ADLER GRADUATE SCHOOL
Minnetonka, Minnesota

Audit Report on Financial Statements
and Federal Awards

As of and for the Year Ended June 30, 2019

ADLER GRADUATE SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Adler Graduate School
Minnetonka, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Adler Graduate School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2019, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Adler Graduate School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019 on our consideration of Adler Graduate School'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 School'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 School's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 16, 2019

ADLER GRADUATE SCHOOL

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

ASSETS

		2019		2018
Cash and cash equivalents	$	931,453	$	3,071,270
Accounts receivable, net of allowances				
of $26,300 and $28,700 respectively		17,231		15,819
Prepaid expenses		82,001		92,809
Other receivables		56,905		63,125
Investments		2,003,430		1,054,943
Property, plant and equipment, net		4,289,294		3,807,632
TOTAL ASSETS	$	7,380,314	$	8,105,598

LIABILITIES AND NET ASSETS

		2019		2018
LIABILITIES				
Accounts payable	$	28,597	$	374,514
Accrued expenses and other liabilities		94,029		92,639
Deferred revenue		50,430		52,007
Interest rate swap liability		245,428		-
Mortgage payable, net		2,511,452		2,521,250
Total Liabilities		2,929,936		3,040,410
NET ASSETS				
Without donor restrictions				
Undesignated		2,693,688		3,755,967
Investment in plant		1,532,414		1,286,382
Board-designated for capital asset repair and replacement		200,000		-
With donor restrictions		24,276		22,839
Total Net Assets		4,450,378		5,065,188
TOTAL LIABILITIES AND NET ASSETS	$	7,380,314	$	8,105,598

See accompanying notes to financial statements.

ADLER GRADUATE SCHOOL

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees	$ 3,886,646	$ -	$ 3,886,646
Less: Scholarships and grants	(22,710)	-	(22,710)
Net tuition and fees	3,863,936	-	3,863,936
Rental revenue	4,265	-	4,265
Interest income	39,862	-	39,862
Other income	95,994	-	95,994
Gain (loss) on interest rate swap valuation	(245,428)	-	(245,428)
Contributions	379	13,874	14,253
	3,759,008	13,874	3,772,882
Net assets released from restrictions	12,437	(12,437)	-
Total Revenues, Gains and Other Support	3,771,445	1,437	3,772,882
EXPENSES			
Program expenses			
Instruction	2,049,035	-	2,049,035
Academic support	661,366	-	661,366
Student services	402,904	-	402,904
Support expenses			
Institutional support	1,245,454	-	1,245,454
Fundraising	28,933	-	28,933
Allocable expenses			
Operation and maintenance of plant	480,448	-	480,448
Less: Allocated expenses	(480,448)	-	(480,448)
Total Expenses	4,387,692	-	4,387,692
CHANGE IN NET ASSETS	(616,247)	1,437	(614,810)
NET ASSETS - Beginning of Year	5,042,349	22,839	5,065,188
NET ASSETS - END OF YEAR	$ 4,426,102	$ 24,276	$ 4,450,378

See accompanying notes to financial statements.

ADLER GRADUATE SCHOOL

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees	$ 3,643,342	$ -	$ 3,643,342
Less: Scholarships and grants	(19,598)	-	(19,598)
Net tuition and fees	3,623,744	-	3,623,744
Rental revenue	133,889	-	133,889
Direct costs of rental activity	(277,419)	-	(277,419)
Net rental activity	(143,530)	-	(143,530)
Interest income	8,647	-	8,647
Other income	122,304	-	122,304
Gain on interest rate swap valuation	105,415	-	105,415
Gain on sale of building	948,156	-	948,156
Contributions	28,601	10,000	38,601
	4,693,337	10,000	4,703,337
Net assets released from restrictions	16,656	(16,656)	-
Total Revenues, Gains and Other Support	4,709,993	(6,656)	4,703,337
EXPENSES			
Program expenses			
Instruction	1,717,511	-	1,717,511
Academic support	708,104	-	708,104
Student services	528,364	-	528,364
Support expenses			
Institutional support	1,007,894	-	1,007,894
Fundraising	25,414	-	25,414
Allocable expenses			
Operation and maintenance of plant	132,446	-	132,446
Less: Allocated expenses	(132,446)	-	(132,446)
Total Expenses	3,987,287	-	3,987,287
CHANGE IN NET ASSETS	722,706	(6,656)	716,050
NET ASSETS - Beginning of Year	4,319,643	29,495	4,349,138
NET ASSETS - END OF YEAR	$ 5,042,349	$ 22,839	$ 5,065,188

See accompanying notes to financial statements.

ADLER GRADUATE SCHOOL

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (614,810)	$ 716,050
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	83,746	79,151
(Gain) loss on interest rate swap valuation	245,428	(105,415)
Gain on sale of property	-	(948,156)
Changes in assets and liabilities		
Accounts receivable	(1,412)	24,961
Other receivables	6,220	(56,026)
Prepaid expenses	10,808	(11,664)
Accounts payable	3,345	7,130
Accrued expenses and other liabilities	1,390	(52,209)
Deferred revenue	(1,577)	18,605
Net Cash Flows From Operating Activities	(266,862)	(327,573)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment, net of noncash portion below	-	2,705,710
Purchases of property, plant and equipment	(882,808)	(3,335,405)
Purchases of investments	(948,487)	(1,054,943)
Net Cash Flows From Investing Activities	(1,831,295)	(1,684,638)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	(41,660)	(69,833)
Proceeds from issuance of mortgage payable	-	2,519,916
Proceeds from termination of interest rate swap	-	229,100
Net Cash Flows From Financing Activities	(41,660)	2,679,183
Net Change in Cash and Cash Equivalents	(2,139,817)	666,972
CASH AND CASH EQUIVALENTS - Beginning of Year	3,071,270	2,404,298
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 931,453	$ 3,071,270
Supplemental disclosures of cash flow information		
Interest paid	$ 111,947	$ 82,902
Payoff of mortgage payable through sale of property	-	3,362,055
Purchase of property, plant and equipment through accounts payable	-	340,567

See accompanying notes to financial statements.

ADLER GRADUATE SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Instruction	Academic Support	Student Services	Institutional Support	Fundraising	Operation and Maintenance of Plant	Total
Personnel Expenses	$ 1,597,311	$ 482,545	$ 314,540	$ 894,690	$ 28,933	$ 26,731	$ 3,344,750
Facilities Expenses	-	-	-	-	-	341,770	341,770
Interest Expense	-	-	-	-	-	111,947	111,947
Administrative Expenses	-	-	-	83,300	-	-	83,300
Other Expenses	39,767	6,435	4,290	16,404	-	-	66,896
Materials and Supplies	31,372	9,603	6,403	16,647	-	-	64,025
Memberships and Licenses	26,646	8,157	5,438	14,138	-	-	54,379
Rent Expense	24,591	7,528	5,019	13,048	-	-	50,186
Computer Services	22,710	6,952	4,635	12,049	-	-	46,346
Training and Travel	22,678	6,942	4,628	12,033	-	-	46,281
Library Expense	-	46,278	-	-	-	-	46,278
Insurance	18,519	5,669	3,779	9,826	-	-	37,793
Contract Fees	18,310	5,605	3,737	9,716	-	-	37,368
Advertising and Marketing	-	-	-	32,472	-	-	32,472
Depreciation Expense	11,711	3,585	2,390	6,215	-	-	23,901
Allocation of Plant Expenses	235,420	72,067	48,045	124,916	-	(480,448)	-
Total Expenses	$ 2,049,035	$ 661,366	$ 402,904	$ 1,245,454	$ 28,933	$ -	$ 4,387,692

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Adler Graduate School (the "School"), located in Minnetonka, Minnesota, is an independent, not-for-profit educational institution. It is accredited by the Higher Learning Commission, a Commission of the North Central Association.

The School offers Masters' Degrees in Adlerian Counseling and Psychotherapy and Applied Adlerian Psychology, as well as several post-graduate certificates. The School also serves the community by offering continuing education programs and an Adlerian library.

The accounting policies of the School reflect practices common to educational institutions and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications - For the purposes of financial reporting, the School classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the School are classified in the accompanying financial statements in the categories that follow:

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met by action of the School and/or the passage of time. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Board Designated Net Assets - Net assets not subject to donor-imposed stipulations, however, the Board of Directors has established policies to restrict the use of these assets for capital projects.

Revenue Recognition - The timing and classification of revenues are summarized below.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as net assets with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition is reflected as a reduction of tuition and fees revenues.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents - The School considers all cash held in checking, savings, money market accounts, and short-term highly liquid debt instruments purchased with an original maturity of three months or less when purchased to be cash equivalents.

Receivables, net - Receivables are carried at the unpaid balance of the original amount billed less an estimate made for doubtful accounts which is based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded when received. Receivables are generally unsecured.

An account receivable is considered to be past due and a late fee is charged if any portion of the receivable balance is outstanding for more than 30 days after the billing date. The School does not charge interest on accounts receivable that are past due.

Investments - The School defines investments as financial instruments with a maturity greater than three months. Investments are valued using fair value measurement methods described in Note 4.

Property, Plant and Equipment, net - Physical plant assets are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of library books (10 years), furniture and equipment (5-20 years), office equipment (3-10 years) and building and building improvements (40 years). Normal repair and maintenance expenses are charged to operations as incurred. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. In fiscal year 2019, the School capitalized physical plant additions in excess of $10,000. Prior to fiscal year 2019, physical plant additions in excess of $5,000 were capitalized.

Impairment of Long-Lived Assets - The School reviews long-lived assets, including property and equipment and intangible assets, for impairment, whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Deferred Revenue - Certain revenue related to education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

Income Tax Status - The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code according to an Internal Revenue Service determination letter. Accordingly, the School is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The School had no material unrelated business income during the year. It is also exempt from state income tax.

The School follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the School for uncertain tax positions as of June 30, 2019 and 2018. The School’s tax returns are subject to review and examination by federal and state authorities.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allocation of costs to functional areas. Actual results could differ from those estimates.

Advertising and Marketing Expenses - The School expenses advertising and marketing costs as incurred. Advertising and marketing expenses were $32,472 and $43,847 for the years ended June 30, 2019 and 2018, respectively.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

New Accounting Pronouncements Adopted in Current Year - In fiscal year 2019, the School adopted the Financial Accounting Standard Board's (FASB) Accounting Standards Update (ASU) No. 2016-14. This ASU addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The School has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, with certain transition provisions. The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions
- Disclosure about liquidity and availability of resources at June 30, 2019 (Note 2)
- Presentation of expenses by natural and functional classifications within the basic financial statements

***New Accounting Pronouncements Not Yet Effective* -** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018 (fiscal year 2020). In connection with this, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 should be applied on a modified retrospective basis and is effective concurrently with ASU 2014-09. The School is currently assessing the impact these standards will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal year 2021. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The School is assessing the impact this standard will have on its financial statements.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the School's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include amounts restricted by donors or the School's Board of Directors.

	2019
Financial assets	
Cash and cash equivalents	$ 931,453
Short-term investments	2,003,430
Accounts receivable from students or others	74,136
Financial Assets at June 30	3,009,019
Less those amounts that are unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	
Subject to appropriation and satisfaction of donor restrictions	24,276
Board designations:	
Amounts set aside for capital projects	200,000
Financial assets available to meet cash needs for general expenditures within one year	$ 2,784,743

As of June 30, 2019, the School had liquid assets on hand to cover approximately eight months of operating expenses. The School's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of six months of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities.

NOTE 3 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 and 2018 consist of contributions received for scholarship awards, library materials, capital campaign, and program grants. Net assets of $12,437 and $16,656 were released from donor restrictions during the years ended June 30, 2019 and 2018, respectively, in satisfaction of the restricted purpose.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined under generally accepted accounting principles as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets include investments in money market funds for which quoted prices are readily available.

Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input this is significant to the fair value measurement in its entirely. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

While the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the School's assets measured at fair value on a recurring basis as of June 30, 2019 based upon the three-tier hierarchy:

	Level 1	Level 2	Level 3	Total
ASSETS				
Certificates of deposit	$	$ 1,750,028	$ -	$ 1,750,028
Total	$	$ 1,750,028	$ -	$ 1,750,028

Investments on the statement of financial position as of June 30, 2019 also includes $253,402 in cash not included in the above table.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about the School's assets measured at fair value on a recurring basis as of June 30, 2018, based upon the three-tier hierarchy:

	Level 1	Level 2	Level 3	Total
ASSETS				
Certificates of deposit	$ -	$ 1,053,903	$ -	$ 1,053,903
Total	$ -	$ 1,053,903	$ -	$ 1,053,903

Investments on the statement of financial position as of June 30, 2018 also includes $1,040 in cash not included in the above table.

NOTE 5 - MORTGAGE PAYABLE, NET

The School had the following long-term debt outstanding at June 30:

	2019	2018
Mortgage payable issued in June 2018	$ 2,543,340	$ 2,585,000
Less deferred debt acquisition costs	(31,888)	(63,750)
	$ 2,511,452	$ 2,521,250

On June 29, 2018, the School obtained mortgage financing in the amount of $2,585,000 at an interest rate equal to the sum of the LIBOR rate plus 1.50% amortized over 20 years. The School has entered into an interest rate swap agreement (see Note 6). Principal and interest payments are due monthly, with a final balloon payment of $1,914,111 due on June 28, 2028. The proceeds of the mortgage financing were used to provide funding for capital improvements on a building located at 10225 Yellow Circle Drive in Minnetonka, MN. The mortgage is secured by the property owned by the School (see Note 7). The mortgage agreement requires that a certain covenant be maintained related to minimum liquidity of $1,000,000 measured as of the end of each fiscal quarter and a debt service coverage ratio of not less than 1.00 to 1.00 or liquidity of not less than $1,500,000, in each case measured as of the end of the fiscal year. As of June 30, 2019, the School is in compliance with this covenant. Future years' maturities are as follows:

Years Ending June 30:	
2020	$ 57,263
2021	60,349
2022	63,257
2023	66,304
2024	69,204
Thereafter	2,226,963
Total	$ 2,543,340

NOTE 6 - INTEREST RATE SWAP

The School uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreement is used to manage identified and approved exposures and is not used for speculative purposes. The interest rate exchange agreement is recognized as either an asset or liability on the statement of financial position and is measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreement are reflected in the statement of activities. The interest rate exchange agreement between the School and a third party (counterparty) provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparty will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the School's counterparty. The counterparty to this contract is a financial institution that carries an investment-grade credit rating. The interest rate exchange agreement contains collateral provisions applicable to both parties to mitigate credit risk. The School does not anticipate non-performance by its counterparty. The interest rate swap asset is carried at fair value as defined in Note 4. The interest swap asset is considered to be Level 2 which is based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the interest rate swap asset is estimated using an income approach based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

The following is a summary of the outstanding position under the interest rate exchange agreement as of June 30, 2019:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate paid	Rate Received
Variable to fixed rate swap	July 1, 2018	$2,585,000	June 28, 2028	3.15%	USD-LIBOR-BBA

Derivative instruments and their effect are reported in the 2019 financial statements as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Fair Value
Interest rate swap	Interest rate swap liability	$ (245,428)

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statement of Activities
Interest rate swap	Loss on interest rate swap valuation	$ (245,428)

On June 28, 2018, the School novated a 20-year interest rate exchange agreement in connection with obtaining mortgage financing (see Note 5) with an annual fixed rate of 3.15% with an effective date of July 1, 2018. The notional amount at June 30, 2019 was equal to $2,543,302. The School's variable-rate receipts are tied to the USD-LIBOR-BBA index.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following at June 30:

	2019	2018
Land	$ 1,770,000	$ 1,770,000
Buildings and building improvements	2,374,215	1,143,578
Furniture and equipment	280,250	210,435
Office equipment	83,483	83,483
Library books	83,330	81,679
Construction in progress	-	740,386
	4,591,278	4,029,561
Less: Accumulated depreciation	(301,984)	(221,929)
Totals	$ 4,289,294	$ 3,807,632

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Tenancy Agreements

The School assumed a five-month tenancy agreement to lease part of its Minnetonka property to an existing tenant. The lease agreement was assumed on March 30, 2018, and terminated on August 31, 2018.

Upon the sale of the Richfield building on March 19, 2018, the School entered into a tenancy agreement with the purchaser to lease their existing space for a monthly rent expense of $31,115 through August 19, 2018.

Tuition Discount Agreement

The School has entered into an agreement with eight organizations to provide a 10% discount on tuition and fees to its employees who enroll at the School. In addition, the School will provide a retroactive 10% discount on tuition and fees to students who become employees of one of the nonprofit organizations within three months of completing a degree, certificate, and/or preparation for professional licensure and remain an employee of the nonprofit organization for at least one year.

The School also provides a 10% discount on tuition to persons officially registered as members of a Native American tribal group, persons who are active in or an honorably discharged veteran of a branch of the military and their spouses, and alumni.

NOTE 9 - OPERATING LEASES

The School has entered into various operating lease agreements for classroom space, copiers, communication, data processing and other equipment, and software through fiscal 2022. Lease expense was $18,502 and $18,151 for the years ended June 30, 2019 and 2018, respectively. Required minimum payments related to operating leases are as follows:

Years Ending June 30:	
2020	$ 17,246
2021	16,095
2022	13,325
Total	$ 46,666

NOTE 10 - CONCENTRATIONS

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash and cash equivalents and accounts and other receivables. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Cash and cash equivalents are primarily concentrated in one bank account and short-term investments in various banks' certificates of deposit in amounts of not greater than $250,000 each. Other receivables are due from a variety of sources. The School's students are primarily located in the Twin Cities metro area. In addition, the School's students receive a substantial amount of support from federal student financial assistance programs that are subject to audit by governmental agencies. Should the School experience a significant reduction in the level of this support, it could have an adverse effect on programs and activities.

NOTE 11 - SUBSEQUENT EVENTS

The School has evaluated subsequent events through October 16, 2019 which is the date that the financial statements were available to be issued.

ADLER GRADUATE SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER		
U.S. Department of Education		
Federal direct loan programs	84.268	$ 4,176,620
Total Student Financial Assistance Cluster		4,176,620
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 4,176,620

See accompanying notes to schedule of expenditures of federal awards.

ADLER GRADUATE SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Adler Graduate School (the “School”) under programs of the federal government for the year ended June 30, 2019. The information in this 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). Because this Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Adler Graduate School
Minnetonka, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adler Graduate School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 16, 2019

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Adler Graduate School
Minnetonka, Minnesota

Report on Compliance for the Major Federal Program

We have audited Adler Graduate School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2019. The School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program 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). Those standards and the Uniform Guidance 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 occurred. An audit includes examining, on a test basis, evidence about the School'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 the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on the Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the School 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 School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 School'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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 16, 2019

ADLER GRADUATE SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' 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 deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.268	Federal direct loan programs

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2019

The previous audit was for the year ended June 30, 2018. The findings noted during that audit and the School's corrective actions taken are as follows:

Finding 2018-001: Significant Deficiency - Financial Reporting

During the course of our audit, adjusting journal entries were identified related to the recording of the sale, purchase and financing for property transactions. In addition, revisions to the initial draft financial statements and related notes to the financial statements provided by management were made by the auditor to incorporate all required disclosures relating to those transactions.

Action Taken

Management has implemented the necessary procedures to ensure proper reporting and presentation of such items in the future.

Finding 2018-002: Significant Deficiency - Student Status Changes

The change in student status for 5 of 6 students tested were reported timely, but not correctly, to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days.

Action Taken

Management has contracted with the National Student Clearinghouse for reporting to the NSLDS twice each term. In addition, the School periodically performs independent reviews of the information provided to the Clearinghouse to ensure the change status information has been updated in the NSLDS during the required time period.