1,483 and \$1,700, 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 net assets with donor restrictions if designated by the donors as such.

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 net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

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

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 contributions with donor restrictions.

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, 2019 and 2018, were \$55 and \$49, 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 in net investment return 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 both June 30, 2019 and 2018 approximated \$293.

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.

Investments and endowment

Endowment investments consist of investments purchased with the following resources:

- Donor-restricted perpetual endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the University's activities.
- Donor-restricted term endowments, which are contributions restricted by donors to investment for the term specified by the donor. During that term, the donor may either require investment income and appreciation to be reinvested in the fund, or may permit the University to spend those amounts in accordance with the donor's restrictions on use.
- Board-designated endowments, which are resources set aside by the Board of Trustees for an indeterminate period to operate in a manner similar to a donor-restricted perpetual endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of Trustees.

Endowment investments also include portfolio investments purchased with unspent investment income and net gains on these resources. Other long-term investments are held under split-interest agreements with donors.

Endowment investments are reported at fair value with changes to fair value reported in net investment return in the statements of activities. Purchases and sales of portfolio investments are reported on the trade date.

The investment and spending policies for the endowment fund are discussed in Note 13.

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 support without donor restrictions. The University provides for depreciation over the estimated useful lives of the related assets using the straight-line method.

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

Property, plant, and equipment, continued

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 2019 and 2018.

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, 2019 and 2018, 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 2016.

Earnings from unrelated business activities were not significant for the years ended June 30, 2019 and 2018; 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 \$869 and \$947 at June 30, 2019 and 2018, 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.

Fund raising expenses

Fund raising expenses, approximating \$1,136 and \$1,165 for the years ended June 30, 2019 and 2018, respectively, are expensed as incurred and included in general administrative and institutional support in the accompanying statements of activities.

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

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.

Fair value of financial instruments

The fair value of financial instruments held by the University as of June 30, 2019 and 2018, 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 (excluding cash flow hedge value) 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, 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. Changes in the value of cash flow hedges are reflected in the accompanying statements of activities.

The University uses valuation information from its counterparty to estimate the fair value of its derivative instrument. The University has determined that the fair value of its derivative instrument is measured using Level 2 inputs.

Reclassifications

Certain amounts appearing in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Functional allocation of expenses

The cost of providing the University's programs and other related activities is summarized on a functional basis in the accompanying statements of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Facilities, utilities, depreciation, amortization, interest and insurance are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Information technology and telecommunication services and supplies and miscellaneous expenses that cannot directly identified are allocated on the basis of employee headcount for each program and supporting activity.

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

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

Functional allocation of expenses, continued

When new space or programs are added, the bases on which costs are allocated are evaluated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the University.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The University generally does not conduct its fundraising activities in conjunction with other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activity that include fundraising. Additionally, advertising costs are expensed as incurred.

Change in accounting principles

The University implemented FASB Accounting Standard Update (ASU) No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).
- The statement of functional expenses was added for fiscal year-ended June 30, 2019 in the accompanying financial statements along with information regarding allocation of certain expenses and the related accounting policy.

The changes have the following effect on net assets at July 1, 2017.

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 93,251	\$ -
Temporarily restricted net assets	53,014	-
Permanently restricted net assets	21,703	-
Net assets without donor restrictions	-	93,251
Net assets with donor restrictions	-	74,717
Total	<u>\$ 167,968</u>	<u>\$ 167,968</u>

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

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, 2020. The University is currently evaluating the effects the ASU will have on its financial statements.

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 of 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 is currently evaluating the effects the ASU will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU intends to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For nonpublic entities, the amendments of ASU 2018-08 are effective for annual reporting periods beginning after December 15, 2018. The University is currently evaluating the effects the ASU will have on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820), *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). The amendments in ASU 2018-13 modify the disclosure requirements in Topic 820 of the disclosure framework. The modifications include removing the requirement to disclose the amount of and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. Also, in lieu of a roll forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. Additionally, for certain entities that calculate net asset value, an entity is required to disclose the timing of an investee's assets and the date when restrictions from redemptions that lapse only if the investee has communicated the timing to the entity or announced the timing publicly. ASU 2018-13 is effective for fiscal years beginning on or after December 15, 2019 with early adoption permitted to any removed or modified disclosures of this update. The University has adopted the ASU with respect to removing disclosures related to the amounts of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The University will continue to evaluate the effects of the other requirements under the ASU.

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

Note 2 – Liquidity and Availability of Resources

Financial assets available for general expenditures within one year of June 30, 2019 are:

Financial assets:	
Cash and cash equivalents	\$ 17,401
Portfolio investments	55,886
Contribution receivable from foundation	24,000
Tuition and other receivables, net	1,580
Unconditional promise to give, net	<u>2,747</u>
Total financial assets	101,614
Less financial assets held to meet donor-imposed restrictions:	
Time or purpose-restricted net assets (Note 13)	(9,708)
Donor-restricted endowment funds (Note 13)	(46,312)
Contribution receivable from foundation (Note 5)	(22,800)
Less financial assets not available within one year:	
Unconditional promise to give, net (Note 4)	(1,751)
Less board-restricted endowment funds (Note 13)	<u>(1,771)</u>
Total financial assets available for general operating expenditures within one year	<u>\$ 19,272</u>

The above table reflects donor-restricted and any board-designated endowment funds as unavailable because it is the University's intention to invest those resources for the long-term support of the University's programs. However, in the case of need, the Board of Trustees could appropriate resources from the donor restricted funds available for general use. Note 13 provides more information about those funds and about the spending policies for all endowment funds.

As part of the University's liquidity management plan, the University invests cash in excess of daily requirements in short-term investments. The University maintains a revolving line of credit of \$2,000 to cover short-term cash needs (Note 10).

Note 3 – Portfolio Investments

A summary of portfolio investments, by investment type, at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Public fund	\$ 51,876	\$ 51,591
Private funds	3,313	2,683
Marketable equity securities	609	659
Other investments	<u>88</u>	<u>100</u>
	<u>\$ 55,886</u>	<u>\$ 55,033</u>

As of June 30, 2019 and 2018, public and private funds represent investments in open-end management investment companies advised by Morgan Stanley-Graystone and TIFF Advisory (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. During the year-ended June 30, 2019, the University transferred approximately \$48,100 of endowment funds from TIFF Advisory to Morgan Stanley-Graystone, which was subject to an exit fee of 0.5%, or approximately \$241, which is included in net investment return in the accompanying statements of activities.

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

Note 3 – Portfolio Investments, Continued

At June 30, 2019 and 2018, the University had approximately 93% and 94%, respectively, of its portfolio investments invested in the public fund. At June 30, 2019 and 2018, the University has outstanding commitments to make future investments in private funds aggregating \$2,100 and \$2,700, respectively.

The following schedule summarizes the net investment return on portfolio and non-marketable investments (see Note 6) for the years ended June 30, 2019 and 2018 and its classification in the statements of activities:

	2019	2018
Net investment income	\$ 944	\$ 2,485
Net realized gains	2,777	5,080
Net unrealized losses	(2,764)	(3,500)
Net investment return	\$ 957	\$ 4,065

Net investment return includes \$305 and \$40 of investment expenses for the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, net unrealized gains (losses) includes \$23 and \$140, respectively, of net unrealized gains attributable to the University's non-marketable investments.

Note 4 – Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30, 2019 and 2018:

	2019	2018
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 3,324	\$ 2,937
Less: unamortized discount	(228)	(154)
Subtotal	3,096	2,783
Less: allowance for uncollectible pledges	(349)	(280)
Net unconditional promises to give	\$ 2,747	\$ 2,503

Unconditional promises to give consist of the following at June 30, 2019 and 2018:

	2019	2018
Amounts due in:		
Less than one year	\$ 1,345	\$ 1,927
One to five years	1,979	1,010
Total	\$ 3,324	\$ 2,937

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

Note 5 – Contribution Receivable from Foundation

At June 30, 2019 and 2018, 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.

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

Note 5 – Contribution Receivable from Foundation, Continued

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, 2019 and 2018 which was recorded in change in value of split-interest trusts in the accompanying statements of activities.

Note 6 – 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 each of the years ended June 30, 2019 and 2018, the University received \$110 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, 2019, the interest rate assumption used was 5%, which is approximately equal to the expected return on the trust assets over time.

Note 7 – Non-marketable Investments

Non-marketable investments include the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Common stock investments	\$ 2,720	\$ 2,697
Other investment	<u>100</u>	<u>100</u>
Total non-marketable investments	<u>\$ 2,820</u>	<u>\$ 2,797</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, 2019 and 2018 and for the years then ended is presented in the following table:

	<u>2019</u>	<u>2018</u>
<u>At year-end:</u>		
Assets, principally land and certificates of deposit	\$ 2,693	\$ 2,712
Liabilities, principally income taxes	<u>27</u>	<u>15</u>
Shareholder’s equity	<u>\$ 2,666</u>	<u>\$ 2,697</u>
<u>For the year ended:</u>		
Revenue	\$ 763	\$ 930
Expenses	<u>739</u>	<u>789</u>
Net income	<u>\$ 24</u>	<u>\$ 141</u>

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

Note 8 – 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, 2019 and 2018 on the following financial assets and liabilities using these input levels that are measured at fair value on a recurring basis:

	Fair Values at June 30, 2019			Fair Value Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Public fund:				
Money market funds	\$ 7,522	\$ -	\$ -	\$ 7,522
Equities	22,793	-	-	22,793
Mutual funds	9,148	-	-	9,148
Alternative	-	-	12,413	12,413
Total public fund	39,463	-	12,413	51,876
Private funds	-	-	3,313	3,313
Marketable equity securities	609	-	-	609
Other investments	88	-	-	88
Total assets	<u>\$ 40,160</u>	<u>\$ -</u>	<u>\$ 15,726</u>	<u>\$ 55,886</u>
Liabilities:				
Annuities payable	\$ -	\$ (231)	\$ -	\$ (231)
Fair value of cash flow hedge	-	(1,548)	-	(1,548)
Total liabilities	<u>\$ -</u>	<u>\$ (1,779)</u>	<u>\$ -</u>	<u>\$ (1,779)</u>

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

Note 8 – Fair Value Measurements, Continued

	Fair Values at June 30, 2018			
	Level 1	Level 2	Level 3	Total
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>

The following is a schedule of Level 3 investment activity for the year ended June 30, 2019 measured on a recurring basis using significant unobservable inputs:

	<u>Investments in private and alternative funds</u>
Balance as of July 1, 2018	\$ 2,683
Purchases	12,945
Net investment return	362
Distributions	<u>(264)</u>
Balance as of June 30, 2019	<u>\$ 15,726</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, 2019 and 2018:

Public fund investment - represents an interest in the TIFF Multi-Asset Fund (TIFF-MAF) for the year ended June 30, 2018 and Morgan Stanley-Graystone Consulting for the year ended June 30, 2019, which maintain a diversified portfolio of marketable securities. The objective of the Fund is to attain a growing stream of current income and appreciation of principal that at least offsets inflation. The investments are valued based on the market value of the underlying assets. During the year-ended June 30, 2019, the University transferred approximately \$48,100 of endowment funds from TIFF Advisory to Morgan Stanley-Graystone, which resulted in a \$12,413 investment in Level 3 alternative funds transferred from Level 2 investments held in the TIFF fund in the prior year. The University's policy is to recognize transfers in and out of levels at the end of the fiscal year.

Mutual funds - Required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded.

Money market funds – institutional short-term investment vehicles valued daily.

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

Note 8 – Fair Value Measurements, Continued

Private and alternative 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.

Annuities payable – The amounts due are calculated using risk-adjusted discount rates ranging from 3% to 7% and the Internal Revenue Service's life expectancy tables.

Cash flow hedge - 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 investments 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 9 – Property, Plant, and Equipment

The following is a summary of property, plant, and equipment and related accumulated depreciation as of June 30, 2019 and 2018:

	2019	2018
Land	\$ 23,227	\$ 23,227
Land improvements	13,286	13,286
Leasehold improvements	161	146
Buildings and improvements	142,864	141,179
Equipment and furnishings	17,881	16,094
	197,419	193,932
Less accumulated depreciation	(87,674)	(80,747)
	109,745	113,185
Construction in progress	924	1,015
Property, plant, and equipment, net	\$ 110,669	\$ 114,200

Depreciation totaled \$6,988 and \$6,807 for the years ended June 30, 2019 and 2018, respectively. Construction in progress as of June 30, 2019 primarily relates to the University's school of business and visual arts center remodels located in West Palm Beach, Florida.

Note 10 – 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 2020. Borrowings under the revolving credit agreement bear interest at the LIBOR daily floating rate plus 1.25% (4.69% at June 30, 2019) 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, 2019.

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, 2019.

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

Note 11 – Long-Term Debt, Net

Long-term debt at June 30, 2019 and 2018 consists of the following:

	2019	2018
Variable rate tax-exempt Educational Facilities Revenue Bonds, Series 2012 (Series 2012 Bonds)	\$ 29,950	\$ 31,650
Promissory note – (Promissory note payable)	1,500	1,500
Term note payable – financial institution (Term note payable)	5,323	5,492
	\$ 36,773	\$ 38,642

2012 Series Bonds

The 2012 Series Bonds bear interest at a variable rate equal to 70% of the 30-day LIBOR rate + 1.15% (2.85% at June 30, 2019). 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, 2019.

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 December 1, 2022. The term note payable bears interest at the 30-day LIBOR rate plus 2.25% (4.69% at June 30, 2019) and is collateralized by certain real property. The term note payable is subject to certain financial covenants all of which were met as of June 30, 2019.

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.

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, 2019 and 2018. The outstanding balance of long-term debt, net at June 30, 2019 and 2018 is as follows:

	2019	2018
Long-term debt	\$ 36,773	\$ 38,642
Less: unamortized debt issuance costs	(35)	(45)
Total long-term debt, net	\$ 36,738	\$ 38,597

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

Note 11 – Long-Term Debt, Net, Continued

Principal payments

Principal payments due on long-term debt in each of the five years subsequent to June 30, 2019, and thereafter, are presented as follows:

<u>Year Ending June 30,</u>	<u>Series 2012 Bonds</u>	<u>Promissory Note Payable</u>	<u>Term Note Payable</u>	<u>Total Payments</u>
2020	\$ 1,800	\$ -	\$ 438	\$ 2,238
2021	1,800	-	457	2,257
2022	1,900	-	477	2,377
2023	1,900	1,500	499	3,899
2024	2,000	-	521	2,521
Thereafter	<u>20,550</u>	<u>-</u>	<u>2,931</u>	<u>23,481</u>
Total	<u>\$ 29,950</u>	<u>\$ 1,500</u>	<u>\$ 5,323</u>	<u>\$ 36,773</u>

Interest rate swap agreements

Interest rate swap agreements outstanding at June 30, 2019 and 2018 are accounted for as cash flow hedges and summarized as follows:

<u>Notional Amount</u>		<u>Fair Value</u>		<u>Maturity</u>	<u>Interest Rate at June 30, 2019</u>
<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>		
<u>\$ 16,900</u>	<u>\$ 18,100</u>	<u>\$ (1,548)</u>	<u>\$ (1,330)</u>	2024	3.65%

The aggregate fair value of the cash flow hedges at June 30, 2019 and 2018 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, 2019 and 2018 of \$(219) and \$868, respectively, are included in the accompanying statements of activities as an unrealized cash flow hedge (loss) gain. If terminated prior to maturity, the cash flow hedges would be settled at the current value at the time of the settlement.

Note 12 – Retirement Plan

Retirement benefits are provided through a qualified 403(b) defined contribution plan. For each of the years ended June 30, 2019 and 2018, the University contributed 1% of the annual compensation for all participating employees. For the years ended June 30, 2019 and 2018, 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, 2019 and 2018 amounted to \$1,933 and \$1,900, respectively.

Note 13 – Restricted Net Assets and Endowment

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 13 – Restricted Net Assets and Endowment, Continued

At June 30, 2019 and 2018, net assets with donor restrictions consist of the following:

	2019	2018
Purpose restrictions, available for spending:		
Instruction	\$ 3,711	\$ 2,412
Academic support	372	234
Student services	1,028	909
General administrative and institutional support	1,615	728
Plant facilities and maintenance	2,047	1,511
Scholarships and student aid	935	893
Restrictions perpetual in nature	70,883	70,699
	\$ 80,591	\$ 77,386

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 net assets with donor restrictions and restored with subsequent gains.

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.

Interpretation of relevant law, continued

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.

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

Note 13 – Restricted Net Assets and Endowment, 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.

Changes in endowment net assets for the year ended June 30, 2019 follow:

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Balance as of July 1, 2018	\$ 14,960	\$ 70,699	\$ 85,659
Net investment return	195	723	918
Contributions	9	1,007	1,016
Change in value split-interest trusts	-	1,301	1,301
Appropriations for endowment expenditures	(111)	(2,847)	(2,958)
Total endowment gifts and designations	<u>\$ 15,053</u>	<u>\$ 70,883</u>	<u>\$ 85,936</u>

A reconciliation of endowment net assets to total net assets for the year ended June 30, 2019 follows:

Total endowment gifts and designations	\$ 15,053	\$ 70,883	\$ 85,936
Other non-endowment net assets	<u>78,512</u>	<u>9,708</u>	<u>88,220</u>
Total net assets	<u>\$ 93,565</u>	<u>\$ 80,591</u>	<u>\$ 174,156</u>

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

Note 14 – 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, 2019 and 2018 for the following purposes:

	<u>2019</u>	<u>2018</u>
Instruction	\$ 1,053	\$ 858
Academic support	36	7
Student services	581	803
General administrative and institutional support	274	649
Plant facilities for capital expenditures	-	1,360
Plant facilities for maintenance	241	163
Scholarships and student aid	<u>3,070</u>	<u>3,042</u>
	<u>\$ 5,255</u>	<u>\$ 6,882</u>

Note 15 – 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, 2019 and 2018 approximated \$324 and \$374, 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, 2019, 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>
2020	\$ 1,002
2021	963
2022	934
2023	722
2024	730
Thereafter	<u>15,587</u>
Total	<u>\$ 19,938</u>

Rent expense for the years ended June 30, 2019 and 2018 approximated \$865 and \$1,030, respectively.

Provident Group – PBAU Properties, LLC

The University entered into a 40-year ground lease with Provident Group – PBAU Properties, LLC and Provident Resources Group, Inc. (“Owner”), commencing June 1, 2019, in which the Owner will design, construct, manage the construction, and furnish a 510-bed residence hall facility for benefit of the University. The ground lease term shall expire on the earlier of the 1) the 40th anniversary of the commencement date or 2) the date on which the bonds associated with the project have been fully repaid or the indenture is discharged. The Owner issued \$40,755 in revenue bonds through the State of Florida to finance the construction of the residence hall. The University is not contingently liable in the event of a default in the bonds.

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

Note 15 – Description of Leasing Arrangements, Continued

Provident Group – PBAU Properties, LLC, continued

The University and Owner entered into a management agreement such that the University will be responsible for managing, operating and maintaining the residence hall in conjunction with its general business. In general, revenues and expenses associated with the residence hall are the responsibility of the Owner. The bonds will be repaid from the revenues from the residence hall. A ground lease payment will be paid to the University only upon settlement of various expenses and if minimum cash requirements are met. The University will be reimbursed by the Owner for utilities and other operating expenses. All liens and rights are subordinate to the University.

Ownership of the residence hall will revert to the University upon termination of the ground lease and full repayment of the related bonds. The University has the option to purchase the Owner's right, title and interest in the residence hall beginning on the tenth anniversary of the commencement date of the lease. The University has not recorded any transactions related to potential future title or ownership in the residence hall for the year ended June 30, 2019.

Note 16 – 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, 2019 and 2018.

FICURMA was fully funded by its members as of June 30, 2019 and 2018, 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 \$1,903 and \$1,730, respectively, for the years ended June 30, 2019 and 2018 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.

Note 17 – 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 18 – 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.

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

Note 18 – Risks and Concentrations, Continued

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 19 – Supplemental Statement of Cash Flows Disclosure

Interest paid for the years ended June 30, 2019 and 2018 approximated \$1,564 and \$1,400, respectively.

Note 20 – Subsequent Events

The University evaluated its activities subsequent to June 30, 2019 through November 13, 2019, 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, 2019

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	\$ 31,810,420
Federal Pell Grant Program	84.063	3,926,724
Federal Work Study Program	84.033	339,081
Federal Supplemental Educational Opportunity Grant	84.007	176,231
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	<u>13,108</u>
Total expenditures of federal awards		<u>\$ 36,265,564</u>
State Financial Assistance		
Florida Department of Education:		
Florida Student Financial Assistance Programs:		
William L. Boyd, IV, Effective Access to Student Education Program (EASEP)	48.064	\$ 4,130,000
The Florida Bright Futures Scholarship Program -		
Florida Medallion Scholars Award (FMSA)	48.059	922,246
Florida Academic Scholars Award (FASA)	48.059	1,217,969
Florida Student Assistance Grant (FSAG)	48.054	1,007,359
Florida Work Experience Program (FWEP)	48.053	3,840
Scholarships for Children and Spouses of Deceased or Disabled Veterans and Service Members (CSDDV)	48.055	25,652
Honorably Discharged Graduate Assistance Program (HDGAP)	48.118	<u>1,700</u>
Total expenditures under Florida Department of Education programs		7,308,766
Florida Department of Highway Safety and Motor Vehicles:		
Palm Beach Atlantic University License Plate Project	76.054	<u>7,637</u>
Total expenditures of state financial assistance		<u>\$ 7,316,403</u>
Total expenditures of federal awards and state financial assistance		<u>\$ 43,581,967</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, 2019 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, 2019 are as follows:

	<u>Federal CFDA</u>	<u>Loans Made During Year</u>
Direct Subsidized Loans	84.268	\$ 4,404,819
Direct Unsubsidized Loans	84.268	17,829,763
Parent PLUS Loans	84.268	4,382,368
Graduate PLUS Direct Loans	84.268	<u>5,193,470</u>
Total Federal Student Loans		<u>\$ 31,810,420</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, 2019, 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:

William L. Boyd, IV, Effective Access to Student Education Program (EASEP)

EASEP is a State of Florida financial aid program which provides certain qualified, full-time, undergraduate students with assistance in paying for tuition and fees. EASEP 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.

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, 2019, 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 November 13, 2019.

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

November 13, 2019

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, 2019. 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, 2019.



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
November 13, 2019

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, 2019**

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	\$ 1,087,967
State financial assistance project Type A program	\$750,000
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, <i>Rules of the Florida Auditor General</i>	No

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>
William L. Boyd, IV, Effective Access to Student Education Program	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 Service Members	48.055
Florida Work Experience Program	48.053

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, 2019**

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.

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, 2019**

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

None.

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

None.

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, 2019, and have issued a report thereon dated November 13, 2019.

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 November 13, 2019, 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
November 13, 2019



PALM BEACH ATLANTIC UNIVERSITY, INC.

**SUMMARY OF POPULATION, ITEMS TESTED, AND FINDINGS FOR
FLORIDA STUDENT FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2019**

	Description of Category	Number of Students	Percent of Population	Amount of Awards	Percent of Population
EASEP	Population	1,317	100.0%	\$ 4,130,000	100.0%
	Tested	50	3.8%	\$ 155,750	3.8%
	Findings	0	0.0%	\$ -	0.0%
FMSA	Population	207	100.0%	\$ 922,246	100.0%
	Tested	50	22.5%	\$ 207,296	22.5%
	Findings	0	0.0%	\$ -	0.0%
FASA	Population	177	100.0%	\$ 1,217,969	100.0%
	Tested	44	24.9%	\$ 314,748	25.9%
	Findings	0	0.0%	\$ -	0.0%
FSAG	Population	529	100.0%	\$ 1,007,359	100.0%
	Tested	50	9.5%	\$ 102,077	10.2%
	Findings	0	0.0%	\$ -	0.0%
FWEP	Population	3	100.0%	\$ 3,840	100.0%
	Tested	3	100.0%	\$ 3,840	100.0%
	Findings	0	0.0%	\$ -	0.0%
CSDDV	Population	4	100.0%	\$ 25,652	100.0%
	Tested	4	100.0%	\$ 25,652	100.0%
	Findings	0	0.0%	\$ -	0.0%
HDGAP	Population	2	100.0%	\$ 1,700	100.0%
	Tested	2	100.0%	\$ 1,700	100.0%
	Findings	0	0.0%	\$ -	0.0%

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