

**ST. THOMAS UNIVERSITY, INC.**

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FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

**ST. THOMAS UNIVERSITY, INC.**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
St. Thomas University, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of St. Thomas University, Inc. (the "University") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 St. Thomas 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.

An independent member of Baker Tilly International



To the Board of Trustees  
St. Thomas University, Inc.  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 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.

*Monison, Brown, Ariz & Tana*

Miami, Florida  
October 25, 2019

**ST. THOMAS UNIVERSITY, INC.**

STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 582,639	\$ 65,895
Restricted cash	772,908	787,439
Grants and other receivables	1,682,514	1,850,210
Accounts and loans receivable, net	3,996,656	4,838,362
Pledges receivable, net	6,120,263	7,755,176
Other assets	266,098	350,439
Investments	26,991,707	26,620,996
Investment held in trust	3,537,541	3,472,094
Other investments	756,400	756,400
Property, plant and equipment, net	43,264,318	40,646,398
TOTAL ASSETS	<u>\$ 87,971,044</u>	<u>\$ 87,143,409</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,548,083	\$ 8,411,639
Deferred revenue	3,585,342	910,987
Obligations under capital leases	96,856	29,648
Other liabilities	376,349	409,670
Refundable federal student loans	2,751,763	3,018,312
Bond and lines of credit, net of deferred loan costs	30,651,713	28,067,675
TOTAL LIABILITIES	<u>44,010,106</u>	<u>40,847,931</u>
<b>NET ASSETS</b>		
Without donor restrictions	11,640,800	11,567,072
With donor restrictions	32,320,138	34,728,406
TOTAL NET ASSETS	<u>43,960,938</u>	<u>46,295,478</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 87,971,044</u>	<u>\$ 87,143,409</u>

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

**ST. THOMAS UNIVERSITY, INC.**

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	<b>2019</b>	<b>2018</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
<b>REVENUE, INCOME AND OTHER SUPPORT:</b>		
Tuition and other fees, net	\$ 41,932,745	\$ 40,542,996
Gifts and grants	1,609,407	1,257,056
Government grants	2,578,456	2,856,018
Investment income, net	615,202	861,091
Auxiliary enterprises	3,687,356	3,279,824
Other sources	399,055	436,510
Net assets released from restrictions	<u>4,996,345</u>	<u>1,873,820</u>
<b>TOTAL REVENUE, INCOME AND OTHER SUPPORT</b>	<u>55,818,566</u>	<u>51,107,315</u>
<b>EXPENSES:</b>		
Instruction	21,119,513	21,058,373
Public service	2,108,907	2,589,187
Academic support	6,405,456	7,623,275
Student service	10,340,999	10,002,663
Institutional support	11,064,549	10,318,437
Auxiliary enterprises	4,254,197	4,094,826
Other expense, net (NOTE 18)	<u>451,217</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<u>55,744,838</u>	<u>55,686,761</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>73,728</u>	<u>(4,579,446)</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Investment income, net	1,228,029	1,539,809
Gifts and grants	1,360,048	4,796,768
Net assets released from restrictions	<u>(4,996,345)</u>	<u>(1,873,820)</u>
<b>(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(2,408,268)</u>	<u>4,462,757</u>
<b>DECREASE IN NET ASSETS</b>	<u>(2,334,540)</u>	<u>(116,689)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>46,295,478</u>	<u>46,412,167</u>
<b>NET ASSETS, END OF YEAR</b>	<u><b>\$ 43,960,938</b></u>	<u><b>\$ 46,295,478</b></u>

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

**ST. THOMAS UNIVERSITY, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 22,325,607	\$ 4,676,444	\$ 770,180	\$ 27,772,231
Employee benefits and payroll taxes	4,703,262	1,264,954	212,069	6,180,285
<b>Total salaries and benefits</b>	<b>27,028,869</b>	<b>5,941,398</b>	<b>982,249</b>	<b>33,952,516</b>
Professional fees	119,514	687,863	-	807,377
Advertising and promotion	110,195	706,456	-	816,651
Office expenses	1,034,048	620,254	122,412	1,776,714
Information technology	486,822	829,806	284	1,316,912
Occupancy	2,833,771	239,830	11,637	3,085,238
Travel	1,427,173	67,360	151,029	1,645,562
Interest	1,301,055	77,462	2,003	1,380,520
Depreciation and amortization	2,764,089	182,693	9,814	2,956,596
Loss on disposal of property, plant and equipment	80,307	-	-	80,307
Insurance	697,985	428,725	3,622	1,130,332
Food services	1,412,880	-	-	1,412,880
Security	623,023	44,686	2,150	669,859
Textbooks and library materials	1,037,178	-	-	1,037,178
Contracted services	1,383,149	404,563	93,050	1,880,762
Repairs and maintenance	67,745	414,195	-	481,940
Other operating expenses	731,531	329,990	251,973	1,313,494
<b>Total expenses</b>	<b>\$ 43,139,334</b>	<b>\$ 10,975,281</b>	<b>\$ 1,630,223</b>	<b>\$ 55,744,838</b>

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

**ST. THOMAS UNIVERSITY, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 23,084,256	\$ 4,264,521	\$ 554,714	\$ 27,903,491
Employee benefits and payroll taxes	4,954,686	1,038,415	155,811	6,148,912
<b>Total salaries and benefits</b>	<b>28,038,942</b>	<b>5,302,936</b>	<b>710,525</b>	<b>34,052,403</b>
Professional fees	327,653	625,940	125	953,718
Advertising and promotion	153,574	730,836	390	884,800
Office expenses	1,046,030	630,737	103,906	1,780,673
Information technology	719,392	915,325	-	1,634,717
Occupancy	2,443,156	192,592	7,540	2,643,288
Travel	1,508,130	28,574	26,342	1,563,046
Interest	1,182,242	67,538	1,820	1,251,600
Depreciation and amortization	2,909,354	193,827	10,412	3,113,593
Loss on disposal of property, plant and equipment	108,381	-	-	108,381
Insurance	245,190	445,484	2,512	693,186
Food services	1,357,816	-	-	1,357,816
Security	594,574	43,197	2,051	639,822
Textbooks and library materials	1,403,257	-	-	1,403,257
Grants and other assistance	-	10,000	-	10,000
Contracted services	1,108,001	562,231	61,481	1,731,713
Repairs and maintenance	83,942	465,004	-	548,946
Other operating expenses	680,315	425,828	209,659	1,315,802
<b>Total expenses</b>	<b>\$ 43,909,949</b>	<b>\$ 10,640,049</b>	<b>\$ 1,136,763</b>	<b>\$ 55,686,761</b>

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

**ST. THOMAS UNIVERSITY, INC.**

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (2,334,540)	\$ (116,689)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,956,596	3,113,593
Provision for uncollectible tuition and other fees	-	274,681
Provision for uncollectible pledges	104,134	-
Net realized and unrealized investment gain	(1,096,500)	(1,731,025)
Gifts restricted for endowment	(50,683)	(170,371)
Gifts restricted for construction projects	(300,659)	(377,713)
Loss on disposal of property, plant and equipment	80,307	108,381
Changes in assets and liabilities:		
Decrease (increase) in restricted cash - operating	161,547	(135,323)
Decrease (increase) in accounts, grants, pledges and other receivable	1,620,697	(1,791,401)
Decrease in other assets	84,341	12,662
(Decrease) increase in accounts payable and accrued expenses	(1,863,556)	273,628
Increase (decrease) in deferred revenue	2,674,355	(29,077)
Decrease in other liabilities	(33,321)	(62,877)
<b>TOTAL ADJUSTMENTS</b>	<b>4,337,258</b>	<b>(514,842)</b>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>2,002,718</b>	<b>(631,531)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	4,756,543	2,574,439
Purchase of investments	(4,096,201)	(1,935,188)
Purchase of property, plant and equipment	(5,529,051)	(1,283,198)
Change in restricted cash - loans	(147,016)	(72,606)
Disbursement of student loans	-	(213,850)
Proceeds from collection of student loans	478,824	427,549
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(4,536,901)</b>	<b>(502,854)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of principal on bond	(1,095,000)	(1,035,000)
Proceeds from note payable	-	1,500,000
Repayment of note payable	-	(3,000,000)
Proceeds from line of credit	5,983,194	2,335,000
Repayment of line of credit	(2,335,000)	(410,000)
Repayment of capital leases	(27,720)	(71,653)
Gifts restricted for construction projects	300,659	377,713
Decrease in pledges receivable for construction projects	440,660	1,395,145
Gifts restricted for endowment	50,683	170,371
Refundable federal student loans, net	(266,549)	(112,323)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,050,927</b>	<b>1,149,253</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>516,744</b>	<b>14,868</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>65,895</b>	<b>51,027</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 582,639</b>	<b>\$ 65,895</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Interest paid	\$ 1,387,079	\$ 1,219,179
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Cancellation of student loans	\$ 11,817	\$ 9,374
Property and equipment acquired through capital leases	\$ 94,928	\$ 12,500

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

## ST. THOMAS UNIVERSITY, INC.

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 1. ORGANIZATION

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St. Thomas University, Inc. (the "University") was organized to establish an independent Catholic institution of higher learning and is sponsored by the Catholic Archdiocese of Miami. In a ruling dated March 25, 1946, the Department of Treasury determined that agencies and instrumentalities and all educational, charitable and religious institutions operated, supervised, or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in *The Official Catholic Directory* are entitled to exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University is included in *The Official Catholic Directory*, and is therefore, exempt from federal income tax.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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##### Basis of Presentation

The financial statements are prepared using the accrual basis of accounting. Net assets, revenue, gains and losses are classified into two classes of net assets based on the existence or absence of donor-imposed restrictions. The two net asset categories are reflected in the accompanying financial statements as follows:

- **Net assets without donor restrictions** - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the University. These net assets may be used at the discretion of the University's management and the Board of Trustees.
- **Net assets with donor restrictions** - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the University or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

##### Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain 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. Actual results could differ from those estimates.

##### Concentration of Credit Risk

The University limits its exposure by placing its deposits with quality financial institutions. At times, such balances may be in excess of the \$250,000 insurance limits of the Federal Deposit Insurance Corporation. The University has not experienced losses in such accounts.

The University has significant investments in equity and debt securities, which are subject to concentrations of credit risk. Investments are made by investment managers engaged by the University and the investments are monitored for the University by the governing investment committee. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the University and its beneficiaries.

The University's investment committee actively monitors the activity of the financial instruments and establishes policies for the safeguarding of their assets against credit risks.

Concentration of credit risk with respect to contracts and grants receivable is limited since a substantial portion of contracts and grants receivable is due from federal, state and local government agencies and is based in accordance with contract terms. The credit risk with respect to student receivables is generally considered minimal due to the wide dispersion of receivables. Amounts that are deemed to be uncollectible have been reserved for in the provision for uncollectible accounts.

## ST. THOMAS UNIVERSITY, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking and money market accounts with maturities of three months or less.

### Restricted Cash

Restricted cash represents agency funds and funds advanced to the University under various loan programs and grants, which have not been disbursed to students at the end of the fiscal year.

### Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statements of Financial Position. Estimated values are subject to uncertainty and therefore may differ significantly from the value that would have been used had the investments been traded on a public market. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the Statements of Activities as increases or decreases in net assets without donor restrictions unless income or loss is restricted by donor or law.

### Other Investments

Other investments consist primarily of collections of art. The University has elected to exercise the option to capitalize the items that meet the definition of "collections" as prescribed by U.S. GAAP. Therefore, the fair value of the donated collections at the date of donation is included in other investments in the accompanying financial statements. The carrying value of collections was \$573,145 at June 30, 2019 and 2018. The remaining balance represents land held for investment in the amount of \$183,255 at June 30, 2019 and 2018.

### Bond Issue Costs

The University capitalizes costs associated with the issuance of debt instruments. These costs are amortized on the effective interest rate method over the term of the debt. Amortization expense amounted to approximately \$31,000 for each of the years ended June 30, 2019 and 2018.

### Pledges and Gifts

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of future cash flows using risk free rates ranging from 3.0% to 6.5% based on the University's borrowing rate at the time of the individual pledge. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Promises of noncash assets are recorded at their fair value. Conditional promises are recorded when donor stipulations are substantially met.

Contributions are considered to be available for general operations of the University unless specifically restricted by the donor. The University reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions received and satisfied during the same year are recorded within net assets without donor restrictions.

The University reports gifts of land, buildings and equipment as net assets without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pledges and Gifts (Continued)**

In the absence of 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.

**Tuition Revenue and Accounts Receivable, Net**

Tuition and fees revenue is reported within the fiscal year in which educational services are provided. Student accounts receivable represents amounts due from students for educational services already provided. Tuition receivables are not collateralized. The allowance for doubtful accounts considers a number of factors and is established primarily based upon historical collection rates by age of receivable. The University periodically assesses its methodologies for estimating its allowance for doubtful accounts in consideration of actual experience.

**Grants**

Grants and other receivables are recorded primarily for grants and fees from governmental agencies stated at estimated realizable value. Grant revenues are recognized as the eligible grant activities are conducted. An allowance for doubtful accounts is based on management's review of the collectability of receivables. An allowance for doubtful accounts was not considered necessary as of June 30, 2019 and 2018.

**Property, Plant and Equipment, Net**

Property, plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets, as follows:

Buildings	20-50 years
Building improvements	10-20 years
Land improvements	5-20 years
Furniture, machinery and equipment	3-10 years
Library materials	7 years

Depreciation is not recorded on land. Upon the sale or disposition, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the Statements of Activities.

**Impairment of Long-Lived Assets**

The carrying value of long-lived assets is reviewed if the facts and circumstances, such as significant declines in revenues, or cash flows or material adverse changes in the business climate, indicate that they may be impaired. The University performs its review by comparing the carrying amounts of long-lived assets to the estimated undiscounted cash flows relating to such assets. If any impairment in the value of the long-lived assets is indicated, the carrying value of the long-lived assets is adjusted to reflect such impairment based on the fair value of the impaired assets or an estimate of fair value based on discounted cash flows.

## ST. THOMAS UNIVERSITY, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Revenue

The University has deferred revenue of \$3,585,342 and \$910,987 at June 30, 2019 and 2018, respectively. The University entered into three lease agreements as the lessor, which require the lessees to fund certain improvements to the facilities under the leases. The leases expire at various dates through 2030 and the contributions from the capital improvements to the facilities are being amortized over the lease terms. As of June 30, 2018, housing revenue related to the next academic year was deferred until the next fiscal year. Beginning in fiscal year 2019, both tuition and housing revenue related to academic terms in the next fiscal year (the second summer mini-term) were deferred as of June 30, 2019.

### Allocation of Functional Expenses

Expenses are presented by function and are charged directly to programs based on its function. Indirect expenses such as interest expense, depreciation and operations and maintenance have been allocated among the functions based on a square footage method. Payroll expenses are charged directly to each department. Fringe benefits are allocated based on full time employee salaries only and other benefits are allocated based on total salaries and wages.

### Income Taxes

The University is included in *The Official Catholic Directory*, which entitles it to an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, accordingly, generally would not incur income taxes. As a result, the financial statements do not reflect a provision for income taxes.

The University recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the University files tax returns. The University is generally no longer subject to U.S. Federal or State examinations by tax authorities for years before 2016.

### Adopted Accounting Pronouncement

#### Presentation of Financial Statements of Not-for-Profit Entities

During the year ended June 30, 2019, the University adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The University has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the University has reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions, as well as, temporarily restricted and permanently restricted net assets to net assets with donor restrictions. The adoption of this update has no other material effect on the University’s financial position and changes in net assets. In addition, the University has elected to continue to present the statements of cash flows using the indirect method and has included separate statements of functional expenses in its financial statements.

## ST. THOMAS UNIVERSITY, INC.

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Recent Accounting Pronouncements

#### Revenue From Contracts With Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The University is currently evaluating the effect the update will have on its financial statements.

#### Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The University is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the University's financial condition due to the recognition of a right-of-use asset and related lease liability. The University does not anticipate the update having a material effect on its results of operations or cash flows, though such an effect is possible. The University is currently evaluating the effect the update will have on its financial statements.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the University's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The University is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The effective dates have been tentatively extended to fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021.

#### Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The University is currently evaluating the effect the update will have on its financial statements.

#### Restricted Cash

In November 2016, the FASB issued an accounting standard update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The University is currently evaluating the effect the update will have on its financial statements.

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements (Continued)**

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued an accounting standard update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The University is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

**Subsequent Events**

The University has evaluated subsequent events through October 25, 2019, which is the date the financial statements were available to be issued.

**3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES**

The University maintains a cash flow forecast on a monthly basis to anticipate cash requirements and ensure spending is within budget guidelines. The University also has a line of credit available with borrowing capacity of up to \$10,000,000, which can be used to meet general expenditures within a year (NOTE 12). Should current requirements exceed the amount available from the line of credit, the board-designated endowment, totaling approximately \$7.4 million, and other long term investments without donor restrictions as of June 30, 2019, would be gradually liquidated to ensure sufficient funds are available.

The University's financial assets available within one year of the Statement of Financial Position date for general expenditures as of June 30, 2019 are as follows:

Cash and cash equivalents	\$ 582,639
Restricted cash	772,908
Grants and other receivables	1,682,514
Accounts and loans receivable, net	3,996,656
Pledges receivable, net	6,120,263
Investments	26,991,707
Investments held in trust	3,537,541
Total financial assets	<u>43,684,228</u>
Less amounts not available to be used within one year:	
Donor-restricted endowment	22,172,369
Board-designated endowment	7,432,524
Reserves for capital projects	4,724,628
Long term pledges receivable	2,344,486
Student loans receivable (Federal Perkins loans), net	2,313,422
Other restricted assets	1,471,916
Total financial assets not available to be used within one year	<u>40,459,345</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,224,883</u>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**4. ACCOUNTS AND LOANS RECEIVABLE, NET**

Accounts and loans receivable consist of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Student accounts receivable, net	\$ 1,683,234	\$ 2,046,116
Student loans receivable (Federal Perkins loans), net	2,313,422	2,792,246
	<b>\$ 3,996,656</b>	<b>\$ 4,838,362</b>

Student accounts receivable are net of an allowance for doubtful accounts of approximately \$741,000 and \$1,060,000 for the years ended June 30, 2019 and 2018, respectively. The University participates in the Federal Perkins revolving loan program. Students have a grace period until repayment is required based upon the earlier of graduation or no longer achieving at least half-time enrollment status. Loans accrue interest after the grace period and are repaid directly to the University. At June 30, 2019 and 2018, student loans receivable represent approximately 2.6% and 3.2% of total assets, respectively.

The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. The University has a recorded liability, net of the allowance for doubtful loans, for the refundable Federal Perkins Loans grant program, which is ultimately refundable to the government. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the federal government.

The loan program was not renewed by Congress effective September 30, 2017. The University continues to service and collect loans that have been issued in prior years. Any loans collected are returned to the government and the University's operating fund proportionally.

Student loans receivable consisted of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Student loans receivable, net	\$ 2,882,690	\$ 3,437,054
Less allowance for doubtful accounts:		
Beginning balance	644,808	675,623
Change in provision	(63,723)	(22,941)
Charge-offs	(11,817)	(7,874)
Ending balance	569,268	644,808
Student loans receivable, net	<b>\$ 2,313,422</b>	<b>\$ 2,792,246</b>

At June 30, 2019 and 2018, the following is an age analysis of past due student loans receivables:

	<u>2019</u>	<u>2018</u>
0-60 days past due	\$ 378,858	\$ 481,177
61-239 days past due	256,439	321,720
Greater than 239 days past due	1,083,960	1,067,911
Total past due	1,719,257	1,870,808
In grace period	1,163,433	1,566,246
Total student loans receivable	<b>\$ 2,882,690</b>	<b>\$ 3,437,054</b>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**4. ACCOUNTS AND LOANS RECEIVABLE, NET (CONTINUED)**

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts according to the terms of the loan. Further, the University does not evaluate credit quality of student loans receivable after the initial approval of the loan. Loans to students are considered past due when payment is not received by the due date, and interest continues to accrue until the loan is paid in full. Management believes the allowance for doubtful accounts is adequate.

**5. PLEDGES RECEIVABLE, NET**

Unconditional pledges are recorded at net realizable value, which approximates fair value. Amounts due more than one year later are recorded at the present value of their estimated future cash flows, using a discount rate between 3.0% and 6.5% based on the University's borrowing rate at the time of the individual pledge. Management reviews outstanding pledges on an ongoing basis. Based on management's review of outstanding pledges, the allowance for uncollectible pledges was approximately \$104,000 as of June 30, 2019. There was no allowance deemed necessary as of June 30, 2018.

Pledges receivable are expected to be realized in the following periods:

	<b>2019</b>	<b>2018</b>
Less than one year	\$ 1,988,537	\$ 2,571,633
One to five years	4,383,738	5,203,347
More than five years	570,000	880,000
	6,942,275	8,654,980
Less present value discount	(717,878)	(899,804)
Less allowance for uncollectible pledges	(104,134)	-
	<b>\$ 6,120,263</b>	<b>\$ 7,755,176</b>

At June 30, 2019 and 2018, four donors accounted for 70% of pledges receivable.

**6. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment and related accumulated depreciation consist of the following at June 30,:

	<b>2019</b>	<b>2018</b>
Land and land improvements	\$ 3,841,663	\$ 1,703,889
Buildings and building improvements	62,623,645	62,505,323
Furniture, machinery, and equipment	14,352,359	14,263,638
Library materials	6,956,147	6,805,051
Other improvements	3,582,239	3,269,854
Equipment under capital leases	1,792,517	1,820,962
Construction in progress	3,409,943	1,092,992
	96,558,513	91,461,709
Less accumulated depreciation and amortization (including \$1,682,689 and \$1,764,413 for the years ended June 30, 2019 and 2018, respectively, related to capital leases)	(53,294,195)	(50,815,311)
	<b>\$ 43,264,318</b>	<b>\$ 40,646,398</b>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**6. PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)**

Depreciation and amortization expense amounted to \$2,925,751 and \$3,082,221 for the years ended June 30, 2019 and 2018, respectively.

Construction in progress of \$3,409,943 and \$1,092,992 as of June 30, 2019 and 2018, respectively, relates to planning and construction of the new Gus Machado School of Business. The building is scheduled for completion by summer 2020 at an estimated cost of approximately \$24,000,000.

**7. INVESTMENTS**

Investments by major category are summarized as follows as of June 30,:

	<b>2019</b>	<b>2018</b>
Equities:		
Stock mutual funds	\$ 20,297,443	\$ 20,022,008
Fixed income:		
Bond mutual funds	6,694,264	6,598,988
	<b>\$ 26,991,707</b>	<b>\$ 26,620,996</b>

Equity investments are comprised of domestic and international mutual funds. Fixed income investments are comprised of bond mutual funds.

The University has significant investments in mutual funds and is therefore subject to market risk. Investments are held by various investment custodians engaged by the University to invest the funds based on the University's investment policy.

At June 30, 2019 and 2018, investments have a cost basis of approximately \$23 million. Additionally, the investments are monitored for the University by the governing investment advisory committee. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the University and its beneficiaries.

The components of total investment return are reflected below at June 30,:

	<b>2019</b>	<b>2018</b>
Interest and dividends	\$ 746,731	\$ 669,875
Net realized and unrealized investment gain, net	1,096,500	1,731,025
	<b>\$ 1,843,231</b>	<b>\$ 2,400,900</b>

Income generated from investments restricted for scholarships and special purposes are classified as investment returns with donor restrictions. Income generated from all other investments are classified as investment returns without donor restrictions. The following represents investment return by restriction:

	<b>2019</b>	<b>2018</b>
Investment return without donor restrictions	\$ 615,202	\$ 861,091
Investment return with donor restrictions	1,228,029	1,539,809
	<b>\$ 1,843,231</b>	<b>\$ 2,400,900</b>

Net realized and unrealized investment gains and losses are shown net of investment management fees of approximately \$46,000 and \$45,000 for the years ended June 30, 2019 and 2018, respectively.

## ST. THOMAS UNIVERSITY, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 8. INVESTMENT HELD IN TRUST

The Archdiocese of Miami Millennium Appeal, Inc., d/b/a Vision 2000, has conducted a fund raising campaign for certain educational institutions. The funds raised were allocated to a donor-restricted endowment exclusively for the use and benefit of the University in offering tuition aid and academic scholarships to graduates of Catholic high schools in the Archdiocese of Miami.

The funds allocated are administered and invested by the Catholic Community Foundation in the Archdiocese of Miami, Inc. (the "Catholic Community Foundation"). The University records the amounts collected and passed on to the Catholic Community Foundation at fair value as an Investment Held in Trust and net assets with donor restrictions. The earnings are released at the discretion of the Catholic Community Foundation. The investment held in trust totaled \$3,537,541 and \$3,472,094 at June 30, 2019 and 2018, respectively.

#### 9. FAIR VALUE MEASUREMENTS

The FASB Accounting Standards Codification ("ASC"), *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides 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 under the FASB ASC are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

The equity and fixed income portfolio consist of mutual funds managed primarily through investments held by independent investment advisors with discretionary investment authority. The equity portfolio and fixed income investments are valued at the closing price reported in the active market in which the individual securities are traded.

Investments held in trust are valued based on the value of the underlying investments as provided by the Catholic Community Foundation.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**9. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Items Measured at Fair Value on a Recurring Basis**

The following table represents the University's financial instruments measured at fair value on a recurring basis at June 30, 2019 for each of the fair value hierarchy levels:

	<b>Fair Value Measurements at Reporting Date Using:</b>			
	<b>Fair Value 6/30/2019</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Assets:				
Investment securities:				
Equities:				
Domestic equities	\$ 12,298,535	\$ 12,298,535	\$ -	\$ -
International equities	7,998,908	7,998,908	-	-
Fixed income:				
Bond mutual funds	6,694,264	6,694,264	-	-
Total investment securities	<b>\$ 26,991,707</b>	<b>\$ 26,991,707</b>	<b>\$ -</b>	<b>\$ -</b>
Investment held in trust	<b>\$ 3,537,541</b>	<b>\$ 3,537,541</b>	<b>\$ -</b>	<b>\$ -</b>

The following table represents the University's financial instruments measured at fair value on a recurring basis at June 30, 2018 for each of the fair value hierarchy levels:

	<b>Fair Value Measurements at Reporting Date Using:</b>			
	<b>Fair Value 6/30/2018</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Assets:				
Investment securities:				
Equities:				
Domestic equities	\$ 12,329,347	\$ 12,329,347	\$ -	\$ -
International equities	7,692,661	7,692,661	-	-
Fixed income:				
Bond mutual funds	6,598,988	6,598,988	-	-
Total investment securities	<b>\$ 26,620,996</b>	<b>\$ 26,620,996</b>	<b>\$ -</b>	<b>\$ -</b>
Investment held in trust	<b>\$ 3,472,094</b>	<b>\$ 3,472,094</b>	<b>\$ -</b>	<b>\$ -</b>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following at June 30,:

	<b>2019</b>	<b>2018</b>
Trade payable	\$ 555,968	\$ 2,139,857
Salary accrual	1,548,979	1,616,200
Student refunds	922,923	1,063,312
Payable to FEMA	-	872,240
Vacation accrual	1,116,774	802,471
Online program fees	709,563	560,478
Textbooks	160,204	421,967
Other payables and accruals	739,827	391,167
Interest accrual	219,847	216,237
Student deposits	413,371	212,021
Professional services	160,627	115,689
	<b>\$ 6,548,083</b>	<b>\$ 8,411,639</b>

**11. OBLIGATIONS UNDER CAPITAL LEASES**

The University entered into several capital leases for the acquisition of equipment and vehicles expiring on various dates through fiscal year 2024. The interest rates related to the lease obligations range from 0.3% to 8.8%. The leased equipment is depreciated over the lower of the related lease terms or the estimated productive life. Depreciation of assets under capital leases totaled approximately \$42,000 and \$51,000 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments at June 30, 2019 are as follows for the years ending June 30:

2020	\$ 30,582
2021	30,582
2022	29,976
2023	16,811
2024	3,958
	111,909
Less interest	(15,053)
	<b>\$ 96,856</b>

**12. BOND AND LINES OF CREDIT**

Bond and lines of credit consist of the following at June 30,:

	<b>Series</b>	<b>Final maturity</b>	<b>Interest rate</b>	<b>2019</b>	<b>2018</b>
Higher Educational Facilities Financing Authority	2009	2034	4.85%	\$ 24,955,000	\$ 26,050,000
Lines of credit		On demand / 2029	Variable	5,983,194	2,335,000
				30,938,194	28,385,000
Less deferred loan costs				(286,481)	(317,325)
Total bond and lines of credit, net of deferred loan costs				<b>\$ 30,651,713</b>	<b>\$ 28,067,675</b>

**ST. THOMAS UNIVERSITY, INC.**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**12. BOND AND LINES OF CREDIT (CONTINUED)**

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Future principal payments for the bond and lines of credit at June 30, 2019 are as follows:

<u>For the years ending June 30,</u>	
2020	\$ 7,133,194
2021	1,210,000
2022	1,280,000
2023	1,350,000
2024	1,420,000
Thereafter	<u>18,545,000</u>
	<b>\$ 30,938,194</b>

On January 22, 2009, the Series 2009 Bond was issued with a par amount of \$31.0 million, fixed interest of 5.28%, subject to certain provisions in the agreement, and a maturity date of February 1, 2034. The bond requires quarterly principal repayments of varying amounts beginning August 2012. On June 13, 2011, the terms of the Series 2009 Bond were modified to a lower rate of 4.41%. All other terms remained the same. On June 17, 2015, the terms of the Series 2009 Bond were modified to a lower rate of 3.99%. At the financial institution's sole discretion, the Series 2009 Bond can become due on February 1, 2024 and February 1, 2029. On January 1, 2018 the interest rate increased to 4.85%, in accordance with certain provisions in the agreement.

The collateral for the bond includes a lien on certain property, rights, title and interests in property and a guarantee by the Archbishop of the Archdiocese of Miami. The bond contains a debt service coverage ratio covenant that is to be measured annually. As of June 30, 2019, management believes the University was in compliance with the covenant.

During the year ended June 30, 2019 and 2018, the University maintained a \$10.0 million bank line of credit, with interest at the prime rate less 1%. The interest rate was 4.5% and 4% at June 30, 2019 and 2018, respectively. In July 2019, the line of credit was temporarily increased to \$16.0 million for the purpose of providing the University working capital. The line of credit will revert back to \$10 million on January 1, 2020. All other terms remained the same. The line of credit is secured by an assignment and perfected security interest in investments currently maintained in the St. Thomas University Endowment Fund.

In March 2019, the University obtained a \$10.0 million bank line of credit with another financial institution. The line of credit is guaranteed by the Archdiocese of Miami with interest at the 30 day LIBOR rate plus 1.25%. This line of credit was established for the construction of the Gus Machado School of Business. At June 30, 2019, no amounts were outstanding on this line of credit. Interest only payments are due monthly until the 18-month anniversary of the line of credit (conversion date). On the conversion date, the line of credit will convert to a term loan with monthly principal and interest payments due, based on a 20 year amortization, with final payment due on March 4, 2029. The University plans to repay the line of credit with proceeds from current and future pledges raised for the Gus Machado School of Business.

**13. RETIREMENT PLANS**

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The University has two defined contribution retirement programs, funded by individual annuity contracts, for academic and nonacademic personnel. The University's contribution was \$694,676 and \$710,393 for the fiscal years ended June 30, 2019 and 2018, respectively.

**14. NET ASSETS**

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Net assets with donor restrictions are available for the following purposes at June 30,:

	<u>2019</u>	<u>2018</u>
Reserves for capital projects	\$ 4,724,628	\$ 6,281,399
Scholarships, education and general programs	18,341,158	19,340,225
Term endowments	2,551,017	2,454,130
Perpetual endowments	<u>6,703,335</u>	<u>6,652,652</u>
	<b>\$ 32,320,138</b>	<b>\$ 34,728,406</b>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**14. NET ASSETS (CONTINUED)**

Term-endowments include donor-stipulated restrictions expiring through fiscal year 2032. The University may use 50% of the aggregate term-endowment income earned during the year for operating purposes. Net assets with donor restrictions include investments held in perpetuity, the income from which is expendable to support scholarships and general education operations (NOTE 15).

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Program restriction accomplished - scholarships, education and general programs	\$ 2,458,277	\$ 1,574,553
Donor restriction accomplished - capital acquisition	2,538,068	299,267
	<u>\$ 4,996,345</u>	<u>\$ 1,873,820</u>

Net assets without donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
General operations	\$ 4,208,276	\$ 4,142,262
Board designated endowment	7,432,524	7,424,810
	<u>\$ 11,640,800</u>	<u>\$ 11,567,072</u>

**15. ENDOWMENT**

The University's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds, trusts held by others, and funds designated by the Board of Trustees or University President to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees or University President to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). The University has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies perpetual gifts as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by FUPMIFA.

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

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

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**15. ENDOWMENT (CONTINUED)**

For the years ended June 30, 2019 and 2018, the University has elected not to add appreciation for cost of living or other spending policies to its donor-restricted endowment for inflation and other economic conditions.

**Summary of Endowment Assets at June 30, 2019:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 22,172,369	\$ 22,172,369
Board-designated endowment funds	7,432,524	-	7,432,524
Total endowment net assets	<b>\$ 7,432,524</b>	<b>\$ 22,172,369</b>	<b>\$ 29,604,893</b>

**Summary of Endowment Assets at June 30, 2018:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 21,578,315	\$ 21,578,315
Board-designated endowment funds	7,424,810	-	7,424,810
Total endowment net assets	<b>\$ 7,424,810</b>	<b>\$ 21,578,315</b>	<b>\$ 29,003,125</b>

**Changes in endowment net assets as of June 30, 2019:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning	\$ 7,424,810	\$ 21,578,315	\$ 29,003,125
Interest and dividends	209,164	456,794	665,958
Net realized and unrealized investment gain	295,550	767,008	1,062,558
Released from restriction and expenditures	(497,000)	(1,086,464)	(1,583,464)
Contributions	-	456,716	456,716
Endowment net assets, ending	<b>\$ 7,432,524</b>	<b>\$ 22,172,369</b>	<b>\$ 29,604,893</b>

**Changes in endowment net assets as of June 30, 2018:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning	\$ 7,233,210	\$ 19,770,115	\$ 27,003,325
Interest and dividends	190,880	420,595	611,475
Net realized and unrealized investment gain	495,720	1,114,083	1,609,803
Released from restriction and expenditures	(495,000)	(1,295,579)	(1,790,579)
Contributions	-	1,569,101	1,569,101
Endowment net assets, ending	<b>\$ 7,424,810</b>	<b>\$ 21,578,315</b>	<b>\$ 29,003,125</b>

**ST. THOMAS UNIVERSITY, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**15. ENDOWMENT (CONTINUED)**

**Summary of Endowment Assets:**

Endowment assets as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Investments (NOTE 7)	\$ 24,983,524	\$ 24,351,691
Investment held in trust (NOTE 8)	3,537,541	3,472,094
Pledges receivable (NOTE 5)	966,911	1,065,356
Cash and cash equivalents	116,917	113,984
	<u>\$ 29,604,893</u>	<u>\$ 29,003,125</u>

**Funds with Deficiencies**

From time to time, the fair value of the 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. There were no such deficiencies in the endowment funds as of June 30, 2019 and 2018.

**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 programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide a rate of return in excess of the original permanently restricted principal. Actual returns in any given year may vary.

**Strategies Employed for Achieving 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 asset allocation that places emphasis on investments in equities and mutual funds to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

On University held investments, the University employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. The University has an endowment variable spending policy up to 5% of the 3-year average of fair market value at the board's discretion, which provides for steady growth in annual spending. Any income earned in excess of the spending limit is reinvested while funds may be withdrawn from investment return earned in prior years if income is less than the spending policy provision. This is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuation in capital markets.

**16. TUITION AND OTHER FEES, NET**

For the years ended June 30, 2019 and 2018, tuition and other fees revenue is reported in the fiscal year in which educational programs are primarily conducted, net of discount and scholarship allowances of \$22,866,468 and \$21,113,353, respectively.

Certain online programs are offered in conjunction with third party academic partners. The University records the amounts at gross or net based upon the criteria established by the FASB's ASC 605-45 regarding principal/agent considerations.

The University's students receive a substantial amount of support from State and Federal Student Financial Assistance Programs. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the University's programs and activities.

## ST. THOMAS UNIVERSITY, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 17. RELATED PARTY TRANSACTIONS

The University has engaged in related party activities with the Archdiocese of Miami. The University is co-self-insured through the Archdiocese of Miami for general liability, property, and workers compensation and has paid approximately \$983,000 and \$938,000 in insurance premiums to the Archdiocese of Miami during the years ended June 30, 2019 and 2018, respectively. Losses related to estimated liabilities are actuarially determined and recorded in the financial statements of the Archdiocese of Miami.

The University is also co-self-insured through the Archdiocese of Miami for employee health insurance and has paid, net of employee contributions, approximately \$2.3 and \$2.5 million in insurance premiums to the Archdiocese of Miami Health Plan Trust during the years ended June 30, 2019 and 2018, respectively.

#### 18. COMMITMENTS AND CONTINGENCIES

##### Operating Leases

The University leases certain equipment and automobiles under operating leases expiring on various dates through 2022.

The rent expense under operating leases was approximately \$103,000 and \$132,000 for the years ended June 30, 2019 and 2018, respectively. The minimum required lease payments under these non-cancelable operating leases are as follows for the years ending June 30:

2020	\$	66,183
2021		63,605
2022		47,704
	\$	<u>177,492</u>

##### Service Agreements

The University entered into an agreement with an outside service organization to manage the University's security which expired in June 2019. During the years ended June 30, 2019 and 2018, approximately \$652,000 and \$622,000, respectively, was paid for these security services.

On June 10, 2019, the University entered into a five-year agreement with a vendor to provide information technology services. The total amount payable under this contract is approximately \$10.2 million, subject to an annual consumer price index adjustment. The agreement expires on June 9, 2024.

The University entered into an agreement with an outside service organization to provide food services for the University's resident students. This agreement expires on May 27, 2025 and includes variable daily rates based on occupancy and a minimum of 218 billing days. Expenses paid to the food service provider under this agreement were approximately \$1,412,000 and \$1,355,000 for the years ending June 30, 2019 and 2018, respectively.

The University entered into an agreement with University Housing Solutions to provide construction services for two dormitory halls. In exchange, the University will pay rent at full capacity for 25 years. The rent payments for phase 1 are expected to start in fall 2019.

On March 14, 2014, the University entered into a partnership agreement with HotChalk, Inc. ("HotChalk") to provide online graduate and doctoral degrees. The agreement calls for HotChalk to facilitate the delivery of online programs by providing the technology and online platform. HotChalk is responsible for marketing the online programs and assisting in recruiting and enrollment efforts. This agreement is effective for ten years, with an automatic renewal of five years if certain conditions are met. The last cohort of students admitted under this agreement started in March 2018. The program is in its teach-out phase as the University decided to terminate the agreement during the year ended June 30, 2018.

The terms of the agreement with HotChalk call for revenue sharing, net of scholarships. During the years ended June 30, 2019 and 2018, the University's share of net revenue from online programs offered through this partnership was approximately \$1,726,000 and \$2,466,000, respectively.

**ST. THOMAS UNIVERSITY, INC.**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**18. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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**Service Agreements (Continued)**

On November 13, 2017, the University entered into a partnership agreement with Academic Partnerships, LLC ("AP") to provide online undergraduate, graduate and doctoral degrees. The agreement calls for AP to facilitate the delivery of online programs by providing the technology and online platform. AP is responsible for marketing the online programs and assisting in recruiting and enrollment efforts. This agreement is effective for seven years, with an automatic renewal of five years unless written notice of the intent to terminate is given at least 270 days prior to expiration. The first cohort of students under this agreement was enrolled for classes in July 2018.

The terms of the agreement with AP call for revenue sharing, net of scholarships. During the year ended June 30, 2019 the University's share of net revenue from online programs offered through this partnership was approximately \$1,246,000.

The University maintains all rights and exclusive control over its academic programs and online curriculum, including, but not limited to, admission of students; course content and delivery; approval of faculty; registration and retention of students; evaluation of student progress; and the awarding of credits and degrees.

**Grants**

The University participates in a number of federal and state grant assistance programs. Amounts received and expended under various federal and state programs are subject to audits by governmental agencies to determine if activities undertaken by the University comply with conditions of the grants. Management believes that no material liability will arise from any such audits.

**Legal Matters**

In December 2018, the carrier of the University's student insurance filed for bankruptcy. The University incurred approximately \$661,000 in expenses due to this event, including payment of insurance premiums for January – August 2019 to the new insurance carrier, and payment of outstanding medical claims filed between May and December 2018. The University accrued an additional \$50,000 for outstanding medical claims and related fees as of June 30, 2019. The net of expenses incurred and administrative fees revenue of approximately \$451,000 is reported as "Other expense, net" in the Statements of Activities during the year ended June 30, 2019.

**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**

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To the Board of Trustees  
St. Thomas University, Inc.

We have audited, in accordance with the 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 St. Thomas University, Inc. (the "University") (a nonprofit 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 October 25, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University'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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 the University'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*.



To the Board of Trustees  
St. Thomas University, Inc.  
Page Two

**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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marion. Brown, Aging & Fana*

Miami, Florida  
October 25, 2019



**ST. THOMAS UNIVERSITY, INC.**

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SINGLE AUDIT REPORT IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE AND SECTION 10.650,  
RULES OF THE FLORIDA AUDITOR GENERAL

JUNE 30, 2019

**ST. THOMAS UNIVERSITY, INC.**

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**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**

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To the Board of Trustees  
St. Thomas 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 St. Thomas University, Inc. (the "University") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University'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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 the University'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*.

An independent member of Baker Tilly International



To the Board of Trustees  
St. Thomas University, Inc.  
Page Two

**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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Monison, Brown, Ariz & Tana*

Miami, Florida  
October 25, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND PROJECT, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.650, RULES OF THE FLORIDA AUDITOR GENERAL**

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To the Board of Trustees  
St. Thomas University, Inc.

**Report on Compliance for Each Major Federal Program and State Project**

We have audited St. Thomas University, Inc.'s (the "University") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that could have a direct and material effect on each of the University's major federal programs and state projects for the year ended June 30, 2019. The University's major federal programs and state 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 projects.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs and state 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; 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, 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 major state project occurred. An audit includes examining, on a test basis, evidence about the University'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 project. However, our audit does not provide a legal determination of the University's compliance.

**Opinion on Each Major Federal Program and State Project**

In our opinion, the University 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 projects for the year ended June 30, 2019.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



To the Board of Trustees  
St. Thomas University, Inc.  
Page Two

### **Report on Internal Control Over Compliance**

Management of the University 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 the University'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 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 project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, 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 the University'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 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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

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. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and Chapter 10.650**

We have audited the financial statements of the University as of and for the year ended June 30, 2019, and have issued our report thereon dated October 25, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Uniform Guidance and Chapter 10.650 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 the 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 schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

*Morrison, Brown, Ariz & Fama*

Miami, Florida  
October 25, 2019

**ST. THOMAS UNIVERSITY, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2019

Federal/State Grantor Pass-through Grantor,	CFDA/ CSFA	Contract/ Grant	Passed Through to	Total
Program/Project or Cluster Title	Number	Number	Subrecipients	Expenditures
<b>FEDERAL AWARDS:</b>				
<b>U.S. Department of Education</b>				
Student Financial Aid-Cluster				
Federal Direct Student Loans	84.268		\$ -	\$ 41,829,989
Federal Pell Grant Program	84.063		-	3,141,234
Federal Work-Study Program	84.033		-	651,958
Federal Supplemental Educational Opportunity Grants	84.007		-	245,240
Federal Perkins Loan Program - Federal Capital Contribution	84.038		-	3,437,054
Sub-total Student Financial Aid-Cluster Program			-	49,305,475
Hurricane Education Recovery	84.938S	P938S180005	-	884,469
Passed through Miami-Dade College STEM SPACE	84.031C	P031C160161	-	75,341
Passed through Florida Department of Education Twenty-First Century Community Learning Centers	84.287C	853-2448B-9PCC1/ 853-2448B-9PCC2	-	608,982
<b>Total U.S. Department of Education</b>			-	<b>50,874,267</b>
<b>U.S. Department of Health and Human Services</b>				
Passed through Church World Service, Inc. Refugee and Entrant Assistance - Discretionary Grants/ State Administered Programs				
	93.566	(XK046)/(XK047)	-	861,877
<b>Total U.S. Department of Health and Human Services</b>			-	<b>861,877</b>
<b>U.S. Department of Agriculture</b>				
Passed through Florida International University Hispanic Serving Institutions Education Grants				
	10.223	2016-38422-25549	-	62,487
<b>Total U.S. Department of Agriculture</b>			-	<b>62,487</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ -</b>	<b>\$ 51,798,631</b>
<b>STATE FINANCIAL ASSISTANCE:</b>				
<b>Florida Department of Education:</b>				
Florida Resident Access Grant	48.064	N/A*	\$ -	\$ 2,196,250
Florida Student Assistance Grant	48.054	N/A*	-	423,829
The Florida Bright Futures Scholarship Program	48.059	N/A*	-	192,178
Scholarships for Children and Spouses of Deceased or Disabled Veterans	48.055	N/A*	-	10,388
			-	2,822,645
<b>Florida Department of Highway Safety and Motor Vehicles</b>				
Saint Thomas University License Plate Project	76.058	N/A*	-	5,943
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			-	<b>2,828,588</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE</b>			<b>\$ -</b>	<b>\$ 54,627,219</b>

\*N/A - not applicable or available.

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

**ST. THOMAS UNIVERSITY, INC.**

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2019

**1. GENERAL**

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The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the "Schedule") presents the activity of all federal awards and state projects of St. Thomas University, Inc. (the "University") for the year ended June 30, 2019. All federal awards and state projects received directly from or passed through government agencies are included in the accompanying Schedule.

**2. BASIS OF ACCOUNTING**

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The accompanying Schedule is presented using the accrual basis of accounting. Federal award expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), wherein certain types of expenditures are not allowable or are limited as to reimbursement. State expenditures are recognized in accordance with Chapter 10.650, Rules of the Auditor General of the State of Florida. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

**3. BASIS OF PRESENTATION**

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The accompanying Schedule is presented in accordance with the requirements of the Uniform Guidance and Chapter 10.650, Rules of the Auditor General of the State of Florida.

**4. LOANS OUTSTANDING**

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The federal student loan program listed subsequently is administered directly by the University, and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The University had the following loan balances outstanding at June 30, 2019:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 2,882,690

The loan program was not renewed by Congress effective September 20, 2017. The University continues to service and collect loans that have been issued in prior years. Any loans collected are returned to the government and the University's operating fund proportionally.

**5. SUBRECIPIENTS**

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There were no Federal awards provided to subrecipients.

**6. INDIRECT COST RATE**

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The University has a provisional indirect cost recovery rate of 38%. For certain grants, the amount expended includes indirect cost recovery using a lower agreed-upon percentage per grant agreement. The University has elected not to use the de minimis indirect cost rate allowed under the Uniform Guidance during the year ended June 30, 2019. For the financial aid program, the University has elected to use the 5% administrative cost allowance based on the U.S. Department of Education Federal Student Aid Handbook.

**7. REFUGEE AND ENTRANT ASSISTANCE GRANT**

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The Refugee and Entrant Assistance grant agreement (the "Grant") between the University and Department of Children and Families Services is based on a negotiated "fee for services." The Grant provides services in two locations: Miami-Dade County and Broward County. Church World Services, Inc. is the fiscal agent for this grant. Payments received during fiscal year ending June 30, 2019 for services provided to clients totaled \$937,783. At June 30, 2019, the deferred revenue was approximately \$53,000 for Miami-Dade County and \$5,000 for Broward County.

**ST. THOMAS UNIVERSITY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Programs

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

**Identification of major federal programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.268, 84.063, 84.033, 84.007, 84.038 84.938S	Student Financial Aid-Cluster Hurricane Education Recovery
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

ST. THOMAS UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

State Projects

Internal control over major state projects:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, Rules of the Florida Auditor General? Yes No

Identification of major state projects:

Table with 2 columns: CSFA Number, Name of State Project. Rows include 48.064 (Florida Resident Access Grant), 48.054 (Florida Student Assistance Grant), 48.059 (The Florida Bright Futures Scholarship Program), and Dollar threshold used to distinguish between Type A and Type B projects: \$300,000.

SECTION II - FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None

SECTION III - MAJOR FEDERAL PROGRAMS - FINDINGS AND QUESTIONED COSTS

CURRENT YEAR FINDINGS

2019-001: Untimely reporting of changes in enrollment status.

Federal Awarding Agency: United States Department of Education
Pass-Through Entity: Not applicable
CFDA Number and Title: Student Financial Aid-Cluster
Federal Award Number: Not applicable
Applicable Compliance Component: N. Special Tests and Provisions; 4. Enrollment Reporting
Questioned Cost Amount: None

**ST. THOMAS UNIVERSITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION III – MAJOR FEDERAL PROGRAMS - FINDINGS AND QUESTIONED COSTS (CONTINUED)**

CURRENT YEAR FINDINGS (CONTINUED)

**2019-001:** Untimely reporting of changes in enrollment status. (Continued)

Criteria:

The University is responsible for updating changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. The University is responsible for timely reporting, whether they report directly or via a third-party servicer. A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. The University is on a 60 day cycle.

Effect:

Timely reconciliation and monitoring of controls do not appear to be in place for the University's enrollment reporting process to ensure that the status change is submitted within the required number of days.

Cause:

We noted 2 exceptions in our testing of enrollment reporting out of a total of 40 selections. We found that the 2 status changes were reported more than 60 days after the student's degree was conferred. The range of these late reports was from 69 to 72 days and was isolated to students enrolled in the University's summer classes.

Recommendation:

We recommend the University strengthen its policies and procedures to ensure the enrollment reports are complete and submitted to the clearinghouse in a timely manner. Enrollment reporting in a timely and accurate manner is critical for effective management of the programs.

Management's Response:

The University recognizes that the two students mentioned were not picked up in the enrollment report submitted to the National Student Clearinghouse. They were reported manually subsequent to the original batch submission. We believe this error is isolated to the two students identified in this audit. However, the University has taken measures to ensure all students are reported accurately and timely. The IT department will redefine the enrollment report to include all students, while the Registrar's Office now runs two separate reports to make sure all students are captured prior to submission.

**2019-002:** Gramm-Leach-Bliley Act – information security program was not adequately developed.

Federal Awarding Agency:	United States Department of Education
Pass-Through Entity:	Not applicable
CFDA Number and Title:	Student Financial Aid-Cluster
Federal Award Number:	Not applicable
Applicable Compliance Component:	N. Special Tests and Provisions; 10. Gramm-Leach-Bliley Act – Student Information Security
Questioned Cost Amount:	None

**ST. THOMAS UNIVERSITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION III – MAJOR FEDERAL PROGRAMS - FINDINGS AND QUESTIONED COSTS (CONTINUED)**

CURRENT YEAR FINDINGS (CONTINUED)

**2019-002:** Gramm-Leach-Bliley Act – information security program was not adequately developed. (Continued)

Criteria:

The Gramm-Leach-Bliley Act (“GLBA”) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. Under a University’s Program Participation Agreement with the Department of Education and the GLBA, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department of Education or otherwise obtained in support of the administration of the federal student financial aid programs. The University should:

- a. designate an individual to coordinate the information security program;
- b. perform a risk assessment that addresses the three required areas noted in 16 CFR 314.4 (b), which are (1) Employee training and management; (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures;
- c. document a safeguard for each risk identified from step b above.

Effect:

A comprehensive information security framework has not been established to meet all of the GLBA requirements.

Cause:

We noted the University has designated a qualified individual to coordinate its information security program but a formal policy has not yet been developed. Additionally, the University has not formally performed a complete set of risk assessments nor documented thoroughly the safeguards as required under GLBA.

Recommendation:

We recommend the University develop a comprehensive information security policy, provide ongoing trainings, perform internal and external risk assessments, and document results and safeguards for all risks in a systematic manner.

Management’s Response:

The University will continue to implement its information environment and institutional information security program procedures. The University’s Chief Information Officer (CIO), an Ellucian employee, is the designated individual responsible for the program. The University will develop a committee of administrators from the Offices of Risk Management and Compliance, Registrar, Financial Aid, and Financial Affairs to provide guidance and support to the CIO. The University’s information security program seeks to: (a) ensure the security and confidentiality of records and information in paper, electronic, and other form; (b) protect against anticipated threats or hazards to the security or integrity of such records; and, (c) protect against unauthorized access to or use of any records or information which could result in substantial harm or inconvenience.

The University’s information security program is in progress and applies to the compliance requirements of the GLBA, Health Insurance Portability and Accountability Act of 1996 (HIPAA), Family Educational Rights and Privacy Act (FERPA), and the Pay Card Industry Data Security Standard (PCI DSS).

PRIOR YEAR FINDINGS

None

**ST. THOMAS UNIVERSITY, INC.**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019

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**SECTION IV - STATE PROJECT FINDINGS AND QUESTIONED COSTS**

A management letter is not required as there were no findings required to be reported.

A Summary Schedule of Prior Audit Findings is not required as there were no findings required to be reported related to State Projects.

A Corrective Action Plan is not required as there were no findings required to be reported under the Florida Single Audit Act.

