

PALM BEACH ATLANTIC UNIVERSITY, INC.
AUDIT REPORT PACKAGE
FOR THE YEAR ENDED JUNE 30, 2020

PALM BEACH ATLANTIC UNIVERSITY, INC.

AUDIT REPORT PACKAGE

Table of Contents

	<u>Page</u>
Independent auditor's report	1–2
Financial statements:	
Statements of financial position	3
Statements of activities	4
Statement of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7–27
Supplemental information:	
Financial responsibility supplemental schedule	28
Notes to financial responsibility supplemental schedule	29
Schedule of expenditures of federal awards and state financial assistance	30
Notes to schedule of expenditures of federal awards and state financial assistance	31–33
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	34–35
Independent auditor's report on compliance with requirements for each major federal program and state financial assistance project and on internal control over compliance required by the Uniform Guidance and Chapter 10.650, <i>Rules of the Florida Auditor General</i>	36–37
Schedule of findings and questioned costs – major federal programs and state financial assistance projects	38–39
Summary schedule of prior audit findings and questioned costs for major federal programs and state financial assistance projects	39
Independent auditor's management letter in accordance with the State of Florida Rules of the Auditor General	40
Summary of population, items sampled, and findings for Florida student financial assistance projects	41

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Palm Beach Atlantic University, Inc. (the University) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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



Other Matters


Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule as required by the U.S Department of Education is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of 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. In our opinion, the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



West Palm Beach, Florida
February 22, 2021

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

(Rounded to the nearest thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 19,832	\$ 17,401
Portfolio investments	55,898	55,886
Tuition and other receivables, net	2,250	1,580
Unconditional promises to give, net	2,511	2,747
Contribution receivable from foundation	24,000	24,000
Contributions receivable from charitable trusts	151	1,287
Prepaid expenses and other assets	3,319	2,956
Non-marketable investments	2,784	2,820
Property, plant, and equipment, net	110,078	110,669
Total assets	\$ 220,823	\$ 219,346
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,120	\$ 895
Construction costs payable	1,252	-
Accrued expenses	4,292	3,104
Deferred tuition revenue	1,537	1,438
Deposits and other liabilities	4,565	803
Advances from federal government for student loans	384	433
Annuities payable	196	231
Cash flow hedge fair value	1,684	1,548
Long-term debt, net	34,415	36,738
Total liabilities	49,445	45,190
Net assets:		
Without donor restrictions	93,090	93,565
With donor restrictions	78,288	80,591
Total net assets	171,378	174,156
Total liabilities and net assets	\$ 220,823	\$ 219,346

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2020 and 2019
(Rounded to the nearest thousands)

	For the Year Ended June 30, 2020			For the Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating:						
Revenues and other support:						
Tuition and fees	\$ 87,661	\$ -	\$ 87,661	\$ 89,021	\$ -	\$ 89,021
Less scholarship allowances:						
Sponsored scholarships	(3,273)	-	(3,273)	(3,034)	-	(3,034)
Un-sponsored scholarships	(28,964)	-	(28,964)	(27,782)	-	(27,782)
Athletic scholarships	(2,908)	-	(2,908)	(2,661)	-	(2,661)
Tuition and fees, net	52,516	-	52,516	55,544	-	55,544
Auxiliary enterprises	11,240	-	11,240	12,168	-	12,168
Other revenue	752	-	752	936	-	936
Private gifts and grants	2,557	-	2,557	554	-	554
Government grants - CARES Act	2,083	-	2,083	-	-	-
Net investment return	106	-	106	220	-	220
Net assets released from restrictions	8,599	(8,599)	-	5,255	(5,255)	-
Total revenues and other support	<u>77,853</u>	<u>(8,599)</u>	<u>69,254</u>	<u>74,677</u>	<u>(5,255)</u>	<u>69,422</u>
Expenses:						
Program services:						
Instruction	34,712	-	34,712	33,853	-	33,853
Academic support	5,056	-	5,056	4,229	-	4,229
Student services	12,292	-	12,292	12,891	-	12,891
Total program services	52,060	-	52,060	50,973	-	50,973
Supporting services:						
General administrative and institutional support	13,024	-	13,024	14,460	-	14,460
Auxiliary enterprises	14,186	-	14,186	12,656	-	12,656
Total expenses	<u>79,270</u>	<u>-</u>	<u>79,270</u>	<u>78,089</u>	<u>-</u>	<u>78,089</u>
Change in net assets						
from operating activities	(1,417)	(8,599)	(10,016)	(3,412)	(5,255)	(8,667)
Non-operating:						
Private gifts and grants	-	4,833	4,833	-	6,388	6,388
Non-operating expenses	(837)	-	(837)	-	-	-
Net investment return	-	440	440	-	737	737
Change in value of split-interest trusts	-	1,023	1,023	-	1,335	1,335
Gain on sale of property	1,915	-	1,915	-	-	-
Unrealized cash flow hedge (loss)	(136)	-	(136)	(219)	-	(219)
Change in net assets from non-operating activities	<u>942</u>	<u>6,296</u>	<u>7,238</u>	<u>(219)</u>	<u>8,460</u>	<u>8,241</u>
Change in net assets	(475)	(2,303)	(2,778)	(3,631)	3,205	(426)
Net assets - beginning of year	<u>93,565</u>	<u>80,591</u>	<u>174,156</u>	<u>97,196</u>	<u>77,386</u>	<u>174,582</u>
Net assets - end of year	<u>\$ 93,090</u>	<u>\$ 78,288</u>	<u>\$ 171,378</u>	<u>\$ 93,565</u>	<u>\$ 80,591</u>	<u>\$ 174,156</u>

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2020 and 2019
(Rounded to the nearest thousands)

	For the Year Ended June 30, 2020						
	Program Services				Supporting Services		
	Instruction	Academic Support	Student Services	Subtotal	General Administrative and Institutional Support	Auxiliary Enterprises	Total Expenses
Salaries, wages and benefits	\$ 27,746	\$ 810	\$ 6,485	\$ 35,041	\$ 7,728	\$ 519	\$ 43,288
Services, supplies, and other	2,568	1,516	2,832	6,916	2,992	1,186	11,094
Facilities, utilities, and maintenance	1,497	478	916	2,891	870	7,049	10,810
Information technology	959	837	210	2,006	333	19	2,358
Advertising and promotion	162	-	112	274	724	-	998
Insurance	361	286	380	1,027	79	1,092	2,198
Depreciation and amortization	1,192	949	1,140	3,281	250	3,633	7,164
Interest	227	180	217	624	48	688	1,360
Total expenses	<u>\$ 34,712</u>	<u>\$ 5,056</u>	<u>\$ 12,292</u>	<u>\$ 52,060</u>	<u>\$ 13,024</u>	<u>\$ 14,186</u>	<u>\$ 79,270</u>

	For the Year Ended June 30, 2019						
	Program Services				Supporting Services		
	Instruction	Academic Support	Student Services	Subtotal	General Administrative and Institutional Support	Auxiliary Enterprises	Total Expenses
Salaries, wages and benefits	\$ 25,847	\$ 823	\$ 7,355	\$ 34,025	\$ 6,974	\$ 496	\$ 41,495
Services, supplies, and other	3,523	75	1,939	5,537	620	4,201	10,358
Facilities, utilities, and maintenance	1,967	1,232	1,215	4,414	4,401	3,698	12,513
Information technology	225	405	194	824	1,188	33	2,045
Advertising and promotion	155	-	144	299	821	-	1,120
Insurance	405	321	388	1,114	87	802	2,003
Depreciation and amortization	1,416	1,123	1,355	3,894	302	2,803	6,999
Interest	315	250	301	866	67	623	1,556
Total expenses	<u>\$ 33,853</u>	<u>\$ 4,229</u>	<u>\$ 12,891</u>	<u>\$ 50,973</u>	<u>\$ 14,460</u>	<u>\$ 12,656</u>	<u>\$ 78,089</u>

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019
(Rounded to the nearest thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (2,778)	\$ (426)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on portfolio investments	(495)	11
Unrealized (gain) loss on non-marketable investments	36	(23)
Amortization of loan costs	10	10
Unrealized cash flow hedge loss	136	219
Depreciation and amortization	7,154	6,999
Contributions received restricted for long-term investment	(3,116)	(1,236)
Gain on sale of property, plant and equipment	(1,915)	-
Changes in operating assets and liabilities:		
Tuition and other receivables	(670)	(491)
Unconditional promises to give, net	236	(244)
Contributions receivable from charitable trusts	1,136	(5)
Prepaid expenses and other assets	(363)	(296)
Accounts payable	225	80
Accrued expenses	1,188	(240)
Deferred tuition, deposits and other liabilities	632	77
Annuities payable	(35)	(47)
Net cash provided by operating activities	1,381	4,388
Cash flows from investing activities:		
Construction costs paid	(2,462)	(698)
Purchases of property, plant, and equipment	(2,908)	(2,861)
Proceeds from sale of property, plant, and equipment	1,974	-
Proceeds from sales of portfolio investments, net of (purchases)	483	(864)
Net cash used in investing activities	(2,913)	(4,423)
Cash flows from financing activities:		
Payments on long-term debt	(2,333)	(1,869)
Dining services advances, long-term portion	3,180	-
Contributions received restricted for long-term investment	3,116	1,236
Net cash provided by (used in) financing activities	3,963	(633)
Increase (decrease) in cash and cash equivalents	2,431	(668)
Cash and cash equivalents - beginning of year	17,401	18,069
Cash and cash equivalents - end of year	\$ 19,832	\$ 17,401

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands)

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

General

Founded in 1968, Palm Beach Atlantic University, Inc. (the University) is a not-for-profit, private, Christian, interdenominational, four-year, University with its main campus in West Palm Beach, Florida comprised of a 22.7-acre downtown campus, a 77.6-acre athletic campus and a satellite campus in Orlando, Florida. The University provides higher education in over 50 academic disciplines to both full-time and part-time traditional and non-traditional undergraduate students. The University also offers multiple masters and continuing education programs as well as Doctor of Pharmacy and Doctor of Nursing Practice programs.

Basis of presentation

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

Net assets

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

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

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

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

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

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

Measure of operations

The University's operating activities include revenues that are earned as a result of providing programs and supporting activities, and supporting activities, and expenses relating to providing these programs and supporting activities. Operating activities also include amounts released from donor restrictions. Non-operating activities include the receipt of private gifts, grants and bequests to the endowment, non-operating expenses, annuity and split-interest agreement activity, endowment and investment gains and losses related to donor restricted endowment investments, as well as, the change in fair value of the interest rate swap and other non-operating charges.

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

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The University considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements, including valuation of receivables, including student accounts, pledges and other contribution agreements and certain investments. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from those estimates.

Tuition and fees

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

The University offers qualified applicants assistance in the form of financial aid. Financial aid is provided to students in the form of sponsored and unsponsored scholarships, direct grants and loans from the state and federal government, as well as employment during the academic year. In addition, for the years ended June 30, 2020 and 2019, the University granted tuition reductions to faculty and staff as well as their spouses and children in the amount of \$1,626 and \$1,483, respectively, which are recorded in general administrative and institutional support expense in the accompanying statements of activities.

Auxiliary enterprises

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

Contributions

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

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

Contributions of assets other than cash are reported at their estimated fair value at the date of the gift. The University reports non-cash contributions as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

Contributions of long-lived assets with explicit donor restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions.

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

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

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

Contributions, continued

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

Government grants

Revenue from grants is recognized as related qualifying expenses are incurred and conditions under the grant agreement are met. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, allocated \$14 billion in funding for higher education through the Higher Education Emergency Relief Fund (HEERF). The University received \$1,181 as part of this allocation designated to address institutional costs. Through June 30, 2020, the University has recognized \$902 from the HEERF grant related to institutional costs.

Split-interest agreements

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

Cash and cash equivalents

Cash and cash equivalents include demand deposit and money market accounts and other highly liquid investments with an original maturity of three months or less. The University has restricted cash accounts related to the Federal Perkins Loan Program and federal awards that require amounts to be segregated from the University’s general operating accounts. Such restricted cash balances as of June 30, 2020 and 2019, were \$18 and \$55, respectively.

Portfolio investments

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

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

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

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

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

Tuition and other receivables

The University grants credit without collateral to a large portion of its students. These tuition receivables are evaluated for collectability annually. Allowances for amounts deemed uncollectible are determined based on historical trends and the aging of these balances. Allowances for doubtful accounts as of June 30, 2020 and 2019 were \$418 and \$293, respectively.

An allowance for loss in student loans receivable is established based upon a review of the collectability of the underlying student loans. The allowance represents management's estimate of the amount of student loan balances for which a loss is probable.

Non-marketable investments

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

Investments and endowment

Endowment investments consist of investments purchased with the following resources:

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

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

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

The investment and spending policies for the endowment fund are discussed in Note 14.

Property, plant, and equipment

Property, plant, and equipment additions are stated at cost if purchased or, if acquired by contribution, at the estimated fair market value on the date of contribution. The University's policy is to capitalize assets acquired for greater than \$2.5. Donated assets are recorded at fair value at the time of receipt of the contributions. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as support without donor restrictions. The University provides for depreciation over the estimated useful lives of the related assets using the straight-line method.

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

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

Property, plant, and equipment, continued

These estimated useful lives are summarized in the following table:

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

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying value of the asset exceeds the cash flows, the asset is considered to be impaired. The impairment charge to be recognized is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. There were no impairments during the fiscal years 2020 and 2019.

Income taxes

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

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

For the years ended June 30, 2020 and 2019, there were no interest or penalties recorded or included in the University's financial statements. The University is no longer subject to income tax examinations for years prior to 2017.

Earnings from unrelated business activities were not significant for the years ended June 30, 2020 and 2019; therefore, no related income taxes are accrued in the accompanying financial statements.

Advances from federal government for student loans

Funds provided by the U.S. government under the Federal Perkins Loans Program (Perkins Loans) were loaned to qualified students prior to October 1, 2017. On September 30, 2017, the authority to make new Perkins Loans ended. Final disbursements were permitted through June 30, 2018. As a result, the University no longer awards Perkins Loans. Receipts of principal and interest payments that create excess cash are returned to the government reducing the liability in the statements of financial position.

Annuities payable

Annuities payable represents amounts due to beneficiaries under various split-interest arrangements in which the University is the trustee. The related assets under these arrangements, approximating \$799 and \$869 at June 30, 2020 and 2019, respectively, are included in portfolio investments. The amounts due are calculated using risk-adjusted discount rates ranging from 3% to 7% and the Internal Revenue Service's life expectancy tables.

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

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

Fund raising expenses

Fund raising expenses, approximating \$1,072 and \$1,136 for the years ended June 30, 2020 and 2019, respectively, are expensed as incurred and included in general administrative and institutional support in the accompanying statements of activities.

Valuation techniques

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

Fair value of financial instruments

The fair value of financial instruments held by the University as of June 30, 2020 and 2019, are based on a variety of factors and assumptions and may not necessarily be representative of the actual gains or losses that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement of such financial instruments. The carrying values of the University's cash and cash equivalents, tuition and other receivables, and liabilities (excluding cash flow hedge value) approximate their fair values based on their short-term nature.

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

Derivative financial instruments

Cash flow hedges, including interest rate swap agreements, are used to manage exposure to market risk associated with changes in interest rates. Interest rate changes are accounted for on the accrual basis and payments made or received are recognized as an adjustment to interest expense. Changes in the value of cash flow hedges are reflected in the accompanying statements of activities.

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

Functional allocation of expenses

The University's primary program service is instruction. The University incurs some expenses for the benefit of multiple functional areas such as maintenance, utilities, depreciation, repairs and interest costs. To the extent expenses are not attributable to a specific area, they are allocated on a square-footage basis to the functional areas based on the primary purpose of the space. When new space or programs are added, the bases on which costs are allocated are evaluated.

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

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

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

Functional allocation of expenses, continued

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

New accounting pronouncements

In June 2020, the FASB issued Accounting Standards Update (ASU) 2020-05 allowing certain private entities and not-for-profits to defer the implementation of ASU 2014-09, *Revenue from Contracts with Customers* and ASU 2016-02, *Leases*. FASB issued ASU 2020-05 in response to the coronavirus (COVID-19) pandemic to give some relief to organizations and the difficulties they are facing during the pandemic.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The University is currently evaluating the effects the ASU will have on its financial statements and will adopt the ASU for the year ending June 30, 2021.

In February 2016, the FASB issued guidance on lease accounting. The new guidance will continue to classify leases as either finance or operating and will result in the lessee recording a right-of-use asset and a corresponding lease liability on its balance sheet, with classification affecting the presentation for fiscal years beginning on or after December 15, 2021, and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the financial statements. Management is currently evaluating the impact of this guidance on its financial statements and expects that a majority of its operating lease commitments will be recognized on the University's statement of financial position as operating lease liabilities and right-of-use assets upon adoption.

In June 2018, the FASB issued ASU, 2018-08, *Not-for-Profit Entities (Topic 958)*: clarifying the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 provides changes to the framework used to determine if a transaction should be accounted for as a contribution or as an exchange transaction. The University adopted ASU 2018-08 for the year ended June 30, 2020. The adoption of this guidance did not have a significant impact on the University's financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The guidance in this ASU requires not-for-profit entities to present nonfinancial assets as a separate line item in the statement of activities separately from contributions of cash and other financial assets. The ASU also requires disclosures including the use of the contributed nonfinancial assets, the policy of monetizing or utilizing contributed nonfinancial assets, description of donor-imposed restrictions associated with contributed nonfinancial assets, and the valuation techniques and inputs to measure the contributed nonfinancial assets at fair value. The ASU is required to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021. Early adoption is permitted. The University is currently evaluating effects the ASU will have on its financial statements.

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

Note 2 – Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of June 30, 2020 and 2019 are as follows:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 19,832	\$ 17,401
Portfolio investments	55,898	55,886
Contribution receivable from foundation	24,000	24,000
Tuition and other receivables, net	2,250	1,580
Unconditional promise to give, net	2,511	2,747
Total financial assets	104,491	101,614
Less financial assets held to meet donor-imposed restrictions:		
Time or purpose-restricted net assets (Note 14)	(7,151)	(9,708)
Donor-restricted endowment funds (Note 14)	(47,137)	(46,883)
Contribution receivable from foundation (Note 6)	(22,800)	(22,800)
Less financial assets not available within one year:		
Unconditional promises to give, net (Note 5)	(1,669)	(1,751)
Amount available for general expenditures within one year	\$ 25,734	\$ 20,472

The above table reflects donor-restricted and any board-designated endowment funds as unavailable because it is the University's intention to invest those resources for the long-term support of the University's programs. However, in the case of need, the Board of Trustees could appropriate resources from the donor restricted funds available for general use. Note 14 provides more information about those funds and about the spending policies for all endowment funds.

As part of the University's liquidity management plan, the University invests cash in excess of daily requirements in short-term investments. During fiscal 2020, the University maintained a revolving line of credit of \$2,000 to cover short-term cash needs (Note 11). This credit facility expired in August 2020.

As of June 30, 2020, the University had not met one of the financial covenants under its 2012 Series Bonds and term note payable (see Note 12). Upon the occurrence of default of the 2012 Series Bonds and term note payable, the lender may accelerate the obligations of the University's 2012 Series Bonds and term note payable impacting the liquidity of the University.

Note 3 – Portfolio Investments

A summary of portfolio investments, by investment type, at June 30, 2020 and 2019 is as follows:

	2020	2019
Public fund	\$ 52,348	\$ 51,876
Private funds	2,886	3,313
Marketable equity securities	573	609
Other investments	91	88
	\$ 55,898	\$ 55,886

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

Note 3 – Portfolio Investments, Continued

As of June 30, 2020 and 2019, public and private funds represent investments in open-end management investment companies advised by Morgan Stanley-Graystone and TIFF Advisory (the Funds). Investments in the Funds are solely available to large 501(c)(3) organizations and other accredited investors. The University may liquidate a portion or all of its investments in the Funds at their respective net asset value at any time.

During the year ended June 30, 2019, the University transferred approximately \$48,100 of endowment funds from TIFF Advisory to Morgan Stanley-Graystone, which was subject to an exit fee of 0.5%, or approximately \$241, which is included in net investment return in the accompanying statement of activities.

At June 30, 2020 and 2019, the University had approximately 94% and 93%, respectively, of its portfolio investments invested in the public fund. At June 30, 2020 and 2019, the University has outstanding commitments to make future investments in private funds aggregating \$1,711 and \$2,100, respectively.

The following schedule summarizes the net investment return on portfolio and non-marketable investments (see Note 8) for the years ended June 30, 2020 and 2019 and its classification in the statements of activities:

	2020	2019
Net investment income	\$ 51	\$ 944
Net realized gains	548	2,777
Net unrealized losses	(53)	(2,764)
Net investment return	\$ 546	\$ 957

Net investment return includes \$98 and \$305 of investment expenses for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, net unrealized gains (losses) include \$(36) and \$23, respectively, attributable to the University's non-marketable investments.

Note 4 – Tuition and Other Receivables

Tuition and other receivables, net at June 30, 2020 and 2019 consisted of the following:

	2020		2019	
	Tuition and other receivables	Allowance for uncollectible accounts	Tuition and other receivables	Tuition and other receivables
Student accounts	\$ 1,584	\$ (418)	\$ 1,166	\$ 1,058
Perkins loans	26	(16)	10	15
U.S. government	1,074	-	1,074	507
Total	\$ 2,684	\$ (434)	\$ 2,250	\$ 1,580

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

Note 5 – Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30, 2020 and 2019:

	2020	2019
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 2,781	\$ 3,324
Less: unamortized discount	<u>(131)</u>	<u>(228)</u>
Subtotal	2,650	3,096
Less: allowance for uncollectible pledges	<u>(139)</u>	<u>(349)</u>
Net unconditional promises to give	<u>\$ 2,511</u>	<u>\$ 2,747</u>

Unconditional promises to give consist of the following at June 30, 2020 and 2019:

	2020	2019
Amounts due in:		
Less than one year	\$ 981	\$ 1,345
One to five years	<u>1,800</u>	<u>1,979</u>
Total	<u>\$ 2,781</u>	<u>\$ 3,324</u>

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

Note 6 – Contribution Receivable from Foundation

At June 30, 2020 and 2019, the University has a contribution receivable from the Theodore R. and Vivian M. Johnson Foundation, Inc. (the Foundation) in the amount of \$24,000. Under the bylaws of the Foundation, the University is entitled to receive the lesser of the stated percentages of income from the assets held by the Foundation or \$1,200 annually in perpetuity.

Contributions receivable from the Foundation are reflected based on the present value of the expected cash flows using a 5% discount rate. The University received \$1,200 from the Foundation for each of the years ended June 30, 2020 and 2019. Gains and losses resulting from the accretion of the discount are recorded as increases or decreases in change in value of split-interest trusts in the accompanying statements of activities.

Note 7 – Contributions Receivable from Charitable Trusts

The University was a beneficiary of a Charitable Lead Trust (the Lead Trust) under which it received 45% of the Lead Trust's annual distributions which are equal to 7% of the fair market value of the Lead Trust. The Lead Trust agreement was modified in September 2019, and the University received a final distribution in the amount of \$945 in October 2019.

The University is the beneficiary of a Charitable Remainder Annuity Trust. The beneficial interest is reported at fair value, which is measured as the present value of the payments expected to be received at the termination of the trust. The fair value is re-measured at each fiscal year end, using updated life expectancies, interest rates, and estimated cash flows to estimate the fair value of the beneficial interest. At June 30, 2020, the interest rate assumption used was 5%, which is approximately equal to the expected return on the trust assets over time.

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

Note 8 – Non-marketable Investments

Non-marketable investments include the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Common stock investments	\$ 2,684	\$ 2,720
Other investment	<u>100</u>	<u>100</u>
Total non-marketable investments	<u>\$ 2,784</u>	<u>\$ 2,820</u>

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

Aggregate unaudited summarized financial information for the common stock investments as of June 30, 2020 and 2019 and for the years then ended is presented in the following table:

	<u>2020</u>	<u>2019</u>
<u>At year-end:</u>		
Assets, principally land and certificates of deposit	\$ 2,766	\$ 2,693
Liabilities, principally income taxes	<u>96</u>	<u>27</u>
Shareholder's equity	<u>\$ 2,670</u>	<u>\$ 2,666</u>
<u>For the year ended:</u>		
Revenue	\$ 814	\$ 763
Expenses	<u>850</u>	<u>739</u>
Net income (loss)	<u>\$ (36)</u>	<u>\$ 24</u>

Note 9 – Fair Value Measurements

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

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

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

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

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

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

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

Note 9 – Fair Value Measurements, Continued

The following table summarizes the University's determination of fair value as of June 30, 2020 and 2019 on the following financial assets and liabilities using these input levels that are measured at fair value on a recurring basis:

	Fair Values at June 30, 2020			Fair Value Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Public fund:				
Money market funds	\$ 5,394	\$ -	\$ -	\$ 5,394
Equities	22,360	-	-	22,360
Mutual funds	12,510	-	-	12,510
Alternative	<u>-</u>	<u>-</u>	<u>12,083</u>	<u>12,083</u>
Total public fund	40,264	-	12,083	52,347
Private funds	-	-	2,886	2,886
Marketable equity securities	574	-	-	574
Other investments	<u>91</u>	<u>-</u>	<u>-</u>	<u>91</u>
Total assets	<u>\$ 40,929</u>	<u>\$ -</u>	<u>\$ 14,969</u>	<u>\$ 55,898</u>
Liabilities:				
Annuities payable	\$ -	\$ (196)	\$ -	\$ (196)
Fair value of cash flow hedge	<u>-</u>	<u>(1,684)</u>	<u>-</u>	<u>(1,684)</u>
Total liabilities	<u>\$ -</u>	<u>\$ (1,880)</u>	<u>\$ -</u>	<u>\$ (1,880)</u>

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

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

Note 9 – Fair Value Measurements, Continued

The following is a schedule of Level 3 investment activity for the year ended June 30, 2020 measured on a recurring basis using significant unobservable inputs:

	Investments in private and alternative funds
Balance as of July 1, 2019	\$ 15,726
Net investment loss	(362)
Distributions and settlements	(395)
Balance as of June 30, 2020	\$ 14,969

There have been no significant changes in the methodologies used during the years ended June 30, 2020 and 2019. The following is a description of the valuation methodologies used for Level 2 and Level 3 investments measured at fair value:

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

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

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

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

Note 10 – Property, Plant, and Equipment

The following is a summary of property, plant, and equipment and related accumulated depreciation as of June 30, 2020 and 2019:

	2020	2019
Land	\$ 23,177	\$ 23,227
Land improvements	14,164	13,286
Leasehold improvements	161	161
Buildings and improvements	147,309	142,864
Equipment and furnishings	19,556	17,881
	204,367	197,419
Less accumulated depreciation	(94,289)	(87,674)
	110,078	109,745
Construction in progress	-	924
Property, plant, and equipment, net	\$ 110,078	\$ 110,669

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

Note 10 – Property, Plant, and Equipment, Continued

Depreciation totaled \$7,152 and \$6,988 for the years ended June 30, 2020 and 2019, respectively.

In December 2019, the University entered into a contract to sell certain land, buildings, and improvements in a cash transaction. Upon closing on or before November 1, 2022, the University expects to realize \$39,500 in gross proceeds and recognize a gain of approximately \$38,000.

Note 11 – Revolving Credit Agreement

The University's revolving credit agreement (revolving credit agreement) with a financial institution with a borrowing capacity of \$2,000 expired in August 2020 and was not renewed. Borrowings under the revolving credit agreement bore interest at the LIBOR daily floating rate plus 1.25% (1.42% at June 30, 2020) and were collateralized by certain University business assets, excluding restricted promises to give. The University had no outstanding borrowings under this credit agreement as of June 30, 2020.

The University's revolving credit agreement contained various restrictive covenants, including the maintenance of certain liquidity and debt service ratios. All covenants have been met through June 30, 2020.

Note 12 – Long-Term Debt, Net

Long-term debt at June 30, 2020 and 2019 consists of the following:

	2020	2019
Variable rate tax-exempt Educational Facilities Revenue Bonds, Series 2012 (Series 2012 Bonds)	\$ 28,150	\$ 29,950
Promissory note – (Promissory note payable)	1,500	1,500
Term note payable – financial institution (Term note payable)	4,790	5,323
	\$ 34,440	\$ 36,773

2012 Series Bonds

The 2012 Series Bonds bear interest at a variable rate equal to 70% of the 30-day LIBOR rate + 1.15% (1.276% at June 30, 2020). Interest is payable monthly and the principal balance is payable semi-annually through maturity in April 2033. Under the terms of the 2012 Series Bonds, the University is required to meet certain financial covenants and may not encumber its properties or incur additional debt beyond certain limits. Upon the occurrence of a default under the 2012 Series Bonds, the lender may declare all principal and interest and all other obligations due to the lender be immediately due and without prior notice. All financial covenants have been met or waived through June 30, 2020.

Term note payable

The University is obligated under a term note payable to finance the purchase of certain real property in West Palm Beach, Florida used for student housing. Principal and interest are payable monthly through December 1, 2022. The term note payable bears interest at the 30-day LIBOR rate plus 2.25% (2.42% at June 30, 2020) and is collateralized by certain real property. The University will pay the entire balance of the term note on the earlier of December 1, 2022 or the sale of certain land, buildings, and improvements (see Note 10).

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

Note 12 – Long-Term Debt, Net, Continued

Promissory note payable

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

Debt issuance costs

Amortization of debt issuance costs is reported in the statements of activities as an operating expense and amounted to \$10 for each of the years ended June 30, 2020 and 2019. The outstanding balance of long-term debt, net at June 30, 2020 and 2019 is as follows:

	2020	2019
Long-term debt	\$ 34,440	\$ 36,773
Less: unamortized debt issuance costs	(25)	(35)
Total long-term debt, net	\$ 34,415	\$ 36,738

Principal payments

Principal payments due on long-term debt in each of the five years subsequent to June 30, 2020, and thereafter, are presented as follows:

Year Ending June 30,	2012 Series Bonds	Promissory Note Payable	Term Note Payable	Total Payments
2021	\$ 1,800	\$ -	\$ 457	\$ 2,257
2022	1,900	-	477	2,377
2023	1,900	1,500	3,856	7,256
2024	2,000	-	-	2,000
2025	2,000	-	-	2,000
Thereafter	18,550	-	-	18,550
Total	\$ 28,150	\$ 1,500	\$ 4,790	\$ 34,440

Interest rate swap agreement

Interest rate swap agreement outstanding at June 30, 2020 and 2019 is accounted for as a cash flow hedge and summarized as follows:

Notional Amount		Fair Value		Maturity	Interest Rate at June 30, 2020
2020	2019	2020	2019		
\$ 15,700	\$ 16,900	\$ (1,684)	\$ (1,548)	2024	3.65%

The fair value of the cash flow hedge at June 30, 2020 and 2019 represents the estimated amount at which the cash flow hedge could be settled and is included in the accompanying statements of financial position as a cash flow hedge. The changes in fair value during the years ended June 30, 2020 and 2019 of \$(136) and \$(219), respectively, are included in the accompanying statements of activities as an unrealized cash flow hedge (loss). If terminated prior to maturity, the cash flow hedge would be settled at the current value at the time of the settlement.

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

Note 13 – Retirement Plan

Retirement benefits are provided through a qualified 403(b) defined contribution plan. For each of the years ended June 30, 2020 and 2019, the University contributed 1% of the annual compensation for all participating employees. For the years ended June 30, 2020 and 2019, the University also matched employee contributions up to 8% of the annual compensation for participating employees. Retirement plan expense for the years ended June 30, 2020 and 2019 amounted to \$2,049 and \$1,933, respectively.

Note 14 – Restricted Net Assets and Endowment

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

At June 30, 2020 and 2019, net assets with donor restrictions consist of the following:

	2020	2019
Purpose restrictions, available for spending:		
Instruction	\$ 3,949	\$ 3,711
Academic support	186	372
Student services	1,319	1,028
General administrative and institutional support	822	1,615
Plant facilities and maintenance	232	2,047
Scholarships and student aid	1,007	935
Restrictions perpetual in nature	70,773	70,883
	\$ 78,288	\$ 80,591

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Any such losses are recorded as reductions in net assets with donor restrictions and restored with subsequent gains.

Interpretation of relevant law

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

The Board considers the following factors in making its determination:

- 1) The purpose of the University,
- 2) The intent of the donor of the endowment funds,
- 3) The term of the applicable instrument,

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

Note 14 – Restricted Net Assets and Endowment, Continued

Interpretation of relevant law, continued

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

Return objectives and risk parameters

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

Strategies employed to achieve objectives

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

Spending policy

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

Changes in endowment net assets for the year ended June 30, 2020 follow:

	Without Donor Restrictions	With Donor Restrictions	Total 2020
Balance as of July 1, 2019	\$ 15,053	\$ 70,883	\$ 85,936
Net investment return (loss)	(130)	420	290
Contributions	201	2,167	2,368
Change in value split-interest trusts	-	1,030	1,030
Appropriations for endowment expenditures	<u>(519)</u>	<u>(3,727)</u>	<u>(4,246)</u>
Total endowment gifts and designations	<u>\$ 14,605</u>	<u>\$ 70,773</u>	<u>\$ 85,378</u>

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

Note 14 – Restricted Net Assets and Endowment, Continued

A reconciliation of endowment net assets to total net assets for the year ended June 30, 2020 follows:

Total endowment gifts and designations	\$ 14,605	\$ 70,773	\$ 85,378
Other non-endowment net assets	<u>78,485</u>	<u>7,515</u>	<u>86,000</u>
Total net assets	<u>\$ 93,090</u>	<u>\$ 78,288</u>	<u>\$ 171,378</u>

Note 15 – Net Assets Released from Restrictions

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

	<u>2020</u>	<u>2019</u>
Instruction	\$ 968	\$ 1,053
Academic support	198	36
Student services	448	581
General administrative and institutional support	2,999	274
Plant facilities for maintenance	416	241
Scholarships and student aid	<u>3,570</u>	<u>3,070</u>
	<u>\$ 8,599</u>	<u>\$ 5,255</u>

Note 16 – Description of Leasing Arrangements

As Lessor

The University leases certain office facilities and property to third parties under short-term operating leases. Rental income for the years ended June 30, 2020 and 2019 approximated \$47 and \$324, respectively.

As Lessee

The University is obligated under various non-cancelable operating lease agreements for certain campus facilities and equipment, as well as a 99-year lease for certain land, building and improvements which is accounted for as an operating lease. Certain leases contain renewal options and escalation provisions.

At June 30, 2020, future minimum payments due under all operating leases with initial or remaining lease terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 759
2022	732
2023	730
2024	262
2025	264
Thereafter	<u>15,116</u>
Total	<u>\$ 17,863</u>

Rent expense for the years ended June 30, 2020 and 2019 approximated \$697 and \$865, respectively.

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

Note 16 – Description of Leasing Arrangements, Continued

Provident Group – PBAU Properties, LLC

The University entered into a 40-year ground lease with Provident Group – PBAU Properties, LLC and Provident Resources Group, Inc. (“Owner”), commencing June 1, 2019, in which the Owner will design, construct, manage the construction, and furnish a 510-bed residence hall facility for benefit of the University. The Owner issued \$40,755 in revenue bonds through Palm Beach County, Florida to finance the construction of the residence hall. The University is not contingently liable in the event of a default on the bonds. The ground lease term shall expire on the earlier of 1) the 40th anniversary of the commencement date or 2) the date on which the bonds associated with the project have been fully repaid or the indenture is discharged. The Owner received a certificate of occupancy, from the City of West Palm Beach during August 2020.

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

Ownership of the residence hall will revert to the University upon termination of the ground lease and full repayment of the related bonds. The University has the option to purchase the Owner’s right, title and interest in the residence hall beginning on the tenth anniversary of the commencement date of the lease. The University has not recorded any transactions related to potential future title or ownership in the residence hall through June 30, 2020.

Arrangements such as the one among the University, the Owner and Palm Beach County, Florida, (which financed the bonds to fund the residence hall), are sometimes referred to as P3 arrangements (or private public partnerships). No partnership agreement exists, and each party has specific rights and obligations under the agreements discussed above. Given the nature of this arrangement, the University has concluded that this arrangement does not qualify for consolidation with the University’s financial statements prepared in in conformance with U.S. GAAP.

For illustration purposes, the following unaudited summary financial information presents certain selected pro forma consolidated financial position and results of operations data as if the above arrangements qualified for consolidation in the University’s financial statements as of and for the year ended June 30, 2020:

Property, plant and equipment, net	<u>\$ 143,591</u>
Total assets	<u>\$ 265,602</u>
Long-term debt, net	<u>\$ 76,599</u>
Total liabilities	<u>\$ 94,224</u>
Net assets:	
Without donor restrictions	\$ 93,090
With donor restrictions	<u>78,288</u>
Total net assets	<u>\$ 171,378</u>
Total liabilities and net assets	<u>\$ 265,602</u>
Total revenues and other support	\$ 69,254
Total expenses	<u>79,270</u>
Change in net assets from operating activities	<u>\$ (10,016)</u>
Change in net assets	<u>\$ (2,778)</u>

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

Note 17 – Insurance

The University is a member of the Florida Independent Colleges and Universities Risk Management Association, LLC (FICURMA), a claims-made insurance program which provides coverage for workers' compensation, general liability, property, and auto liability exposure. FICURMA's members make annual contributions into the program based on an independent actuarial valuation to cover the members' retained deductible components, which include \$400 per occurrence for covered insurance claims. Claims in excess of the self-insured retention limits are covered under excess coverage policies with the program's carrier up to various aggregate limits. Previously, the University advanced \$285 to FICURMA to allow FICURMA to work independently of its members. The advance bears interest at a variable rate determined by FICURMA's annual aggregate return of its invested capital. The advance is fully reserved as of June 30, 2020 and 2019.

FICURMA was fully funded by its members as of June 30, 2020 and 2019, and management believes that the program has the ability to cover the members' known and incurred, but not reported, claims exposure related to the retained deductible components.

Insurance expense related to the program approximated \$2,082 and \$1,903, respectively, for the years ended June 30, 2020 and 2019 and is included in institutional support in the accompanying statements of activities.

Note 18 – Legal Proceedings

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

Note 19 – Risks and Concentrations

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

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

Note 20 – Commitments

Dining Services Agreement

On March 31, 2020, the University entered into a Dining Services Management Agreement (Agreement) with Aramark Educational Services, LLC (Aramark) to provide and manage the University's campus food service program. The agreement is for a ten-year period beginning July 1, 2020 and ending on June 30, 2030. Either party may terminate the agreement by giving a 90-days' notice prior to the proposed termination date. The termination provision of the agreement requires that during the notice period, both parties to endeavor in good faith to avoid the termination of the agreement.

As part of the agreement, the University received advances from Aramark in the form of financial investments to improve dining facilities and equipment in exchange for the exclusive rights to use the University's facilities and equipment. These advances are refundable to Aramark should the University terminate the agreement prior to its expiration, the refundable amount is proportionate to the unexpired portion of the agreement. Accordingly, the University recorded the unamortized portion of these advances amounting to \$3,700 as of June 30, 2020 as a component of deposits and other liabilities in the accompanying statement of financial position. In the event of termination, the remaining unamortized advances convert to an interest-bearing obligation.

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

Note 21 – Supplemental Statement of Cash Flows Disclosure

Interest paid for the years ended June 30, 2020 and 2019 approximated \$1,362 and \$1,564, respectively.

Note 22 – Significant Uncertainty – Impact of COVID-19

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. On March 13, 2020, the United States President declared a national emergency concerning the COVID-19 outbreak. As a consequence, on March 23, 2020, the University suspended on-campus operations for the remainder of the spring 2020 semester and moved to remote teaching and operations. The University is aggressively seeking to reduce its costs to mitigate the impact of lost revenue and has initiated financial planning for different future scenarios.

The ultimate impact of the COVID-19 pandemic on the University's operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak. New information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the University, may direct, which may result in an extended period of operational disruption. Any resulting financial impact cannot be reasonably estimated at this time but could be anticipated to have an impact on the University's business operations, financial position, and results of operations for fiscal year 2021.

Note 23 – Subsequent Events

The University evaluated its activities subsequent to June 30, 2020 through February 22, 2021, the date on which the financial statements were available to be issued, for events that require recognition in the financial statements or disclosure in the notes thereto.

Palm Beach Atlantic University, Inc.
Financial Responsibility Supplemental Schedule
Year Ended June 30, 2020 (Dollars in thousands)

Reference to GAAP Financial Statements		DOE Ratio Components			Ratio Calculation			Composite Score Calculation		
Statement and/or Note	Statement Category or Note Description	Elements	Amount	Inputs	Result	Ratio	Strength Factor Calculation	Strength Factor Weight	Composite Score	
Primary Reserve Ratio										
Expendable Net Assets										
SFP	Net assets without donor restrictions	Net assets without donor restrictions	+ \$ 93,090	\$ 93,090						
SFP	Net assets with donor restrictions	Net assets with donor restrictions	+ 78,288	78,288						
N/A	Related Parties	Unsecured related party-receivables	-	-						
SFP	Land, buildings and equipment, net	Property, plant and equipment, net (includes construction in	-	110,078						
N/A	N/A	Intangible assets	-	-						
N/A	N/A	Post-employment and defined benefit pension liabilities	-	-						
SFP	Long-term debt	Long-term debt (obtained for long-term purposes)	+ 34,415	34,415						
Note 14	U.S. DOE Supplemental Disclosure	Annuities, term endowment, and life income funds with donor restrictions	-	196						
		Annuities with donor restrictions	196							
		Term endowments with donor restrictions	-							
		Life income funds with donor restrictions	-							
Note 14	U.S. DOE Supplemental Disclosure	Net assets with donor restrictions restricted in perpetuity	-	70,773						
					\$ 24,746					
Total Expenses and Losses										
SOA	Total expenses	Total expenses without donor restrictions	79,270	79,270						
SOA	Net unrealized and realized loss on investments	Losses without donor restrictions (non-operating and net investment losses, not included in expenses above)	-	-						
SOA	Changes in split-interest agreements, if loss	Net investment losses (included above)	-	-						
N/A	N/A	Pension and related changes other than net periodic costs	-	-						
		Denominator total			\$ 79,270					
						0.31	3.0	40%	1.20	
Equity Ratio										
Modified Net Assets										
SFP	Net assets without donor restriction	Net assets without donor restrictions	+ 93,090	93,090						
SFP	Net assets with donor restrictions	Net assets with donor restrictions	+ 78,288	78,288						
N/A	N/A	Intangible assets	-	-						
N/A	N/A	Unsecured related-party receivables	-	-						
					171,378					
Modified Assets										
SFP		Total assets	+ 220,823	220,823						
N/A		Intangible assets	-	-						
NA		Unsecured related-party receivables	-	-						
					220,823					
						0.78	3.0	40%	1.20	
Net Income Ratio										
SOA	Change in net assets without donor restrictions	Change in net assets without donor restrictions	(475)	(475)	(475)					
SOA	Total revenues and releases without donor restrictions	Total revenues and gains without donor restrictions	77,853	77,853	77,853					
						(0.01)	0.8	20%	0.17	

Total Composite Score

2.6

PALM BEACH ATLANTIC UNIVERSITY, INC.

NOTES TO FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Note 1 – Basis of Presentation

The U.S. Department of Education (DOE) issued regulations, effective July 1, 2020, regarding information deemed necessary to calculate ratios for determining sufficient financial responsibility under Title IV regulations. The Financial Responsibility Supplemental Schedule (the Schedule) is presented in accordance with the DOE regulations, and is not a part of the financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). However, each element listed in the Schedule has been derived from the accompanying U.S. GAAP financial statements which includes the statement of financial position (SFP), statement of activities (SOA), statements of functional expenses and cash flows, and the notes to the financial statements (Notes).

The DOE Ratio Methodology for Private Non-Profit Institutions established the following ratios, each of which are defined in the regulations with underlying data elements that correspond to the elements listed in the Schedule. Definitions for certain data elements may include items that are not applicable to Palm Beach Atlantic University, Inc. (the University) and are therefore not referred to in the Schedule or in the Notes, such as lease right-of-use assets and liabilities since the University has not yet adopted Financial Accounting Standards Board (FASB)'s Accounting Standards Update (ASU) 2016-02, *Leases*.

	Expendable Net Assets
Primary Reserve Ratio:	Total Expenses without Donor Restrictions and Losses without Donor Restrictions
	Modified Net Assets
Equity Ratio:	Modified Assets
	Change in Net Assets without Donor Restrictions
Net Income Ratio:	Total Revenues without Donor Restrictions and Gains without Donor Restrictions

Note 2 – Composite Score Calculation

A strength factor score is assigned to each ratio by applying a prescribed algorithm, with the maximum allowable strength factor score being a 3.0. A standard weight percentage is then applied to the strength factor score to generate a weighted score for each ratio. The composite score is derived by adding the three weighted scores. The University's composite score calculation is summarized as follows:

	Ratio	Strength Factor	Weight	Composite Score
Primary Reserve Ratio	3.0	3.0	40%	1.2
Equity Ratio	3.0	3.0	40%	1.2
Net Income Ratio	0.9	3.0	20%	<u>.2</u>
				<u><u>2.6</u></u>

PALM BEACH ATLANTIC UNIVERSITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Additional Award Identification	Federal Awards Expenditures
Federal Awards			
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Direct Student Loans Programs (Note 2)	84.268	N/A	\$ 30,033,197
Federal Pell Grant Program	84.063	N/A	3,980,418
Federal Work Study Program	84.033	N/A	341,735
Federal Supplemental Educational Opportunity Grant	84.007	N/A	206,542
Teacher Education Assistance for College and Higher Education (TEACH)	84.379	N/A	<u>3,752</u>
Total student financial assistance cluster			<u>34,565,644</u>
U.S. Department of Education:			
COVID-19 - Higher Education Emergency Relief Fund	84.425F	COVID-19	901,683
COVID-19 - Higher Education Emergency Relief Fund	84.425E	COVID-19	<u>1,181,524</u>
Total Higher Education Emergency Relief Fund			<u>2,083,207</u>
Total expenditures of federal awards			<u>\$ 36,648,851</u>
State Grantor/Program/Project or Cluster Title	State CSFA Number	Additional Award Identification	State Financial Assistance Expenditures
State Financial Assistance			
Florida Department of Education:			
Florida Student Financial Assistance Programs:			
William L. Boyd, IV, Effective Access to Student Education Program (EASEP)	48.064	N/A	\$ 3,395,743
The Florida Bright Futures Scholarship Program -			
Florida Medallion Scholars Award (FMSA)	48.059	N/A	936,150
Florida Academic Scholars Award (FASA)	48.059	N/A	1,339,488
Florida Student Assistance Grant (FSAG)	48.054	N/A	1,007,855
Florida Work Experience Program (FWEP)	48.053	N/A	2,417
Scholarships for Children and Spouses of Deceased or			
Disabled Veterans and Service Members (CSDDV)	48.055	N/A	23,532
Honorably Discharged Graduate Assistance Program (HDGAP)	48.118	N/A	<u>1,200</u>
Total Florida Department of Education			6,706,385
Florida Department of Highway Safety and Motor Vehicles:			
Palm Beach Atlantic University License Plate Project	76.054	N/A	<u>7,081</u>
Total expenditures of state financial assistance			<u>\$ 6,713,466</u>
Total expenditures of federal awards and state financial assistance			<u>\$ 43,362,317</u>

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

PALM BEACH ATLANTIC UNIVERSITY, INC.

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

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal award and state financial assistance activity of Palm Beach Atlantic University, Inc. (the University) under programs of the federal government and State of Florida for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* 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*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

Note 2 – Federal Awards

Program Clusters

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

Federal Direct Student Loans

Federal student loans processed during the fiscal year ended June 30, 2020 are as follows:

	<u>Federal CFDA</u>	<u>Loans Made During Year</u>
Direct Subsidized Loans	84.268	\$ 4,270,964
Direct Unsubsidized Loans	84.268	16,286,319
Parent PLUS Loans	84.268	4,247,000
Graduate PLUS Direct Loans	84.268	<u>5,228,914</u>
Total Federal Student Loans		<u>\$ 30,033,197</u>

Note 3 – Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 4 – Indirect Cost Rate

The University has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. The reimbursement of indirect costs reflected in the accompanying financial statements as federal and state grant revenue is subject to final approval by federal and state grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment will not be material to the University's financial position, or changes in net assets.

PALM BEACH ATLANTIC UNIVERSITY, INC.

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

Note 5 – Contingency

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

Note 6 – Summary of Florida Student Financial Assistance Programs

The state financial assistance presented in the Schedule presents, in summary form, student financial assistance activities of the University for the year ended June 30, 2020, which have been financed by the State of Florida Department of Education (FDOE). The administration of each program is the responsibility of the FDOE's Office of Student Financial Assistance and the University.

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

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

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

Florida Medallion Scholars Award (FMSA)

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

Florida Academic Scholars Award (FASA)

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

Florida Student Assistance Grant Program (FSAG)

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

Florida Work Experience Program (FWEP)

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

PALM BEACH ATLANTIC UNIVERSITY, INC.

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

Note 6 – Summary of Florida Student Financial Assistance Programs, Continued

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

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

Honorably Discharged Graduate Assistance Program (HDGAP)

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palm Beach Atlantic University, Inc. (the University), which comprise the statement of financial position as of June 30, 2020, 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 February 22, 2021.

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 University'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*.



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.

Templeton & Company, LLP

West Palm Beach, Florida
February 22, 2021

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

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

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

We have audited Palm Beach Atlantic University, Inc.'s (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the Florida Department of Financial Services' State Project Compliance Supplement, that could have a direct and material effect on each of the University's major federal programs and state financial assistance projects for the year ended June 30, 2020. The University's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance projects applicable to its federal awards and state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs and state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.650, *Rules of the Florida Auditor General*. Those standards, the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about 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 financial assistance project. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program and State Financial Assistance 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 awards and state financial assistance projects for the year ended June 30, 2020.



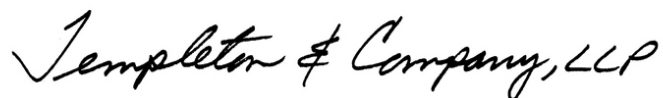
Report on Internal Control over Compliance

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 financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 financial assistance project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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



West Palm Beach, Florida
February 22, 2021

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020**

Section I. Summary of Auditor’s Results

Financial statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	No
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance Projects:

Internal control over major programs:

Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported

Type of auditor’s report issued on compliance for major Federal Programs and State Financial Assistance Projects: Unmodified

Any audit findings disclosed that are required to be reported on with section 2 CFR 200.516(a) or Chapter 10.650, Rules of the Florida Auditor General? No

Identification of major federal programs and state projects:

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

Education Stabilization Fund – Higher Education Emergency Relief Fund	84.425F, 84.425E
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<u>Name of State Project (Student Financial Assistance)</u>	<u>State CSFA No.</u>
William L. Boyd, IV, Effective Access to Student Education Program	48.064
Florida Student Assistance Grant	48.054
Florida Academic Scholars Award	48.059
Florida Medallion Scholars Award	48.059
Honorably Discharged Graduate Assistance Program	48.118
Scholarships for Children and Spouses of Deceased or Disabled Veterans and Service Members	48.055
Florida Work Experience Program	48.053

Dollar threshold used to distinguish between Federal Type A and Type B programs \$750,000

Dollar threshold used to distinguish between State Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
For the Year Ended June 30, 2020**

Section II – Financial Statement Findings

No matters were identified.

Section III – Findings and Questioned Costs for Federal Awards

None reported.

Section IV – Findings and Questioned Costs for State Financial Assistance Projects

None reported.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS FOR
MAJOR FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2020**

Section V – Prior Year Findings and Questioned Costs for Federal and State Awards

None reported.

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

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

Report on the Financial Statements

We have audited the financial statements of Palm Beach Atlantic University, Inc. (the University), as of and for the year ended June 30, 2020, and have issued a report thereon dated February 22, 2021.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance with Requirements for Each Major Federal Program and State Financial Assistance Projects; Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, *Rules of the Florida Auditor General*; and Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Projects. Those reports and schedule, which are dated February 22, 2021, should be considered in conjunction with this management letter.

Other Matter

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

Purpose of this Letter

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

Templeton & Company, LLP

West Palm Beach, Florida
February 22, 2021



PALM BEACH ATLANTIC UNIVERSITY, INC.

**SUMMARY OF POPULATION, ITEMS SAMPLED, AND FINDINGS FOR
FLORIDA STUDENT FINANCIAL ASSISTANCE PROJECTS
For the Year Ended June 30, 2020**

	Description of Category	Number of Recipients	Percent of Population	Amount of Awards	Percent of Population
EASEP	Population	1,326	100.0%	\$ 3,395,743	100.0%
	Tested	50	3.8%	\$ 127,847	3.8%
	Findings	0	0.0%	\$ -	0.0%
FMSA	Population	209	100.0%	\$ 936,150	100.0%
	Tested	50	22.5%	\$ 226,256	24.2%
	Findings	0	0.0%	\$ -	0.0%
FASA	Population	201	100.0%	\$ 1,339,488	100.0%
	Tested	50	24.9%	\$ 332,973	25.9%
	Findings	0	0.0%	\$ -	0.0%
FSAG	Population	514	100.0%	\$ 1,007,855	100.0%
	Tested	50	9.7%	\$ 112,817	10.2%
	Findings	0	0.0%	\$ -	0.0%
FWEP	Population	3	100.0%	\$ 2,417	100.0%
	Tested	3	100.0%	\$ 2,417	100.0%
	Findings	0	0.0%	\$ -	0.0%
CSDDV	Population	5	100.0%	\$ 23,532	100.0%
	Tested	5	100.0%	\$ 23,532	100.0%
	Findings	0	0.0%	\$ -	0.0%
HDGAP	Population	3	100.0%	\$ 1,200	100.0%
	Tested	3	100.0%	\$ 1,200	100.0%
	Findings	0	0.0%	\$ -	0.0%

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

PALM BEACH ATLANTIC UNIVERSITY, INC.
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2020

February 22, 2021

To the Audit Committee of
Palm Beach Atlantic University, Inc.

In planning and performing our audit of the financial statements of Palm Beach Atlantic University, Inc. (the University) as of and for the year ended June 30, 2020, 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 of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all internal control matters that might be deficiencies and, therefore, deficiencies may exist that were not identified. However, during our audit, we noted certain matters involving internal control that are presented for your consideration. This letter does not affect our report dated February 22, 2021 on the financial statements of the University or our reports dated February 22, 2021, issued to comply with the federal and Florida Single Audit Acts. This letter is not required to be submitted to any federal or Florida regulatory bodies.

This letter is not intended to comment on the many favorable aspects of the University's internal control system and the high level of dedication of the Finance Department. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve internal control or result in other operational efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of the matters, or to assist you in implementing the recommendations. Our comments and recommendations are summarized below.

Current Year Comments

Accounting Standards Updates - ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and ASU 2016-02 Leases

Comment

In June 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05 which deferred the effective date of required adoption of Topic 606, *Revenue from Contracts with Customers* and ASU 2016-02, *Leases*, for certain entities. Accordingly, the University deferred the change in accounting principle for its revenue recognition related to tuition revenue and housing/residential contracts, as well as, its accounting for its leasing obligations until years ending June 30, 2021 and 2022, respectively.

- Topic 606 – The adoption and implementation of Topic 606 may not have a significant effect in the year of adoption. However, the University will need to document its consideration of the 5 step revenue recognition model for its tuition revenue and housing contracts and determine the impact on its financial statements, changes in financial reporting, loan covenants, grant agreements, and reporting required financial information to the U.S. Department of Education.

ASU 2016-02 *Leases* - Under ASU 2016-02 all leases will be accounted for similarly to what are now called 'capital leases', where the total obligation (discounted to present value) under the lease is recorded as a liability on the statement of financial position, offset by an asset representing the future right of use asset.



Current Year Comments, continued

Accounting Standards Updates - ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and ASU 2016-02 Leases, continued

While this may not have a significant effect on any one year's statement of activities, or on the University's net assets, the effects on the statement of financial position could be very significant. These effects can include changes in total liabilities, the ratio of liabilities to net assets, the ratio of cash flow to liabilities, and others. Such changes may affect the University's compliance with loan covenants. Organizations are also likely to receive inquiries from donors and other funders, the media, and their own governing board members about the effects of this change.

Recommendation

We suggest that the University begin now to document its adoption of Topic 606 for fiscal year ending June 30, 2021, identify any potential areas of adjustment and utilize advisory guidance published by higher education industry resources such as the National Association of College and University Business Officers.

We also recommend the University begin now to calculate the likely effect on its financial statements for ASU 2016-02's change and the effect, if any, that it will have on the compliance matters mentioned above, and be prepared to respond to inquiries on the subject.

Information Security Program – Scope of Risk Assessment and Centralize Documentation

Comment

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

Guidance from the US Department of Education and changes to compliance requirements have highlighted a focus on institutional compliance with the GLBA in recent reporting periods. Prior to the US Department of Education's compliance requirements related to the GLBA, the University had taken steps to:

- 1) Designate an individual to coordinate its information security program;
- 2) Perform a risk assessment that addresses the three (3) required areas noted in 16 CFR 314.4(b), which are employee training and management, information systems network and software design, as well as, information processing, storage, transmission and disposal, and finally to address detecting, preventing and responding to attacks, intrusions and other information system failures.
- 3) Retain and update a documented safeguard for each risk identified in point 2.

The University's Campus Information Systems (CIS) department performs an annual risk assessment related to information security, has appointed an individual to coordinate the information security program, and the risk assessment, addressing each of the areas enumerated in 16 CFR 314.4(b).

Current Year Comments, Continued

Information Security Program – Scope of Risk Assessment and Centralize Documentation, Continued

Recommendation

We recommend that the University's CIS and Financial Aid Department meet as part of the annual risk assessment process and document areas where changes in technology, compliance requirements and potential gaps in detection and prevention may arise to strengthen that process. The risk assessment process should also include the relevant offices of Finance and Accounting, Human Resources, the Registrar, and Institutional Advancement, among others. We encourage the University to continue to maintain this practice annually in order to assure ongoing compliance with existing and future laws and regulations.

We further recommend that this meeting be documented on an annual basis and reviewed with the University's Audit Committee.

Grant Compliance and Related Accounting

Comment

During the audit period, the University was awarded federal grants under the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) allocation for higher education through the Higher Education Emergency Relief Fund (HEERF). The notice of award of HEERF grant funds was toward the latter end of the University's fiscal year and, as a result, all of the proper reconciliation of grant expenses to the University's trial balance was not completed in the normal course of the University's annual closing process. In the past, the University has not sought federal grants outside of the US Department of Education's (DOE) Student Financial Aid programs. Additionally, the immediacy of CARES Act funds disbursed due to the COVID-19 pandemic's abrupt economic impact on institutions of higher education gave little time for compliance and reporting guidance to be fully enumerated by the DOE. Ongoing updates and guidance continues to be released by the DOE.

Recommendation

We suggest that in order to ensure understanding of and compliance with specific terms of the HEERF grant awards, as well as consistency of reporting for all such grant agreements, that appropriate personnel review grant agreements on a timely basis and establish documented and consistent procedures pertaining to the appropriate accounting for all grants. We believe that this process will make accounting for and classifying of grants an easier and more routine task. Thus, this should also achieve more consistent accounting and financial statement presentation.

If additional stimulus funds are made available, having appropriate personnel designated to perform the tasks recommended above will aid in effective, efficient and accurate accounting for grant awards and the related expenditures. Additionally, it will aid in addressing the compliance requirements under the grant agreement so as to reduce the risk of non-compliance with grant agreements.

Year-end Closing Process

Comment

Accounting tasks such as year-end reconciliations play a key role in providing the accuracy of accounting data and information included in financial statements. During the course of our audit procedures, we noted certain supporting schedules were not reconciled to the University's general ledger trial balance or not readily available as had been past practice of the University's Finance Office (i.e. property, plant and equipment and depreciation, net asset roll-forward, and investment roll-forward).

Current Year Comments, Continued

Year-end Closing Process, continued

Recommendation

We are aware that changes to staff have taken or will take place. We suggest, however, that now is the time for a complete review of responsibilities and processes in order to adequately evaluate work flow and closing processes.

Outstanding Check Policy

Comment

Per the University's policy, the dormancy period for all payroll checks is 1 year and the dormancy period for student refund of accounts payable is 5 years before they are written off. During the course of field work, auditors noted several student refund checks in the outstanding check listing that were over 5 years old.

Recommendation

We recommend that the University abide by their outstanding check policy, and analyze the dormancy of the checks on a monthly basis during the reconciliation process and adjust stale checks, remit required amounts to the State of Florida's unclaimed property fund and remove potential duplicate payments that may have previously been reissued.

Prior Year Comments

Formalize Functional Expense Allocation Methodology

Comment

During the year ended June 30, 2019, the University implemented Accounting Standards Update 2016-14 *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*; which included developing a methodology for the allocation and presentation of functional expenses.

Recommendation

We recommend that the University refine and formally adopt an accounting policy and methodology for the allocation and presentation of functional expenses. Formalizing a policy and methodology as part of the budgeting process would provide consistency throughout the entire accounting cycle, from recording to reporting.

Status

The University has compiled a functional classification worksheet for the current year 2019-2020. They do not have a formal policy in place, but they do have better documentation of the allocation methods used. They have made significant steps to clean up the chart of accounts. They reduced the number of object codes available to use for departments and have also implemented a more accurate fringe benefit posting from Jenzabar which charges the actual fringe costs to the respective department code or full account code. Those changes went into effect July 1, 2020 for both the refined chart of accounts and fringe benefit accounting which will improve the consistency of reporting natural classification and functional classification.

Prior Year Comments, Continued

Property and Equipment Ledger and Depreciation

Comment

During the course of our audit, we noted that the fixed asset ledger used by the Business Office is maintained in Microsoft Excel and is limited in its ability to track individual assets, and record additions and disposals of property and equipment. The Microsoft Excel spreadsheet also is susceptible to formula errors, hidden rows and columns, and other issues that can be encountered in maintaining accounting records for depreciation and property and equipment that a traditional fixed asset software will not encounter.

Recommendation

We recommend that the University consider implementing a fixed asset accounting software that can integrate with the University's Jenzabar Accounting software. This will improve the tracking and control over existing fixed assets, properly record dispositions of fixed assets, support depreciation calculations, and facilitate purchase price allocations for acquired properties.

Status

This recommendation is part of 2nd phase adoption the University implemented. Phase one was to change the fixed asset policy which would allow the University to capture the significant and material fixed assets. The University put into place for year ending 2021 a new fixed asset policy which was approved in November 2019. The 2nd phase is to evaluate the current FAMP software and determine whether the software is effective in achieving its objective. The University evaluated the software's calculation of depreciation and found several minor issues with how the software calculated depreciation.

Contribution Revenue and Unconditional Promises to Give, Net

Comment

During the course of the 2019 audit, we noted the following as part of our testing of contributions and pledges receivable:

- One of the selections was recognized in the improper period. The supporting donor letter provided was dated in August 2017, however, the contribution revenue and corresponding pledge receivable was not recorded until fiscal year June 30, 2019.
- The support provided for another selection was a YouTube video from the donor. A written donor letter was not obtained by the University prior to recording the revenue and receivable.

Recommendation

We recommend that controls be strengthened to ensure that pledges receivable are recorded when awarded. We recommend a regular, periodic meeting between the Development department and the Business Office to ensure completeness and accuracy of pledges recorded. Another suggestion would be to implement a control which requires a sign-off from the Controller or Assistant Controller to review all pledges recorded over a certain dollar amount. Business Office personnel responsible for recording contribution revenues should be copied or blind-copied on correspondence between the Development department and the donors.

Prior Year Comments, Continued

Contribution Revenue and Unconditional Promises to Give, Net, Continued

Furthermore, the Business Office and Development Department should obtain written, executed letters from the donors for all pledges over a certain dollar amount prior to recording.

Status

With a new Vice President of Advancement, this is a primary focus for both the Development Office and the Business Office. The University has held joint meetings and established monthly meetings in order to gain clarification or documentation on a regular basis.

Classification of Investment Activity

Comment

During the course of our audit, we noted that realized gains and losses, unrealized gains and losses, and investment income and expenses were not properly classified in the trial balance to accurately reflect the activity in interim periods during the year ended June 30, 2019.

Recommendation

We recommend that investment activity be routinely recorded to the properly classified accounts for tracking purposes, financial reporting purposes, and for comparability from period to period.

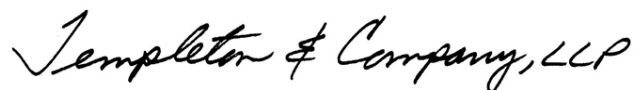
Status

During the recording of monthly endowment activity, the Budget Administrator and Investment Analyst reconciled activity to the trial balance. Any disparities were discussed with the Assistant Controller, and the trial balance was adjusted, if needed.

We thank the Business Office and Finance Department and management for their assistance and the many courtesies extended to us during our audit. We sincerely appreciate this opportunity to serve the University.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the University and it is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Templeton & Company, LLP