

**ADLER GRADUATE SCHOOL**  
Richfield, Minnesota

Audit Report on Financial Statements  
and Federal Awards

As of and for the Year Ended June 30, 2017

# ADLER GRADUATE SCHOOL

## TABLE OF CONTENTS

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Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 13
Supplementary Information	
Statements of Functional Expenses	14 - 15
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 - 19
Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	20 - 22
Schedule of Findings and Questioned Costs	23 - 26
Summary Schedule of Prior Audit Findings	27

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Adler Graduate School  
Richfield, MN

### **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, 2017 and 2016, 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.

### ***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, 2017 and 2016, 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* and the statements of functional expenses are presented for the purpose of additional analysis and are 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 27, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 27, 2017

**ADLER GRADUATE SCHOOL**STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,404,298	\$ 2,301,155
Accounts receivable, net of allowances of \$48,000 and \$29,000 respectively	40,780	74,378
Prepaid expenses	81,145	73,544
Pledges receivable	-	1,000
Other receivables	7,099	32,909
Interest rate swap asset	123,685	-
Property, plant and equipment, net	<u>5,300,294</u>	<u>5,374,386</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,957,301</u></b>	<b><u>\$ 7,857,372</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 26,817	\$ 28,062
Accrued expenses and other liabilities	144,848	147,075
Deferred revenue	33,402	51,040
Mortgage payable, net	<u>3,403,096</u>	<u>3,063,265</u>
Total Liabilities	<u>3,608,163</u>	<u>3,289,442</u>
<b>NET ASSETS</b>		
Unrestricted	4,319,643	4,557,743
Temporarily restricted	<u>29,495</u>	<u>10,187</u>
Total Net Assets	<u>4,349,138</u>	<u>4,567,930</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,957,301</u></b>	<b><u>\$ 7,857,372</u></b>

**ADLER GRADUATE SCHOOL**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 3,267,932	\$ -	\$ 3,267,932	\$ 3,328,752
Less: Scholarships and grants	(15,234)	-	(15,234)	(11,930)
Net tuition and fees	3,252,698	-	3,252,698	3,316,822
Rental revenue	235,332	-	235,332	213,845
Direct costs of rental activity	(357,251)	-	(357,251)	(321,341)
Net rental activity	(121,919)	-	(121,919)	(107,496)
Interest income	611	-	611	1,881
Other income	37,994	9,100	47,094	18,970
Gain on interest rate swap valuation	123,685	-	123,685	-
Contributions	5,791	25,175	30,966	14,772
	3,298,860	34,275	3,333,135	3,244,949
Net assets released from restrictions	14,967	(14,967)	-	-
Total Revenues, Gains and Other Support	3,313,827	19,308	3,333,135	3,244,949
<b>EXPENSES</b>				
Program expenses				
Instruction	1,758,427	-	1,758,427	1,940,221
Academic support	349,880	-	349,880	362,604
Student services	550,730	-	550,730	510,355
Support expenses				
Institutional support	858,880	-	858,880	809,005
Fundraising	34,010	-	34,010	30,416
Allocable expenses				
Operation and maintenance of plant	167,927	-	167,927	164,739
Less: Allocated expenses	(167,927)	-	(167,927)	(164,739)
Total Expenses	3,551,927	-	3,551,927	3,652,601
<b>CHANGE IN NET ASSETS</b>	(238,100)	19,308	(218,792)	(407,652)
NET ASSETS - Beginning of Year	4,557,743	10,187	4,567,930	4,975,582
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,319,643</u>	<u>\$ 29,495</u>	<u>\$ 4,349,138</u>	<u>\$ 4,567,930</u>

**ADLER GRADUATE SCHOOL**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Tuition and fees	\$ 3,328,752	\$ -	\$ 3,328,752
Less: Scholarships and grants	(11,930)	-	(11,930)
Net tuition and fees	3,316,822	-	3,316,822
Rental revenue	213,845	-	213,845
Direct costs of rental activity	(321,341)	-	(321,341)
Net rental activity	(107,496)	-	(107,496)
Interest income	1,881	-	1,881
Other income	17,902	1,068	18,970
Contributions	6,074	8,698	14,772
	3,235,183	9,766	3,244,949
Net assets released from restrictions	8,808	(8,808)	-
Total Revenues, Gains and Other Support	3,243,991	958	3,244,949
 <b>EXPENSES</b>			
Program expenses			
Instruction	1,940,221	-	1,940,221
Academic support	362,604	-	362,604
Student services	510,355	-	510,355
Support expenses			
Institutional support	809,005	-	809,005
Fundraising	30,416	-	30,416
Allocable expenses			
Operation and maintenance of plant	164,739	-	164,739
Less: Allocated expenses	(164,739)	-	(164,739)
Total Expenses	3,652,601	-	3,652,601
<b>CHANGE IN NET ASSETS</b>	(408,610)	958	(407,652)
NET ASSETS - Beginning of Year	4,966,353	9,229	4,975,582
<b>NET ASSETS - END OF YEAR</b>	\$ 4,557,743	\$ 10,187	\$ 4,567,930

**ADLER GRADUATE SCHOOL**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (218,792)	\$ (407,652)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	89,723	85,842
Gain on interest rate swap valuation	(123,685)	-
Changes in assets and liabilities		
Accounts receivable	33,598	(27,979)
Other receivables	26,810	(9,441)
Prepaid expenses	(7,601)	(3,653)
Accounts payable	(1,245)	28,062
Accrued expenses and other liabilities	(2,227)	9,347
Deferred revenue	(17,638)	2,362
Net Cash Flows From Operating Activities	<u>(221,057)</u>	<u>(323,112)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<u>(13,013)</u>	<u>(175,233)</u>
Net Cash Flows From Investing Activities	<u>(13,013)</u>	<u>(175,233)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on mortgage payable, less refinanced portion	(90,170)	(128,932)
Proceeds from mortgage payable, less refinanced portion	<u>427,383</u>	-
Net Cash Flows From Financing Activities	<u>337,213</u>	<u>(128,932)</u>
<b>Net Change in Cash and Cash Equivalents</b>	103,143	(627,277)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,301,155</u>	<u>2,928,432</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,404,298</u>	<u>\$ 2,301,155</u>
Supplemental disclosures of cash flow information		
Interest paid	<u>\$ 115,529</u>	<u>\$ 140,578</u>



## ADLER GRADUATE SCHOOL

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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Adler Graduate School (the "School"), located in Richfield, 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 a Master's Degree in Adlerian Counseling and Psychotherapy. 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:

**Basis of Presentation** - These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the School as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes as follows:

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the School and/or the passage of time.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. 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. The School currently has no permanently restricted net assets at June 30, 2017 and 2016.

**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 unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets 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 temporarily restricted revenues; 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, living and other costs is reflected as a reduction of tuition and fees revenues.

## ADLER GRADUATE SCHOOL

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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**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 twelve 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.

**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. The School capitalizes physical plant additions in excess of \$5,000.

**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, 2017 and 2016.

**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.

**Retirement Plan** - The School offers a defined contribution retirement plan covering substantially all employees over the age of 21, with at least one year of service and a minimum of 1,000 hours worked. The School does not contribute to the plan.

**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, 2017 and 2016. The School's tax returns are subject to review and examination by federal and state authorities.

## ADLER GRADUATE SCHOOL

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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**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 \$37,637 and \$33,268 for the years ended June 30, 2017 and 2016, 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** - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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). Early application is permitted for fiscal years beginning after December 15, 2016. The School is assessing the impact this new standard 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 years beginning after December 15, 2019 (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.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The School is assessing the impact this standard will have on its financial statements.

**ADLER GRADUATE SCHOOL**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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**NOTE 2 - RESTRICTED NET ASSETS**

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Temporarily restricted net assets at June 30, 2017 and 2016 consist of contributions received for scholarship awards, library materials, capital campaign, and program grants. Assets of \$14,967 and \$8,808 were released from donor restrictions during the years ended June 30, 2017 and 2016, respectively, in satisfaction of the restricted purpose.

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**NOTE 3 - MORTGAGE PAYABLE, NET**

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

	<u>2017</u>	<u>2016</u>
Mortgage payable issued in January 2012	\$ -	\$ 3,063,265
Mortgage payable issued in August 2016	3,431,888	-
Principal outstanding on mortgage payable	3,431,888	3,063,265
Less deferred debt acquisition costs, net	<u>(28,792)</u>	<u>-</u>
	<u>\$ 3,403,096</u>	<u>\$ 3,063,265</u>

On August 25, 2016, the School obtained mortgage financing in the amount of \$3,500,000 at an interest rate equal to the sum of the LIBOR rate plus 1.75% amortized over 20 years. The School has entered into an interest rate swap agreement (see Note 4). Principal and interest payments are due monthly, with a final balloon payment of \$2,448,739 due on August 25, 2026. The proceeds of the mortgage financing were used to pay off the existing mortgage and provide additional funding for capital improvements. The portion of the transaction related to the refinancing is not reflected in the statement of cash flows as it is considered non-cash activity. The mortgage is secured by the land owned by the School (see Note 5). The mortgage agreement requires that a certain covenant be maintained related to minimum liquidity of \$1,500,000. As of June 30, 2017, the School is in compliance with this covenant. Future years' maturities are as follows:

Years Ending June 30:	
2018	\$ 93,198
2019	96,383
2020	99,384
2021	103,075
2022	106,597
Thereafter	<u>2,933,251</u>
Total	<u>\$ 3,431,888</u>

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**NOTE 4 - INTEREST RATE SWAP ASSET**

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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.

**ADLER GRADUATE SCHOOL**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 4 - INTEREST RATE SWAP ASSET (CONTINUED)**

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. Under the accounting guidance, there is a three level hierarchy for fair value measurements which is 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. 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. 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 market-corroborated inputs. 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, 2017:

<u>Instrument Type</u>	<u>Effective Date</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate paid</u>	<u>Rate Received</u>
Variable to fixed rate swap	August 25, 2016	\$3,431,888	August 25, 2026	1.57%	USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2017, as follows:

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Asset Derivative</u>	
	<u>Statement of Financial Position Location</u>	<u>Fair Value</u>
Interest rate swap	Interest rate swap asset	\$ 123,685

The effect of derivative instruments is reported in the statement of activities for the year ended June 30, 2017 is as follows:

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain on Derivatives Recognized in the Statement of Changes in Net Assets</u>	<u>Amount of Gain on Derivatives Recognized in the Statement of Activities</u>
Interest rate swap	Gain on interest rate swap valuation	\$ 123,685

**ADLER GRADUATE SCHOOL**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET**

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

	<u>2017</u>	<u>2016</u>
Land	\$ 2,956,537	\$ 2,956,537
Buildings and building improvements	2,580,277	2,578,277
Furniture and equipment	210,435	210,435
Office equipment	83,483	72,470
Library books	<u>81,679</u>	<u>81,679</u>
	5,912,411	5,899,398
Less: Accumulated depreciation	<u>(612,117)</u>	<u>(525,012)</u>
Totals	<u>\$ 5,300,294</u>	<u>\$ 5,374,386</u>

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

*Tenancy Agreements*

The School entered into a seven-year tenancy agreement to lease part of its building to a nonprofit organization. The lease agreement commenced May 1, 2012, and includes scheduled base rents and a pro-rata share of common area charges. The agreement includes an early termination option exercisable by either party with six months written notice beginning on May 1, 2017. As of the date of this report, notice has not been provided by either party.

The School entered into a five-year tenancy agreement to lease part of its building to another nonprofit organization. This lease agreement commenced June 1, 2013. The agreement includes scheduled base rents and a pro-rata share of common area charges. The agreement includes an early termination option exercisable by either party beginning June 1, 2016. This option was exercised effective June 30, 2017.

The School entered into a seven-year tenancy agreement to lease part of its building to another nonprofit organization. The lease agreement commenced March 1, 2015, and includes scheduled base rents, which will be increased to the pro-rata share of common area charges if those charges exceed the base rent. The agreement includes an early termination option exercisable by either party on March 1, 2020.

Future minimum rental income receivable is as follows:

	<u>Lease 1</u>	<u>Lease 2</u>	<u>Lease 3</u>
Years Ending June 30:			
2018	\$ 128,400	\$ -	\$ 5,700
2019	107,000	-	6,300
2020	-	-	6,600
2021	-	-	7,200
2022	<u>-</u>	<u>-</u>	<u>4,800</u>
Totals	<u>\$ 235,400</u>	<u>\$ -</u>	<u>\$ 30,600</u>

## ADLER GRADUATE SCHOOL

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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#### NOTE 6 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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##### *Tuition Discount Agreement*

The School has entered into an agreement with seven nonprofit 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.

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#### NOTE 7 - OPERATING LEASES

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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 \$12,986 and \$12,669 for the years ended June 30, 2017 and 2016, respectively. Required minimum payments related to operating leases are as follows:

Years Ending June 30:		
2018	\$	15,991
2019		15,991
2020		15,991
2021		15,991
2022		<u>13,325</u>
Total	\$	<u>77,289</u>

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#### NOTE 8 - CONCENTRATIONS

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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. Other receivables and notes receivable 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.

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#### NOTE 9 - SUBSEQUENT EVENTS

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The School has evaluated subsequent events through October 27, 2017 which is the date that the financial statements were available to be issued.

On April 28, 2017, the School entered into a Sale and Purchase Agreement to sell the land, building, fixtures, and improvements located at 1550 78<sup>th</sup> Street East in Richfield, Minnesota, subject to an approvals contingency date of 120 days after the effective date of the Agreement, with an option to extend the approvals contingency date by up to an additional 60 days.

On July 18, 2017, the School entered into a Purchase Agreement to purchase the land, building, fixtures, and improvements located at 10225 Yellow Circle in Minnetonka, Minnesota, subject to the closing of the sale of its existing building on or before December 27, 2017.

**SUPPLEMENTARY INFORMATION**



**ADLER GRADUATE SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	2017					2016		
	Instruction	Academic Support	Student Services	Institutional Support	Fundraising	Operation and Maintenance of Plant	Total	Total
Salaries and Wages	\$ 1,312,968	\$ 218,828	\$ 389,028	\$ 510,599	\$ 29,882	\$ 65,609	\$ 2,526,914	\$ 2,594,619
Payroll Taxes	101,011	16,835	29,928	39,281	1,868	5,293	194,216	205,898
Employee Benefits	39,176	18,947	43,315	52,184	2,061	7,711	163,394	154,994
Advertising and Marketing	-	-	-	37,637	-	-	37,637	33,268
Bad Debt Expense	-	-	-	61,087	-	-	61,087	25,348
Computer Services	22,581	3,764	6,691	8,781	-	-	41,817	47,174
Contract Fees	59,729	9,955	17,697	23,228	-	-	110,609	131,813
Credit Card Charges	-	-	-	15,411	-	-	15,411	16,762
Depreciation Expense	12,436	2,073	3,685	4,835	-	-	23,029	22,956
Equipment Lease	7,012	1,169	2,078	2,727	-	-	12,986	12,669
Facilities Expense	-	-	-	-	-	89,314	-	85,360
Food and Beverage	3,439	573	1,019	1,337	-	-	6,368	13,627
Graduation	6,720	-	-	-	-	-	6,720	13,912
Insurance	18,770	3,128	5,561	7,300	-	-	34,759	29,490
Library Expense	-	45,512	-	-	-	-	45,512	42,333
Materials and Supplies	25,234	4,205	7,476	9,813	-	-	46,728	57,052
Membership and Licenses	18,931	3,155	5,609	7,363	199	-	35,257	25,595
Miscellaneous	184	31	55	71	-	-	341	26
Postage	1,760	293	522	685	-	-	3,260	3,193
Printing	7,720	1,287	2,287	3,002	-	-	14,296	19,230
Professional Fees	-	-	-	26,577	-	-	26,577	26,190
Repairs and Maintenance	4,895	816	1,450	1,904	-	-	9,065	11,823
Telephone	5,757	959	1,706	2,239	-	-	10,661	8,226
Training	10,123	1,687	2,999	3,937	-	-	18,746	45,317
Travel	9,300	1,550	2,756	3,617	-	-	17,223	25,726
Allocation of Plant Expenses	90,681	15,113	26,868	35,265	-	(167,927)	-	-
<b>Total Expenses</b>	<b>\$ 1,758,427</b>	<b>\$ 349,880</b>	<b>\$ 550,730</b>	<b>\$ 858,880</b>	<b>\$ 34,010</b>	<b>\$ -</b>	<b>\$ 3,551,927</b>	<b>\$ 3,652,601</b>

**ADLER GRADUATE SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2016

	Instruction	Academic Support	Student Services	Institutional Support	Fundraising	Operation and Maintenance of Plant	Total
Salaries and Wages	\$ 1,387,243	\$ 232,408	\$ 370,360	\$ 511,307	\$ 26,221	\$ 67,080	\$ 2,594,619
Payroll Taxes	110,367	18,478	29,432	40,608	2,066	4,947	205,898
Employee Benefits	81,175	13,592	21,648	29,632	1,595	7,352	154,994
Advertising and Marketing	-	-	-	33,268	-	-	33,268
Bad Debt Expense	-	-	-	25,348	-	-	25,348
Computer Services	26,210	4,391	6,997	9,576	-	-	47,174
Contract Fees	76,572	11,402	18,172	25,667	-	-	131,813
Credit Card Charges	-	-	-	16,762	-	-	16,762
Depreciation Expense	12,754	2,137	3,405	4,660	-	-	22,956
Equipment Lease	7,039	1,179	1,879	2,572	-	-	12,669
Facilities Expense	-	-	-	-	-	85,360	85,360
Food and Beverage	7,558	1,266	2,018	2,761	24	-	13,627
Graduation	13,912	-	-	-	-	-	13,912
Insurance	16,385	2,745	4,374	5,986	-	-	29,490
Library Expense	-	42,333	-	-	-	-	42,333
Materials and Supplies	32,081	5,194	8,277	11,500	-	-	57,052
Membership and Licenses	14,096	2,361	3,763	5,150	225	-	25,595
Miscellaneous	15	2	4	5	-	-	26
Postage	1,774	297	474	648	-	-	3,193
Printing	8,987	1,506	2,399	6,338	-	-	19,230
Professional Fees	-	-	-	26,190	-	-	26,190
Repairs and Maintenance	6,569	1,100	1,754	2,400	-	-	11,823
Telephone	4,692	740	1,180	1,614	-	-	8,226
Training	27,192	3,796	6,050	8,279	-	-	45,317
Travel	14,072	2,343	3,733	5,293	285	-	25,726
Allocation of Plant Expenses	91,528	15,334	24,436	33,441	-	(164,739)	-
<b>Total Expenses</b>	<b>\$ 1,940,221</b>	<b>\$ 362,604</b>	<b>\$ 510,355</b>	<b>\$ 809,005</b>	<b>\$ 30,416</b>	<b>\$ -</b>	<b>\$ 3,652,601</b>

**ADLER GRADUATE SCHOOL**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2017

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Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>		
U.S. Department of Education		
Federal direct loan programs	84.268	<u>\$ 3,898,664</u>
<b>Total Student Financial Assistance Cluster</b>		<u>3,898,664</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 3,898,664</u>

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, 2017

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**NOTE 1 - BASIS OF PRESENTATION**

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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, 2017. 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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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.

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**NOTE 3 - INDIRECT COST RATE**

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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  
Richfield, MN

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, 2017, 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 27, 2017.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

## **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*.

## **The School's Response to Findings**

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 27, 2017

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  
Richfield, MN

**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, 2017. 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, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-003. Our opinion on the major federal program is not modified with respect to this matter.

### **School's Response to Finding**

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

### **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 27, 2017

**ADLER GRADUATE SCHOOL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017

**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None noted
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?	Yes
Identification of major programs:	
CFDA	
<u>Number</u>	<u>Name of Federal Program or Cluster</u>
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?	No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2017-001: Significant Deficiency – Audit Adjusting Entry**

*Criteria*

Management is responsible for controls over the year-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger and record recurring and nonrecurring adjustments to the financial statements.

*Condition*

During the course of our audit, an adjusting journal entry was identified related to the interest rate swap agreement that was significant to the year-end financial statements.

*Cause*

The School did not have a system of internal controls in place that would ensure all nonrecurring adjustments were recorded prior to the start of the audit.

*Effect*

The potential exists that a material misstatement or error could occur in the financial reporting process and not be detected by the School's internal controls in a timely manner.

*Recommendation*

The School should make the necessary process changes to ensure such necessary adjustments are identified internally and posted prior to the start of the audit.

*Management's Response*

Management concurs with the finding and will implement the necessary procedures to ensure this type of adjustment and others of a nonrecurring nature are identified internally and posted to the general ledger.

**ADLER GRADUATE SCHOOL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2017

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

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**Finding 2017-002: Significant Deficiency - Separation of Duties**

**Repeat of prior year finding 2016-001**

*Criteria*

The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another.

*Condition*

The School operates its accounting and reporting function with a limited number of individuals, which precludes a proper segregation of duties. However, the School has separated the significant transactions related to its federal student aid programs.

*Cause*

The size of the School's Business Office does not allow for enough employees to adequately separate the various accounting functions.

*Effect*

Errors in the accounting records may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

*Recommendation*

The School should continue to perform certain review procedures which help mitigate risk associated with the lack of separation of duties. We recognize that the School has separated the significant transactions related to its federal student aid programs.

*Management's Response*

Management concurs with the finding and has implemented appropriate procedures to minimize the risk of material financial statement misstatement, including:

- > Checks over \$3,000 require two signatures.
- > Monthly operating financial statements, including comparisons to both the budget and the previous year's results, are distributed to all members of the Finance Committee and Board of Directors for their review.
- > The Finance Committee reports on the financial statements to the Board of Directors at their monthly meetings.
- > The Finance Committee reviews all disbursements on a monthly basis.
- > Manual journal entries are reviewed and posted by an individual other than the person who initiated them.
- > All significant duties involving the Student Financial Assistance Cluster are appropriately segregated and have review controls. No one individual is able to award, request, apply, and disburse student financial assistance.

**ADLER GRADUATE SCHOOL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2017

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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**Finding 2017-003: Student Status Changes**

*Federal Program* - Federal Direct Loan Programs

*Federal Agency* - U.S. Department of Education

*Pass-Through Entity* - Not applicable

*CFDA Number* - 84.268

*Federal Award Number* - P268K165455

*Federal Award Year* - June 30, 2017

**Repeat of prior year finding 2016-003**

*Criteria*

Title IV regulations (34 CFR 685.309(b)) require that upon receipt of an enrollment report from the Secretary, institutions must update all information included in the report and return the report to the Secretary: (i) in the manner and format prescribed by the Secretary; and (ii) within the timeframe prescribed by the Secretary. Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, an institution must notify the Secretary within 30 days after the date the institution discovers that: (i) a loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the institution, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or (ii) a student who is enrolled at the institution and who received a loan under Title IV of the Act has changed his or her permanent address.

*Condition*

The change in student status for 2 of 11 students tested was not reported to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days. However, the students were ultimately reported to the NSLDS.

The sample was not a statistically valid sample but was determined using Chapter 21 - Audit Sampling Considerations of Uniform Guidance Compliance Audits of the Government Auditing Standards and Single Audits Audit and Accounting Guide.

*Questioned Costs*

Not applicable.

*Context*

Not applicable.

*Cause*

The School's procedures for reporting all students were not designed appropriately in order to allow for timely reporting to the NSLDS.

*Effect*

The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by institutions. If an institution does not review, update, and verify student enrollment statuses, effective dates of the enrollment status, and the anticipated completion dates, then the Title IV student loan records will be inaccurate.

**ADLER GRADUATE SCHOOL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2017

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

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**Finding 2017-003: Student Status Changes (Continued)**

*Recommendation*

The School should revise its procedures to ensure accurate enrollment information is sent to the NSLDS within the required timeframe.

*Management's Response*

Management concurs with the finding and has contracted with the National Student Clearinghouse for reporting to the NSLDS twice each term. In addition, the School will periodically perform 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.

**ADLER GRADUATE SCHOOL**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended June 30, 2017

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The previous audit of the Federal Award Programs was for the year ended June 30, 2016. The findings noted during that audit and the School's corrective actions taken are as follows:

**Finding 2016-001:** Significant Deficiency - Separation of Duties

The School operates its accounting and reporting function with a limited number of individuals, which precludes a proper segregation of duties. However, the School has separated the significant transactions related to its federal student aid programs.

*Action Taken*

Management continued to implement and document appropriate procedures to minimize the risk of material financial statement misstatement. These included the following which were in place for the entire fiscal year:

- > The Finance Committee reviews all disbursements on a monthly basis
- > The Finance Committee reviews all disbursements made to the President on a quarterly basis
- > Manual journal entries are reviewed and posted by an individual other than the person who initiated them

**Finding 2016-002:** Significant Deficiency - Internal Controls over Compliance for Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions

During the year, there was not an adequate system of controls in place that would have prevented or detected compliance matters within the Activities Allowed or Unallowed, eligibility and Special Tests and Provisions (related to Return of Title IV Funds and Enrollment Reporting) compliance requirement areas.

*Action Taken*

Beginning in Spring Term 2016, the School assigned responsibility for reviewing student financial assistance eligibility and award amounts to the Vice President for Finance and Administration in addition to the Director of Financial Aid. The individual assigned has received the necessary training and has become knowledgeable about the appropriate compliance requirements.

**Finding 2016-003:** Student Status Changes

The change in student status for 4 of 25 tested was not reported to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days. However, the students were ultimately reported to the NSLDS.

*Action Taken*

Management contracted with the National Student Loan Clearinghouse for reporting to the NSLDS twice each term. However, a similar finding was noted in the current year.