

PALM BEACH ATLANTIC UNIVERSITY, INC.
AUDIT REPORT PACKAGE
FOR THE YEAR ENDED JUNE 30, 2021

PALM BEACH ATLANTIC UNIVERSITY, INC.

AUDIT REPORT PACKAGE

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted several recently issued accounting pronouncements during the year ended June 30, 2021, including Accounting Standards Update (ASU) No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers* and ASU No. 2016-02, *Leases*. The adoption of ASU No. 2014-09 and ASU No. 2016-02 had a material impact on certain amounts and disclosures in the financial statements. Our opinion is not modified with respect to this matter.

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 December 29, 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.

Templeton & Company, LLP

West Palm Beach, Florida
December 29, 2021

PALM BEACH ATLANTIC UNIVERSITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

(Rounded to the nearest thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 20,428	\$ 18,701
Portfolio investments	71,405	57,029
Tuition and other receivables, net	4,087	2,250
Unconditional promises to give, net	1,564	2,511
Contribution receivable from foundation	24,000	24,000
Contributions receivable from charitable trusts	189	151
Prepaid expenses and other assets	3,243	3,319
Non-marketable investments	2,713	2,784
Right-of-use assets	10,446	-
Property, plant, and equipment, net	105,837	110,078
Total assets	\$ 243,912	\$ 220,823
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,118	\$ 1,120
Construction costs payable	-	1,252
Accrued expenses	3,206	4,292
Deferred tuition revenue	2,926	1,537
Deposits and other liabilities	6,192	4,565
Advances from federal government for student loans	85	384
Annuities payable	189	196
Cash flow hedge fair value	1,102	1,684
Lease obligations	10,446	-
Long-term debt, net	32,101	34,415
Total liabilities	57,365	49,445
Net assets:		
Without donor restrictions	93,450	93,090
With donor restrictions	93,097	78,288
Total net assets	186,547	171,378
Total liabilities and net assets	\$ 243,912	\$ 220,823

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2021 and 2020
(Rounded to the nearest thousands)

	For the Year Ended June 30, 2021			For the Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Operating:					
Revenues and other support:						
Tuition and fees	\$ 88,923	\$ -	\$ 88,923	\$ 87,661	\$ -	\$ 87,661
Less scholarship allowances:						
Sponsored scholarships	(2,931)	-	(2,931)	(3,273)	-	(3,273)
Un-sponsored scholarships	(30,239)	-	(30,239)	(28,964)	-	(28,964)
Athletic scholarships	(2,836)	-	(2,836)	(2,908)	-	(2,908)
Tuition and fees, net	52,917	-	52,917	52,516	-	52,516
Auxiliary enterprises	9,762	-	9,762	11,240	-	11,240
Other revenue	797	-	797	752	-	752
Private gifts and grants	3,500	-	3,500	2,557	-	2,557
Government grants	4,243	-	4,243	2,083	-	2,083
Net investment return (loss)	(1)	-	(1)	106	-	106
Net assets released from restrictions	5,826	(5,826)	-	8,599	(8,599)	-
Total revenues and other support	<u>77,044</u>	<u>(5,826)</u>	<u>71,218</u>	<u>77,853</u>	<u>(8,599)</u>	<u>69,254</u>
Expenses:						
Program services:						
Instruction	31,486	-	31,486	34,712	-	34,712
Academic support	5,178	-	5,178	5,056	-	5,056
Student services	11,963	-	11,963	12,292	-	12,292
Total program services	48,627	-	48,627	52,060	-	52,060
Supporting services:						
General administrative and institutional support	16,812	-	16,812	13,024	-	13,024
Auxiliary enterprises	12,034	-	12,034	14,186	-	14,186
Total expenses	<u>77,473</u>	<u>-</u>	<u>77,473</u>	<u>79,270</u>	<u>-</u>	<u>79,270</u>
Change in net assets						
from operating activities	(429)	(5,826)	(6,255)	(1,417)	(8,599)	(10,016)
Non-operating:						
Private gifts and grants	214	5,402	5,616	-	4,833	4,833
Non-operating expenses	-	-	-	(837)	-	(837)
Net investment return	-	13,932	13,932	-	440	440
Change in value of split-interest trusts	-	1,301	1,301	-	1,023	1,023
Gain (loss) on sale of property	(7)	-	(7)	1,915	-	1,915
Unrealized cash flow hedge gain (loss)	582	-	582	(136)	-	(136)
Change in net assets from non-operating activities	<u>789</u>	<u>20,635</u>	<u>21,424</u>	<u>942</u>	<u>6,296</u>	<u>7,238</u>
Change in net assets	360	14,809	15,169	(475)	(2,303)	(2,778)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 93,450</u>	<u>\$ 93,097</u>	<u>\$ 186,547</u>	<u>\$ 93,090</u>	<u>\$ 78,288</u>	<u>\$ 171,378</u>

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2021 and 2020
(Rounded to the nearest thousands)

	For the Year Ended June 30, 2021						
	Program Services				Supporting Services		
	Instruction	Academic Support	Student Services	Subtotal	General Administrative and Institutional Support	Auxiliary Enterprises	Total Expenses
Salaries, wages and benefits	\$ 24,068	\$ 516	\$ 6,139	\$ 30,723	\$ 8,212	\$ 408	\$ 39,343
Services, supplies, and other	2,343	1,918	2,448	6,709	3,655	4,646	15,010
Facilities, utilities, and maintenance	2,003	945	1,248	4,196	1,095	3,369	8,660
Information technology	224	105	58	387	2,685	9	3,081
Advertising and promotion	712	-	26	738	709	-	1,447
Insurance	449	356	430	1,235	96	757	2,088
Depreciation	1,458	1,156	1,395	4,009	311	2,459	6,779
Interest	229	182	219	630	49	386	1,065
Total expenses	<u>\$ 31,486</u>	<u>\$ 5,178</u>	<u>\$ 11,963</u>	<u>\$ 48,627</u>	<u>\$ 16,812</u>	<u>\$ 12,034</u>	<u>\$ 77,473</u>

	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	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>

See accompanying notes to financial statements.

PALM BEACH ATLANTIC UNIVERSITY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020
(Rounded to the nearest thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 15,169	\$ (2,778)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,779	7,154
Net realized and unrealized gain on portfolio investments	(13,874)	(495)
Unrealized loss on non-marketable investments	45	36
Amortization of loan costs	10	10
Unrealized cash flow hedge (gain) loss	(582)	136
Contributions received restricted for long-term investment	(3,096)	(3,116)
(Gain) loss on sale of property, plant and equipment	7	(1,915)
Changes in operating assets and liabilities:		
Tuition and other receivables	(1,837)	(670)
Unconditional promises to give, net	947	236
Contributions receivable from charitable trusts	(38)	1,136
Prepaid expenses and other assets	76	(363)
Accounts payable	(2)	225
Accrued expenses	(1,086)	1,188
Deferred tuition, deposits and other liabilities	2,717	632
Annuities payable	(7)	(35)
Net cash provided by operating activities	5,228	1,381
Cash flows from investing activities:		
Purchases of property, plant, and equipment and construction costs paid	(3,797)	(5,370)
Proceeds from sale of property, plant, and equipment	-	1,974
Purchases of portfolio investments, net of sales	(476)	(648)
Net cash used in investing activities	(4,273)	(4,044)
Cash flows from financing activities:		
Payments on long-term debt	(2,324)	(2,333)
Dining services advances, long-term portion	-	3,180
Contributions received restricted for long-term investment	3,096	3,116
Net cash provided by financing activities	772	3,963
Increase in cash and cash equivalents	1,727	1,300
Cash and cash equivalents - beginning of year	18,701	17,401
Cash and cash equivalents - end of year	\$ 20,428	\$ 18,701

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 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 U.S. GAAP 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

The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Institutional aid, in the form of scholarships and grants-in-aid, includes amounts funded by endowments and gifts, reduces the amount of revenue recognized.

Revenue for tuition and fees for all of the summer terms are recognized as performance obligations are met. Because the summer academic terms span two reporting periods, a portion of the revenue for the summer terms are included in deferred revenue at June 30, 2021 and 2020. Deferred revenues for the summer terms are shown in Note 1 below.

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, 2021 and 2020, the University granted tuition reductions to faculty and staff as well as their spouses and children in the amount of \$1,220 and \$1,374, respectively, which are recorded in general administrative and institutional support expense in the accompanying statements of activities.

Auxiliary enterprises

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are directly related to, although not necessarily equal to, the cost of the goods or services provided.

Auxiliary enterprise revenue includes activities for student housing and dining facilities, parking services, and other miscellaneous activities. Institutional aid specifically for defraying the cost of room and board reduces the amount of revenue recognized.

Revenues for auxiliary services are recognized as performance obligations are met over the academic term. Because the summer terms span two reporting periods, a portion of the revenue for the summer terms are included in deferred revenue at June 30, 2021 and 2020. Deferred revenues for the summer terms are shown in Note 1 below.

Auxiliary enterprises revenue for the years ended June 30, 2021 and 2020 were \$9,762 and \$11,240, respectively.

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

Deferred revenues and deposits

Deferred revenues and deposits represent revenues currently received for programs or activities to be conducted primarily in the next fiscal year, such as summer and fall tuition and fees and room and board. Also included in deferred revenues and deposits is deferred revenue related to sponsorship agreements and commitment deposits received from certain vendors, which will be recognized as income over the lives of the related agreements. In addition, included in deferred revenues are funds received related to certain refundable grants. These amounts will be recognized as income as the conditions are met in accordance with the underlying terms of the grants.

The balances for deferred revenues and deposits and other liabilities from contracts with customers are shown in the following table (in thousands) at June 30, 2021 and 2020:

	2021	2020
Deferred tuition revenue	<u>\$ 2,926</u>	<u>\$ 1,537</u>
Deposits and other liabilities:		
Vendors/sponsorship agreements	\$ 5,160	\$ 3,851
Other	<u>1,032</u>	<u>714</u>
	<u>\$ 6,192</u>	<u>\$ 4,565</u>

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.

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.

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

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 I). The University was allocated \$2,363 in institutional and student funds. For the years ended June 30, 2021 and 2020, the University recognized grant revenue from HEERF I in the amount of \$280 and \$2,083, respectively.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) was enacted as continued efforts to respond to the COVID-19 pandemic. The CRRSAA allocated \$19 billion in funding for higher education through the Higher Education Emergency Relief Fund (HEERF II). The University was allocated \$3,920 in institutional and student funds. For the year ended June 30, 2021, the University recognized grant revenue from HEERF II in the amount of \$3,193.

On March 11, 2021, American Rescue Plan (ARP) was enacted and allocated \$40 billion in support to institutions of higher education through the Higher Education Emergency Relief Fund (HEERF III) to serve students and ensure learning continues during the COVID-19 pandemic. The University was allocated \$6,930 in institutional and student funds. For the year ended June 30, 2021, the University recognized grant revenue from HEERF III in the amount of \$770.

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, 2021 and 2020, were \$10 and \$18, 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.

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

Portfolio investments, continued

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.

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, 2021 and 2020 were \$497 and \$418, 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 are discussed in Note 13.

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

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.

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 2021 and 2020.

Income taxes

The University has been recognized by the Internal Revenue Service (IRS) 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, 2021 and 2020, 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 2018.

Earnings from unrelated business activities were not significant for the years ended June 30, 2021 and 2020; 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.

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

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, 2021 and 2020, respectively, are included in portfolio investments. The amounts due are calculated using risk-adjusted discount rates ranging from 3% to 7% and the Internal Revenue Service's life expectancy tables.

Fund raising expenses

Fund raising expenses, approximating \$1,472 and \$1,072 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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 fair value of the cash flow hedge is 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.

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

Functional allocation of expenses, continued

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

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

Reclassifications

Certain amounts in the 2020 financial statements were reclassified to conform to the presentation in the 2021 financial statements.

Recently adopted accounting pronouncements

Accounting Standards Update (ASU) No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts, whether or not written, with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance. ASU 2014-09 also requires disclosure of both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The University adopted ASU 2014-09 in the year ended June 30, 2021, using the modified retrospective approach.

ASU No. 2016-02, *Leases (Topic 842)*, requires that most leased assets be recognized on the statement of financial position as right of use (ROU) assets and corresponding lease liabilities. Disclosure requirements have been enhanced with the objective of enabling financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases.

The University elected to early adopt Accounting Standards Codification (ASC) 842, effective July 1, 2020, as permitted in the guidance. The standard has been implemented using the additional transition method at the adoption date, and the University has also elected to utilize the available practical expedients. In using the additional transition adoption date method, the University was required to recognize and measure leases existing at, or entered into after July 1, 2020 on the statement of financial position. This resulted in a noncash ROU asset and lease liability, each amounting to \$10,446 and \$10,446 as of June 30, 2021, respectively. The adoption of this standard did not have a material impact on the statement of activities during the year ended June 30, 2021. The comparative period for the year ended June 30, 2020 was not adjusted and is presented in accordance with ASC Topic 840.

New accounting pronouncements

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 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.

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

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

New accounting pronouncements, continued

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.

Note 2 – Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 20,428	\$ 18,701
Portfolio investments	71,405	57,029
Tuition and other receivables, net	4,087	2,250
Unconditional promise to give, net	1,564	2,511
Contribution receivable from foundation	<u>24,000</u>	<u>24,000</u>
Total financial assets	121,484	104,491
Less financial assets held to meet donor-imposed restrictions:		
Time or purpose-restricted net assets (Note 13)	(9,596)	(7,515)
Donor-restricted endowment funds (Note 13)	(59,501)	(46,773)
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)	<u>(947)</u>	<u>(1,669)</u>
Amount available for general expenditures within one year	<u>\$ 28,640</u>	<u>\$ 25,734</u>

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

The University invests cash in excess of daily requirements in short-term investments.

As of June 30, 2021, the University had not met one of the financial covenants under its Series 2012 Bonds and term note payable. The Series 2012 Bonds and term note payable were repaid in October 2021 with a portion of the proceeds from the Series 2021 Revenue Bonds (see Note 22).

Note 3 – Portfolio Investments

A summary of portfolio investments, by investment type, at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Public fund	\$ 66,489	\$ 53,479
Private funds	3,951	2,886
Marketable equity securities	674	573
Other investments	<u>291</u>	<u>91</u>
	<u>\$ 71,405</u>	<u>\$ 57,029</u>

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

Note 3 – Portfolio Investments, Continued

As of June 30, 2021 and 2020, 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.

At June 30, 2021 and 2020, the University had approximately 93% and 94%, respectively, of its portfolio investments invested in the public fund. At June 30, 2021 and 2020, the University has outstanding commitments to make future investments in private funds aggregating \$1,218 and \$1,711, respectively.

The following schedule summarizes the net investment return on portfolio and non-marketable investments (see Note 8) for the years ended June 30, 2021 and 2020 and its classification in the statements of activities:

	<u>2021</u>	<u>2020</u>
Net investment income	\$ 57	\$ 51
Net realized gains	1,017	548
Net unrealized gains (losses)	<u>12,857</u>	<u>(53)</u>
Net investment return	<u>\$ 13,931</u>	<u>\$ 546</u>

Net investment return includes \$17 and \$98 of direct investment expenses for the years ended June 30, 2021 and 2020, respectively. For the years ended June 30, 2021 and 2020, net unrealized losses include \$45 and \$36, respectively, attributable to the University's non-marketable investments.

Note 4 – Tuition and Other Receivables

Tuition and other receivables, net at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>			<u>2020</u>
	Tuition and other receivables	Allowance for uncollectible accounts	Tuition and other receivables, net	Tuition and other receivables, net
Student accounts	\$ 1,824	\$ (497)	\$ 1,327	\$ 1,166
Perkins loans	13	(13)	-	10
U.S. government	<u>2,760</u>	<u>-</u>	<u>2,760</u>	<u>1,074</u>
Total	<u>\$ 4,597</u>	<u>\$ (510)</u>	<u>\$ 4,087</u>	<u>\$ 2,250</u>

Note 5 – Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 1,876	\$ 2,781
Less: unamortized discount	<u>(231)</u>	<u>(131)</u>
Subtotal	1,645	2,650
Less: allowance for uncollectible pledges	<u>(81)</u>	<u>(139)</u>
Net unconditional promises to give	<u>\$ 1,564</u>	<u>\$ 2,511</u>

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

Note 5 – Unconditional Promises to Give, Continued

Unconditional promises to give consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 698	\$ 981
One to five years	<u>1,178</u>	<u>1,800</u>
Total	<u>\$ 1,876</u>	<u>\$ 2,781</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, 2021 and 2020, 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, 2021 and 2020. 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 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, 2021, the interest rate assumption used was 5%, which is approximately equal to the expected return on the trust assets over time.

Note 8 – Non-marketable Investments

Non-marketable investments include the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Common stock investments	\$ 2,713	\$ 2,684
Other investment	<u>-</u>	<u>100</u>
Total non-marketable investments	<u>\$ 2,713</u>	<u>\$ 2,784</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.

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

Note 8 – Non-marketable Investments, Continued

Aggregate unaudited summarized financial information for the common stock investments as of June 30, 2021 and 2020 and for the years then ended is presented in the following table:

	<u>2021</u>	<u>2020</u>
<u>At year-end:</u>		
Assets, principally land and certificates of deposit	\$ 2,713	\$ 2,766
Liabilities, principally income taxes	<u>-</u>	<u>96</u>
Shareholder's equity	<u>\$ 2,713</u>	<u>\$ 2,670</u>
<u>For the year ended:</u>		
Revenue	\$ 858	\$ 814
Expenses	<u>903</u>	<u>850</u>
Net loss	<u>\$ (45)</u>	<u>\$ (36)</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, 2021 and 2020 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, 2021			Fair Value Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Public fund:				
Money market funds	\$ 4,233	\$ -	\$ -	\$ 4,233
Equities	33,258	-	-	33,258
Mutual funds	13,285	-	-	13,285
Alternative	-	-	15,713	15,713
Total public fund	50,776	-	15,713	66,489
Private funds	-	-	3,951	3,951
Marketable equity securities	674	-	-	674
Other investments	-	291	-	291
Total assets	<u>\$ 51,450</u>	<u>\$ 291</u>	<u>\$ 19,664</u>	<u>\$ 71,405</u>
Liabilities:				
Annuities payable	\$ -	\$ (189)	\$ -	\$ (189)
Fair value of cash flow hedge	-	(1,102)	-	(1,102)
Total liabilities	<u>\$ -</u>	<u>\$ (1,291)</u>	<u>\$ -</u>	<u>\$ (1,291)</u>
Fair Values at June 30, 2020				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Public fund:				
Money market funds	\$ 5,394	\$ -	\$ -	\$ 5,394
Equities	23,491	-	-	23,491
Mutual funds	12,511	-	-	12,511
Alternative	-	-	12,083	12,083
Total public fund	41,396	-	12,083	53,479
Private funds	-	-	2,886	2,886
Marketable equity securities	573	-	-	573
Other investments	-	91	-	91
Total assets	<u>\$ 41,969</u>	<u>\$ 91</u>	<u>\$ 14,969</u>	<u>\$ 57,029</u>
Liabilities:				
Annuities payable	\$ -	\$ (196)	\$ -	\$ (196)
Fair value of cash flow hedge	-	(1,684)	-	(1,684)
Total liabilities	<u>\$ -</u>	<u>\$ (1,880)</u>	<u>\$ -</u>	<u>\$ (1,880)</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, 2021 measured on a recurring basis using significant unobservable inputs:

	Investments in private and alternative funds
Balance as of July 1, 2020	\$ 14,969
Net investment gain	989
Purchases	3,706
Balance as of June 30, 2021	\$ 19,664

There have been no significant changes in the methodologies used during the years ended June 30, 2021 and 2020. 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 valuation 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 risk factors.

Annuities payable – determined using risk-adjusted discount rates ranging from 3% to 7% and the IRS life expectancy tables.

Cash flow hedge – valued using widely accepted valuation techniques, including discounted cash flows. The analysis reflects the contractual terms of the interest rate swap, 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 private funds may be redeemed on a quarterly basis upon proper notice being given to the respective 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, 2021 and 2020:

	2021	2020
Land	\$ 23,177	\$ 23,177
Land improvements	14,164	14,164
Leasehold improvements	178	161
Buildings and improvements	148,578	147,309
Equipment and furnishings	20,575	19,556
	206,672	204,367
Less accumulated depreciation	(101,046)	(94,289)
	105,626	110,078
Construction in progress	211	-
Property, plant, and equipment, net	\$ 105,837	\$ 110,078

Depreciation totaled \$6,779 and \$7,154 for the years ended June 30, 2021 and 2020, respectively. Construction in progress at June 30, 2021 represents costs for various campus improvement projects.

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

Note 10 – Property, Plant, and Equipment, Continued

In December 2019, the University entered into a contract to sell certain land, buildings, and improvements for approximately \$39,500 in a cash transaction. This transaction is expected to close prior to November 1, 2022. For the years June 30, 2021 and 2020, the University received non-refundable deposits of \$2,000 and \$2,100, respectively, which are reported in private gifts and grants in the accompanying statements of activities.

Note 11 – Long-Term Debt, Net

Long-term debt at June 30, 2021 and 2020 consists of the following:

	2021	2020
Variable rate tax-exempt Educational Facilities Revenue Bonds, Series 2012 (Series 2012 Bonds)	\$ 26,350	\$ 28,150
Promissory note – (Promissory note payable)	1,500	1,500
Term note payable – financial institution (Term note payable)	4,266	4,790
	\$ 32,116	\$ 34,440

Series 2012 Bonds

The Series 2012 Bonds bore interest at a variable rate equal to 70% of the 30-day LIBOR rate + 1.15% (1.276% at June 30, 2021). Interest was payable monthly and the principal balance was payable semi-annually through maturity in April 2033. Under the terms of the Series 2012 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 Series 2012 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, 2021.

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.

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% (2.34% at June 30, 2021) and is collateralized by certain real property.

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

Note 11 – Long-Term Debt, Net, Continued

Debt issuance costs

Amortization of debt issuance costs is reported in the statements of activities as an operating expense and amounted to \$10 for each of the years ended June 30, 2021 and 2020. The outstanding balance of long-term debt, net at June 30, 2021 and 2020 is as follows:

	2021	2020
Long-term debt	\$ 32,116	\$ 34,440
Less: unamortized debt issuance costs	(15)	(25)
Total long-term debt, net	\$ 32,101	\$ 34,415

Principal payments

Principal payments due on long-term debt in each of the five years subsequent to June 30, 2021, and thereafter, are presented as follows:

Year Ending June 30,	Series 2012 Bonds	Promissory Note Payable	Term Note Payable	Total Payments
2022	\$ 1,900	\$ -	\$ 477	\$ 2,377
2023	1,900	1,500	3,789	7,189
2024	2,000	-	-	2,000
2025	2,000	-	-	2,000
2026	2,100	-	-	2,100
Thereafter	16,450	-	-	16,450
Total	\$ 26,350	\$ 1,500	\$ 4,266	\$ 32,116

Interest rate swap agreement

The interest rate swap agreement outstanding at June 30, 2021 and 2020 is accounted for as a cash flow hedge and summarized as follows:

Notional Amount		Fair Value		Maturity	Interest Rate at June 30, 2021
2021	2020	2021	2020		
\$ 14,500	\$ 15,700	\$ (1,102)	\$ (1,684)	2024	3.65%

The fair value of the cash flow hedge at June 30, 2021 and 2020 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, 2021 and 2020 of \$582 and \$(136), respectively, are included in the accompanying statements of activities as an unrealized cash flow hedge gain (loss). If terminated prior to maturity, the cash flow hedge would be settled at the current value at the time of the settlement.

Series 2021 Revenue Bonds

In October 2021, the University issued \$35,740 of revenue funds (Series 2021 Bonds) which were used to settle its interest rate swap agreement, refund its 2012 Series Bonds, repay the Term Note Payable and finance future capital projects. The Series 2021 Bonds bear interest at an average rate of 4.0% and are repayable between 2022 and 2051. On the closing date, the net proceeds from the sale of the Series 2021 Bonds totaled \$39,841 which included a premium of \$4,258, net of an underwriter's discount of \$157.

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

Note 12 – Retirement Plan

Retirement benefits are provided through a qualified 403(b) defined contribution plan. For the year ended June 30, 2020, the University contributed 1% of the annual compensation for all participating employees, and the University also matched employee contributions up to 8% of the annual compensation for participating employees. On July 1, 2020, the 1% non-elective contribution was eliminated and the matching contribution up to 8% was reduced to 5%. Retirement plan expense for the years ended June 30, 2021 and 2020 amounted to \$1,149 and \$2,049, respectively.

Note 13 – Restricted Net Assets and Endowment

The University’s endowment is established for the purposes expressed in the University’s charter and consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The endowment consists of 230 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, 2021 and 2020, net assets with donor restrictions consist of the following:

	2021	2020
Purpose restrictions, available for spending:		
Instruction	\$ 4,667	\$ 3,949
Academic support	1,751	186
Student services	139	1,319
General administrative and institutional support	914	822
Plant facilities and maintenance	1,148	232
Scholarships and student aid	977	1,007
Restrictions perpetual in nature	83,501	70,773
	\$ 93,097	\$ 78,288

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 is established, consistent with the goal of conserving the purchasing power of the endowment.

The Board considers the following factors in making its determination:

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

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

Note 13 – Restricted Net Assets and Endowment, Continued

Interpretation of relevant law, continued

- 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 assets, 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 approximately 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, 2021 follow:

	Without Donor Restrictions	With Donor Restrictions	Total 2021
Balance as of July 1, 2020	\$ 14,605	\$ 70,773	\$ 85,378
Net investment return	29	12,939	12,968
Contributions	6	2,726	2,732
Change in value split-interest trusts	-	1,301	1,301
Appropriations for endowment expenditures	<u>(391)</u>	<u>(4,238)</u>	<u>(4,629)</u>
Total endowment gifts and designations	<u>\$ 14,249</u>	<u>\$ 83,501</u>	<u>\$ 97,750</u>

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

Note 13 – Restricted Net Assets and Endowment, Continued

Spending policy, continued

A reconciliation of endowment net assets to total net assets for the year ended June 30, 2021 follows:

	Without Donor Restrictions	With Donor Restrictions	Total 2021
Total endowment gifts and designations	\$ 14,249	\$ 83,501	\$ 97,750
Other non-endowment net assets	<u>79,201</u>	<u>9,596</u>	<u>88,797</u>
Total net assets	<u>\$ 93,450</u>	<u>\$ 93,097</u>	<u>\$ 186,547</u>

Note 14 – Net Assets Released from Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events as specified by the donors. Net assets were released from restrictions during the years ended June 30, 2021 and 2020 for the following purposes:

	<u>2021</u>	<u>2020</u>
Instruction	\$ 1,048	\$ 968
Academic support	240	198
Student services	1,266	448
General administrative and institutional support	175	2,999
Plant facilities for maintenance	26	416
Scholarships and student aid	<u>3,071</u>	<u>3,570</u>
	<u>\$ 5,826</u>	<u>\$ 8,599</u>

Note 15 – Description of Leasing Arrangements

As Lessor

The University leases certain office facilities and property to third parties under short-term operating leases. Rental income for the years ended June 30, 2021 and 2020 was not material.

As Lessee

Effective July 1, 2020, the University adopted FASB ASC 842, *Leases*. The University determines if an arrangement contains a lease at inception based on whether the University has the right to control the asset during the contract period and other facts and circumstances. The University elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward historical lease classifications.

The adoption of FASB ASC 842 resulted in the University recognizing an operating lease liability of \$10,446 with a corresponding right-of-use-asset of \$10,446 based on the present value of the minimum rental payments of such leases. The discount rate used for leases is the U.S. Treasury rate.

Results for periods beginning prior to July 1, 2020 continue to be reported in accordance with the University's historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the University's results of operations, cash flows or debt covenants.

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

Note 15 – Description of Leasing Arrangements, Continued

As Lessee, continued

The University has noncancelable operating leases for its Orlando, Florida campus and certain real property in West Palm Beach, Florida, along with other operating leases for equipment. The noncancelable operating lease for the real property in West Palm Beach, Florida has an initial term of 99 years and expires in 2106. The remaining noncancelable operating leases have terms that extend through 2031.

The University considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities and has included renewal periods in its assessment of lease terms. The exercise of renewal options is at the sole discretion of the University, and only lease options that the University believes it is reasonably certain to exercise are included in the measurement of the lease assets and liabilities. While all the agreements provide for minimum lease payments, some include payments adjusted for inflation and inflation related measures. Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants.

Lease expense is recorded on a straight-line basis and is allocated in the statements of activities by function. Lease expense related to the University's noncancelable operating leases for the year ended June 30, 2021 totaled \$668.

The right-of-use assets are amortized over their estimated useful lives. The operating lease right-of-use assets and lease liabilities as of June 30, 2021 are as follows:

Operating lease right-of-use assets	<u>\$ 10,466</u>
Operating lease liabilities	<u>\$ 10,466</u>

The components of operating lease expense that are included the statement of activities for the year ended June 30, 2021 are as follows:

Operating lease cost	\$ 668
Variable lease cost	\$ 500
Short-term lease cost	\$ 123

The following summarizes the cash flow information related to operating leases for the year ended June 30, 2021:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 705

Weighted average lease term (in years) and discount rate as of June 30, 2021:

Weighted average remaining lease term (in years)	57.4
Weighted average discount rate	2.50%

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

Note 15 – Description of Leasing Arrangements, Continued

As Lessee, continued

At June 30, 2021, the minimum future payments under operating leases (with initial or remaining lease terms in excess of one year) are as follows:

Year Ending June 30,	
2022	\$ 636
2023	652
2024	668
2025	685
2026	703
Thereafter	<u>16,532</u>
Obligation, gross	19,876
Less: amounts representing interest	<u>(9,430)</u>
Present value of lease liability	<u>\$ 10,446</u>

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 designed, constructed, managed the construction, and furnished a 510-bed residence hall facility (residence hall) for benefit of the University. The Owner issued \$40,755 of 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 is 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, 2021.

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.

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

Note 16 – Insurance

The University is a member of the Florida Independent Colleges and Universities Risk Management Association, LLC (FICURMA), a claims-made insurance program which provides coverage for workers' compensation, general liability, property, and auto liability exposure. FICURMA's members make annual contributions into the program based on an independent actuarial valuation to cover the members' retained deductible components, which include \$400 per occurrence for covered insurance claims. Claims in excess of the self-insured retention limits are covered under excess coverage policies with the program's carrier up to various aggregate limits. Previously, the University advanced \$285 to FICURMA to allow FICURMA to work independently of its members. The advance bears interest at a variable rate determined by FICURMA's annual aggregate return of its invested capital. The advance is fully reserved as of June 30, 2021 and 2020.

FICURMA was fully funded by its members as of June 30, 2021 and 2020, 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 \$2,001 and \$2,082, respectively, for the years ended June 30, 2021 and 2020 and is included in institutional support in the accompanying statements of activities.

Note 17 – Legal Proceedings

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

Note 18 – Risks and Concentrations

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

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

Note 19 – 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 records the unamortized portion of these advances as a component of deposits and other liabilities in the accompanying statements 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 20 – Supplemental Statement of Cash Flows Disclosure

Interest paid for the years ended June 30, 2021 and 2020 approximated \$1,046 and \$1,362, respectively.

Note 21 – Significant Uncertainty – Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus (the COVID-19) a global pandemic. 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 aggressively sought 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, 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 2022.

Note 22 – Subsequent Events

In October 2021, the University issued \$35,740 of revenue bonds (Series 2021 Bonds) which were used to settle its interest rate swap obligation, refund its Series 2012 Bonds, repay the Term Note Payable (see Note 11), and finance future capital projects. The Series 2021 Bonds bear interest at an average rate of 4.0% and are repayable between 2022 and 2051. On the closing date, the net proceeds from the sale of the Series 2021 Bonds totaled \$39,841 which included a premium of \$4,258, net of an underwriter's discount of \$157.

The University evaluated its activities subsequent to June 30, 2021 through December 29, 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, 2021 (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	+	\$ 93,450	\$ 93,450					
SFP	Net assets with donor restrictions	Net assets with donor restrictions	+	93,097	93,097					
N/A	Related Parties	Unsecured related party-receivables	-	-	-					
SFP	Right-of-use assets	Lease right-of-use assets	-	10,446	(10,446)					
SFP	Land, buildings and equipment, net	Property, plant and equipment, net (includes construction in	-	105,837	(105,837)					
N/A	N/A	Intangible assets	-	-	-					
N/A	N/A	Post-employment and defined benefit pension liabilities	-	-	-					
SFP	Lease obligations	Lease obligations (right-of-use assets)	+	10,446	10,446					
SFP	Long-term debt	Long-term debt (obtained for long-term purposes)	+	32,101	32,101					
Note 13	U.S. DOE Supplemental Disclosure	Annuities, term endowment, and life income funds with donor restrictions	-	-	-					
		<i>Annuities with donor restrictions</i>	-	-	-					
		<i>Term endowments with donor restrictions</i>	-	-	-					
		<i>Life income funds with donor restrictions</i>	-	-	-					
Note 13	U.S. DOE Supplemental Disclosure	Net assets with donor restrictions restricted in perpetuity	-	-	-					
					\$ 112,811					
Total Expenses and Losses										
SOA	Total expenses	Total expenses without donor restrictions		77,473	77,473					
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			\$ 77,473		1.46	3.0	40%	1.20
Equity Ratio										
Modified Net Assets										
SFP	Net assets without donor restriction	Net assets without donor restrictions	+	93,450	93,450					
SFP	Net assets with donor restrictions	Net assets with donor restrictions	+	93,097	93,097					
N/A	N/A	Intangible assets	-	-	-					
N/A	N/A	Unsecured related-party receivables	-	-	-					
					186,547					
Modified Assets										
SFP		Total assets	+	243,912	243,912					
N/A		Intangible assets	-	-	-					
NA		Unsecured related-party receivables	-	-	-					
					243,912		0.76	3.0	40%	1.20
Net Income Ratio										
SOA	Change in net assets without donor restrictions	Change in net assets without donor restrictions		360	360	360				
SOA	Total revenues and releases without donor restrictions	Total revenues and gains without donor restrictions		77,044	77,044	77,044				
							0.00	1.2	20%	0.24
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.

	<u>Expendable Net Assets</u>
Primary Reserve Ratio:	Total Expenses without Donor Restrictions and Losses without Donor Restrictions
	<u>Modified Net Assets</u>
Equity Ratio:	Modified Assets
	<u>Change in Net Assets without Donor Restrictions</u>
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:

	<u>Ratio</u>	<u>Strength Factor</u>	<u>Weight</u>	<u>Composite Score</u>
Primary Reserve Ratio	3.0	3.0	40%	1.2
Equity Ratio	3.0	3.0	40%	1.2
Net Income Ratio	0.0	1.2	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, 2021

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	\$ 29,811,146
Federal Pell Grant Program	84.063	N/A	4,087,011
Federal Work Study Program	84.033	N/A	503,431
Federal Supplemental Educational Opportunity Grant	84.007	N/A	211,979
Teacher Education Assistance for College and Higher Education (TEACH)	84.379	N/A	<u>3,764</u>
Total student financial assistance cluster			<u>34,617,331</u>
U.S. Department of Education:			
COVID-19 - Higher Education Emergency Relief Fund	84.425F	COVID-19	3,061,571
COVID-19 - Higher Education Emergency Relief Fund	84.425E	COVID-19	<u>1,181,523</u>
Total Higher Education Emergency Relief Fund			<u>4,243,094</u>
Total expenditures of federal awards			<u>\$ 38,860,425</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	\$ 3,447,656
The Florida Bright Futures Scholarship Program -			
Florida Medallion Scholars Award (FMSA)	48.059	N/A	959,692
Florida Academic Scholars Award (FASA)	48.059	N/A	1,429,479
Florida Student Assistance Grant (FSAG)	48.054	N/A	1,026,885
Florida Work Experience Program (FWEP)	48.053	N/A	2,615
Scholarships for Children and Spouses of Deceased or			
Disabled Veterans and Service Members (CSDDV)	48.055	N/A	19,928
Honorably Discharged Graduate Assistance Program (HDGAP)	48.118	N/A	<u>1,950</u>
Total Florida Department of Education			6,888,205
Florida Department of Highway Safety and Motor Vehicles:			
Palm Beach Atlantic University License Plate Project	76.054	N/A	<u>7,312</u>
Total expenditures of state financial assistance			<u>\$ 6,895,517</u>
Total expenditures of federal awards and state financial assistance			<u>\$ 45,755,942</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, 2021. 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, 2021 are as follows:

	<u>Federal CFDA</u>	<u>Loans Made During Year</u>
Direct Subsidized Loans	84.268	\$ 4,178,698
Direct Unsubsidized Loans	84.268	16,329,984
Parent PLUS Loans	84.268	4,400,234
Graduate PLUS Direct Loans	84.268	<u>4,902,230</u>
Total Federal Student Loans		<u>\$ 29,811,146</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, 2021, 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, 2021, 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 December 29, 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
December 29, 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, 2021. 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, 2021.


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
December 29, 2021

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021**

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 programs 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

<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? No

PALM BEACH ATLANTIC UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
For the Year Ended June 30, 2021**

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.

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, 2021, and have issued a report thereon dated December 29, 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 Project; 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 Project. Those reports and schedule, which are dated December 29, 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
December 29, 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, 2021**

	Description of Category	Number of Recipients	Percent of Population	Amount of Awards	Percent of Population
EASEP	Population	1,349	100.0%	\$ 3,447,656	100.0%
	Tested	50	3.7%	\$ 129,270	3.7%
	Findings	0	0.0%	\$ -	0.0%
FMSA	Population	220	100.0%	\$ 959,692	100.0%
	Tested	50	22.5%	\$ 212,036	22.1%
	Findings	0	0.0%	\$ -	0.0%
FASA	Population	215	100.0%	\$ 1,429,479	100.0%
	Tested	50	23.3%	\$ 339,903	25.9%
	Findings	0	0.0%	\$ -	0.0%
FSAG	Population	504	100.0%	\$ 1,026,885	100.0%
	Tested	50	9.9%	\$ 97,307	10.2%
	Findings	0	0.0%	\$ -	0.0%
FWEP	Population	2	100.0%	\$ 2,615	100.0%
	Tested	2	100.0%	\$ 2,615	100.0%
	Findings	0	0.0%	\$ -	0.0%
CSDDV	Population	4	100.0%	\$ 19,928	100.0%
	Tested	4	100.0%	\$ 19,928	100.0%
	Findings	0	0.0%	\$ -	0.0%
HDGAP	Population	2	100.0%	\$ 1,950	100.0%
	Tested	2	100.0%	\$ 1,950	100.0%
	Findings	0	0.0%	\$ -	0.0%

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