FONTBONNE UNIVERSITY

FINANCIAL STATEMENTS

JUNE 30, 2019

Fontbonne University

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Contents

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Independent Auditors' Report

Board of Trustees
Fontbonne University
St. Louis, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of Fontbonne University, a not-for-profit organization, which comprise the statement of financial position as of June 30, 2019 and 2018 and the related statements of activities and cash flows for the years then ended, and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Fontbonne University 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.

Emphasis Of Matter

As discussed in Note 2 to the financial statements, the University adopted Accounting Standards Update 2016-14: *Presentation of Financial Statements of Not-for-Profit Entities* in the current year. Our opinion is not modified with respect to this matter.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of Fontbonne University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fontbonne University's internal control over financial reporting and compliance.

RubinBrown LLP

November 19, 2019

FONTBONNE UNIVERSITY

STATEMENT OF FINANCIAL POSITION

Assets

	June 30, 2019	June 30, 2018
Cash and cash equivalents	$ 2,278,844	$ 2,136,960
Student accounts receivable, net of allowance for doubtful accounts of $2,050,640 in 2019 and $1,843,740 in 2018	1,441,901	1,092,863
Promises to give, net	3,403,894	945,046
Other current assets	369,042	605,148
Student loans receivable, net	706,066	911,966
Land, buildings and equipment, net	35,611,697	34,404,299
Long-term investments	15,210,260	14,669,491
Total Assets	$ 59,021,704	$ 54,765,773

Liabilities And Net Assets

	2019	2018
Liabilities		
Accounts payable	$ 546,883	$ 468,572
Accrued expenses	765,920	1,267,000
Contract liabilities	1,160,864	1,230,799
Other liabilities	225,127	24,659
Promissory notes payable	6,000,000	2,000,000
Refundable government loan funds	1,125,104	1,125,104
Note payable, less debt issuance costs	19,078,418	16,854,546
Total Liabilities	28,902,316	22,970,680
Net Assets		
Without donor restrictions	16,175,107	18,958,859
With donor restrictions	13,944,281	12,836,234
Total Net Assets	30,119,388	31,795,093
Total Liabilities And Net Assets	$ 59,021,704	$ 54,765,773

FONTBONNE UNIVERSITY

STATEMENT OF ACTIVITIES

	For The Year Ended June 30, 2019			For The Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue And Public Support						
Tuition and fees	$ 26,819,327	$ —	$ 26,819,327	$ 27,256,553	$ —	$ 27,256,553
Less: Discount for institutional aid	(9,811,544)	—	(9,811,544)	(9,033,110)	—	(9,033,110)
Tuition and fees (net of discount)	17,007,783	—	17,007,783	18,223,443	—	18,223,443
Sales and service auxiliary enterprises	2,964,727	—	2,964,727	2,723,501	—	2,723,501
Private gifts and grants	639,678	3,595,429	4,235,107	595,026	1,168,060	1,763,086
In-kind contribution of property	—	—	—	2,675,000	—	2,675,000
Government grants	781,397	—	781,397	994,162	—	994,162
Interest and dividends	21,189	346,800	367,989	65,943	324,288	390,231
Other sources	674,271	—	674,271	458,879	—	458,879
Net assets released from restrictions	3,269,915	(3,269,915)	—	1,311,204	(1,311,204)	—
Total Revenue And Public Support	25,358,960	672,314	26,031,274	27,047,158	181,144	27,228,302
Expenses						
Instruction	9,913,118	—	9,913,118	10,859,129	—	10,859,129
Academic support	2,682,179	—	2,682,179	2,965,652	—	2,965,652
Student services	5,117,697	—	5,117,697	5,338,642	—	5,338,642
Institutional support	5,443,600	—	5,443,600	5,681,865	—	5,681,865
Scholarships and fellowships	1,289,600	—	1,289,600	1,057,950	—	1,057,950
Auxiliary enterprises	2,252,482	—	2,252,482	2,402,061	—	2,402,061
Total Operating Expenses	26,698,676	—	26,698,676	28,305,299	—	28,305,299
Increase (Decrease) In Net Assets Before Depreciation And Amortization And Net Realized And Unrealized Gains (Losses) On Investments	(1,339,716)	672,314	(667,402)	(1,258,141)	181,144	(1,076,997)
Depreciation And Amortization Expense	(1,515,265)	—	(1,515,265)	(1,589,621)	—	(1,589,621)
Net Realized And Unrealized Gains (Losses) On Investments	71,229	435,733	506,962	(3,724)	858,936	855,212
Increase (Decrease) In Net Assets	(2,783,752)	1,108,047	(1,675,705)	(2,851,486)	1,040,080	(1,811,406)
Net Assets - Beginning Of Year	18,958,859	12,836,234	31,795,093	21,810,345	11,796,154	33,606,499
Net Assets - End Of Year	$ 16,175,107	$ 13,944,281	$ 30,119,388	$ 18,958,859	$ 12,836,234	$ 31,795,093

See the notes to financial statements.

FONTBONNE UNIVERSITY

STATEMENT OF CASH FLOWS

	For The Years Ended June 30, 2019	2018
Cash Flows From Operating Activities		
Decrease in net assets	$ (1,675,705)	$ (1,811,406)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	1,515,265	1,589,621
Amortization of debt issuance costs	29,091	49,468
Realized gains on investments	(230,509)	(1,350,341)
Unrealized losses on investments	(276,453)	495,129
In-kind contribution of property	—	(2,675,000)
Contributions restricted for permanent investment	(400,658)	(181,969)
Changes in assets and liabilities:		
Accounts receivable	(349,038)	367,697
Promises to give	(2,326,467)	(66,255)
Other current assets	236,106	(91,139)
Accounts payable and accrued expenses	(422,769)	134,407
Contract liabilities	(69,935)	(568,392)
Other liabilities	200,468	(62,841)
Net Cash Used In Operating Activities	(3,770,604)	(4,171,021)
Cash Flows From Investing Activities		
Proceeds from sale of investments	1,402,061	5,064,943
Purchases of investments	(1,435,868)	(1,280,901)
Loans disbursed to students	—	(16,500)
Payments received from loans to students	205,900	168,530
Purchases of land, buildings and equipment	(2,722,663)	(589,018)
Net Cash Provided By (Used In) Investing Activities	(2,550,570)	3,347,054
Cash Flows From Financing Activities		
Withdrawals from debt service account	—	1,004,487
Proceeds from promissory notes payable	7,400,000	4,000,000
Repayments on promissory notes payable	(3,400,000)	(3,700,000)
Payment for costs of debt issuance	—	(145,454)
Proceeds from issuance of term loan	2,194,781	123,941
Return of federal perkins loan funds	—	(226,237)
Contributions restricted for permanent investment	268,277	288,170
Net Cash Provided By Financing Activities	6,463,058	1,344,907
Net Increase In Cash And Cash Equivalents	141,884	520,940
Cash And Cash Equivalents - Beginning Of Year	2,136,960	1,616,020
Cash And Cash Equivalents - End Of Year	$ 2,278,844	$ 2,136,960
Supplemental Cash Flow Information		
Interest paid	$ 587,922	$ 504,802

FONTBONNE UNIVERSITY

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

	Salaries And Benefits	Supplies And Other Costs	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 8,136,539	$ 1,776,579	$ —	$ 539,340	$ 10,452,458
Academic support	1,474,429	1,207,750	—	154,394	2,836,573
Student services	3,188,052	1,929,645	—	225,787	5,343,484
Scholarships and fellowships	—	—	1,289,600	—	1,289,600
Auxiliary enterprises	564,330	1,688,152	—	504,421	2,756,903
Total Program Expenses	13,363,350	6,602,126	1,289,600	1,423,942	22,679,018
Institutional Support	3,307,339	2,136,261	—	91,323	5,534,923
Total Expenses	$ 16,670,689	$ 8,738,387	$ 1,289,600	$ 1,515,265	$ 28,213,941

1. Operations

Fontbonne University (the University) is a Catholic institution of higher learning sponsored by the Sisters of St. Joseph of Carondelet, St. Louis Province (the Congregation). The University is dedicated to the liberal arts, responsive to the needs of professional areas and committed to the education of men and women. The University is a Missouri not-for-profit corporation governed by a Board of Trustees which shall be composed of not less than 15 members or more than 33 members. In accordance with existing bylaws, the Congregation must comprise one-third of this membership. A two-thirds majority is necessary to enact changes in the bylaws. Transactions between the University and the Congregation are described at various places in the following notes.

The University primarily earns revenues from tuition and fees.

2. Summary Of Significant Accounting Policies

Estimates And Assumptions

Management uses estimates and assumptions in preparing the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis Of Presentation

Financial statements of private, not-for-profit organizations measure aggregate net assets and net activity based on the absence or existence of donor-imposed restrictions. Effective with the July 1, 2018 implementation of new guidance contained in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, the University's net assets are reported as without donor restrictions and with donor restrictions. Brief definitions of the two net asset classes are presented below:

Net Asset without Donor Restrictions - Net assets derived from tuition and other institutional resources that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions also include board-designated funds functioning as endowment.

Net Assets with Donor Restrictions - Net assets that are subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets, net assets from endowments not yet appropriated for spending and student loan funds. In addition, net assets with donor restrictions include restricted contributions from donors classified as funds functioning as endowment. The University records as net assets with donor restrictions the original amount of gifts which donors have given to be maintained in perpetuity. Restrictions include support of specific schools or departments of the University, for professorships, research, faculty support, scholarships and fellowships, library, building construction and other purposes. When time and purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Cash And Cash Equivalents

The University considers all money market and short-term investments, except those held for long-term investment, with original maturities of less than three months from date of purchase to be cash equivalents. The University invests its cash with financial institutions with strong credit ratings. At times, such balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits of $250,000.

Revenue Recognition, Student Accounts Receivable And Contract Liabilities

Effective July 1, 2017, the University elected to early adopt Accounting Standards Update (ASU) 2014-09: *Revenue from Contracts with Customers* which requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The University elected to early adopt this standard due to the forecasted changes in the University's academic calendars. The University has elected to apply this to all contracts existing at the date of application. The most significant change to the University's recognition of revenue policy under the new ASU relates to periods of academic instruction that span over the summer (May to August). The University has determined that there was no significant impact under the new ASU on revenues generated from Fall Semester Tuition and Fees, Spring Semester Tuition and Fees, and all Auxiliary sources of revenues.

As a result of implementing the new ASU, the University has determined that each distinctive period of instruction over the Summer term is considered a portfolio of contracts with customers. The University has approximately six different periods of instruction that begin and end between May and August each year, with distinctly different numbers of students enrolled as well as program duration for each. The University has determined that revenue should be recognized ratably over the period of instruction for each Summer term, as its performance obligations relate to providing academic instruction pursuant to the published academic calendar for each term. The University does not have any material revenue that is recognized at a point in time.

The University invoices students approximately one month in advance of the beginning of the applicable academic period of instruction. There are no variable components of the contracts with students once the invoice has been finalized and all relevant financial aid has been awarded and accepted. There is a published time period during the period of instruction to which a student may receive a full or partial refund during each academic term. A significant portion of tuition, fee and auxiliary revenues are funded on behalf of the enrolled students by the U.S. Department of Education. Funding from the U.S. Department of Education is generally drawn down and applied to student accounts within 10 days of the beginning of the Fall, Spring and Summer semesters. As such, the University has not identified any significant economic factors that impact the nature, amount, timing and uncertainty related to revenue recognition and related cash flows.

Student accounts receivable, student loan receivables and promises to give are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance (a reduction of tuition and fee revenue) based on its assessment of the current status of individual balances. Those balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable.

Promises To Give

Gifts are recognized as support when the unconditional promise to give is received. Noncash gifts are recorded at fair value on the date of donation. Gifts of cash and other assets are reported as net assets with donor restrictions if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. At June 30, 2019, approximately $2,400,000 of the promises to give to the University were made by members of the University's Board of Trustees.

Conditional promises to give, which depend upon specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met. The University had approximately $9,804,000 and $6,916,000 of conditional promises to give at June 30, 2019 and 2018, respectively, which are not reflected in the financial statements. The majority of these promises are bequests in wills and trusts.

Long-Term Investments

All investments with readily determinable fair values are reported in the financial statements at fair value with net unrealized and realized gains or losses reflected in the statement of activities. Donated investments are recorded at their fair values (based upon quotations or appraisals) on the date of the gift. Purchases and sales of investments are recorded on the trade date.

Long-term investments consist primarily of debt securities and investments in mutual funds. Investments received with donor-imposed restrictions that limit their use to long-term purposes are classified as temporarily or permanently restricted investments.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Debt Issuance Costs

Costs incurred in connection with the issuance of debt are capitalized and amortized over the term of the related debt instruments. The University has incurred $145,454 of debt issuance costs. Amortization of $29,091 was recorded in 2019.

Net bond issuance costs associated with the University's bonds of $49,468 were written off in 2018 as a result of the refunding of the bonds with a note payable (Note 8).

Land, Buildings And Equipment

Buildings in Clayton, Missouri are carried at their cost based on appraisal values as reflected in an appraisal report dated February 22, 1951, plus subsequent additions at cost. Land, furniture and equipment in Clayton, Missouri are carried at the values reflected in an inventory and appraisal as of June 30, 1940, plus subsequent additions at cost. Buildings in Manchester, Missouri are carried at their cost based on appraisal values as reflected in an appraisal report dated May 20, 2018, plus subsequent additions at cost. Land, furniture and equipment in Manchester, Missouri are carried at the values reflected in an inventory and appraisal as of May 20, 2018, plus subsequent additions at cost. The art collection is valued at appraised values, at the date of acquisition. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets ranging from 3 to 75 years. No depreciation is recorded on the art collection. Land, buildings and equipment having a useful life of more than one year and an acquisition cost of $2,500 or greater, per unit, or $25,000 or greater, per project, are capitalized.

Refundable Government Loan Funds

Refundable government loan funds are advances from the United States Department of Education to be used by the University to make low-interest loans to students who meet defined criteria. They are refundable to the government at a future unspecified date.

Income Taxes

The University is exempt from federal income taxes on related, exempt income under Section 501(c)(3) of the Internal Revenue Code.

The University's federal tax returns for tax years 2015 and later remain subject to examination by taxing authorities.

3. Promises To Give

Unconditional promises to give are included in the financial statements as assets and support of the appropriate net asset category. They are recorded after discounting at the rate of 5.5% to the present value of the future cash flows.

Unconditional promises to give at June 30, 2019 and 2018 are expected to be collected in the following periods:

	2019	2018
In one year or less	$ 176,848	$ 26,370
Between one year and five years	2,035,081	685,488
More than five years	1,920,250	302,609
	4,132,179	1,014,467
Less: Discount	674,905	49,585
Less: Allowance for uncollectible promises to give	53,380	19,836
	$ 3,403,894	$ 945,046

4. Other Current Assets

Other current assets consist of the following at June 30:

	2019	2018
Prepaid expenses	$ 128,281	$ 222,963
Federal funds and other receivables	240,761	382,185
	$ 369,042	$ 605,148

5. Student Loans Receivable

The University loans money to students with exceptional financial need through the Federal Perkins/National Direct Loan programs. Determination of financial need is based on a nationally recognized methodology and regulations promulgated by the U.S. Department of Education. The loans are long-term and bear an interest rate of 5%. The University acts as the lender with the loans made primarily with government funds. Additionally, a liability is recorded to recognize the funds advanced from the U.S. Department of Education for the original funding of the loans. The University holds the loans until maturity, assignment or cancellation. A third party manages the portfolio on behalf of the University.

As loan payments are received from borrowers, the funds are applied to both the recorded asset and liability as these funds are then used to create additional loans to qualified students. The Perkins/National Direct Loan portfolio was $903,002 and $1,096,556 at June 30, 2019 and 2018, respectively, and is inclusive of the allowance noted below. Refundable government loan funds were $1,125,104 at June 30, 2019 and 2018.

Interest does not accrue on Perkins Loans until the student leaves school and enters repayment status. Typically, there is a nine-month grace period upon graduation before interest begins to accrue and payments are required. Interest income for the years ended June 30, 2019 and 2018 was $19,290 and $15,895, respectively.

Loans that are determined to be uncollectible after appropriate due diligence procedures have been performed can be assigned to the U.S. Department of Education. Thus, the ultimate credit risk of the portfolio is low. Loans are classified as: In School, In Grace, Active and Delinquent. In School and In Grace loans represent loans made to students who are still in school or who are in the nine-month grace period following graduation. Active loans are those loans that are in repayment status and are considered current. Delinquent loans are those that are active but not current with payments. Although ultimate collectability can be ensured by the U.S. Department of Education, the University has established an allowance for uncollectible loans. The allowance was $211,536 and $184,590 at June 30, 2019 and 2018, respectively.

Loan default rates (Federal Cohort Rate) are monitored by the U.S. Department of Education based on a legislated formula and measured at June 30 of each year. An institution that does not meet the federal expectation can lose future government funding. The University's Federal Cohort Rate for the previous year was 4.3%.

Effective October 1, 2017, the U.S. Department of Education has stipulated that new loans may not be disbursed under the Federal Perkins Loan program (some limited exceptions to continue to award new loans have been made, but are not expected to be applicable for the University). The closure of this program, while not certain or determinable at this point, could result in the University refunding previous Federal contributions received (which are currently recorded by the University as a liability, as noted on the previous page) under this program to the U.S. Department of Education.

The University also extends student loans utilizing funds that have been designated for this purpose by the Board of Trustees. At June 30, 2019 and 2018, such loans amounted to $33,325. Management has established an allowance of $18,725 for uncollectible Fontbonne University Student loans receivable at June 30, 2019 and 2018.

6. Land, Buildings And Equipment

Land, buildings and equipment consist of the following:

	2019	**2018**
Land and improvements	$ 8,467,755	$ 8,467,755
Buildings and improvements	44,827,699	44,800,180
Furniture and equipment	10,906,658	10,838,126
Library books and collections	3,402,946	3,352,144
Intangible asset	396,193	396,193
Leasehold improvements	1,787,680	1,787,680
	69,788,931	69,642,078
Less: Accumulated depreciation and amortization	43,534,561	42,019,297
	26,254,370	27,622,781
Plus: Construction in progress	9,357,327	6,781,518
	$ 35,611,697	$ 34,404,299

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time that the relevant assets are completed and placed into service.

Depreciation and amortization expense related to the assets listed above amounted to $1,515,265 and $1,589,621 for the years ended June 30, 2019 and 2018, respectively.

7. Long-Term Investments

Long-term investments consist of the following:

	2019	2018
Money market funds	$ 1,120,316	$ 712,170
U.S. treasury securities	565,185	349,611
U.S. agency securities	219,755	213,995
Asset-backed securities	779,872	1,106,068
Investment grade corporate bonds	2,732,905	2,826,946
Taxable municipal bonds	860,063	833,693
Global bond funds	95,567	93,324
High-yield fixed income	277,869	394,792
Domestic preferred stock	121,050	118,153
Domestic mid cap growth fund	1,425,293	730,719
Domestic mid cap value fund	—	675,348
Domestic Equity- Large Cap	3,434,568	3,072,817
Domestic Equity- Small Cap	300,272	324,034
Domestic Equity	1,029,062	1,011,512
International equity funds	2,025,157	2,001,036
Other	223,326	205,273
	$ 15,210,260	$ 14,669,491

These investments are carried at fair value in accordance with accounting principles generally accepted in the United States of America. For the years ended June 30, 2019 and 2018, unrealized gains (losses) of $276,453 and ($495,129), respectively, were recorded to adjust the investments to fair value.

The total cost basis of the investments at June 30, 2019 and 2018 amounted to $14,297,367 and $13,999,569, respectively.

Long-term investments consist of amounts unrestricted for operations, as well as amounts that are both Board-designated and donor-restricted for endowment.

8. Debt

On June 22, 2018, the University entered into a Loan Agreement with a financial institution that provides a new financing arrangement including a Term Loan and a Line of Credit (as more fully described below). Proceeds from the new financing arrangement were utilized to retire previously issued Educational Facilities Revenue Bonds in their entirety, to fund the acquisition and future development of a satellite campus, and to provide a line of credit to supplement cyclical cash flow requirements in the normal course of the University's ongoing operations.

Term Loan: The University entered into a promissory note that provides for borrowing up to $20,000,000. The amount outstanding under this promissory note at June 30, 2019 and 2018 was $19,194,781 and $17,000,000, respectively. The promissory note bears interest at a fixed rate of 5.5%. All unpaid principal and interest is due in one lump sum payment upon maturity on June 30, 2023. Interest is payable monthly and interest payments commenced on August 1, 2018. Interest and principal payments are payable monthly and will commence on August 1, 2019, with equal monthly payments over a 30-year amortization period. Interest expense accrued, but not yet paid, was $23,375 for the years ended June 30, 2019 and 2018.

Future maturities of the Term Loan as of June 30, 2019 are as follows:

Fiscal Years Ending June 30,	**Amount**
2020	$ 233,621
2021	271,951
2022	287,291
2023	18,401,918
	$ 19,194,781

Line of Credit: The University entered into a promissory note that provides for borrowing up to $3,000,000. The amount outstanding under this promissory note at June 30, 2019 and 2018 was $3,000,000 and $2,000,000, respectively. The promissory note bears interest at the prime rate (5.5% at June 30, 2019). All unpaid principal and interest is due in one lump sum payment upon maturity on December 31, 2019. Interest is payable monthly and interest payments commenced on August 1, 2018. Interest expense accrued, but not yet paid, was $12,986 and $2,500 for the years ended June 30, 2019 and 2018, respectively.

The Term Loan and the Line of Credit are cross-collateralized and are secured by: a first deed of trust on the University's real estate properties; an assignment of leases and rents; an environmental indemnity agreement; all personal property and fixtures; existing and future contracts associated with the satellite campus; a pledge by the University of unrestricted endowment investments; and a guaranty by a related party. The related party is an exempt organization. Several of the members of this organization serve on the University's Board of Trustees. The guaranty is secured by a pledge by the guarantor of securities having a current market value of at least $7,500,000.

The Loan Agreement (which includes the Term Loan and the Line of Credit) contains covenants imposing certain restrictions and requirements of the University, as well as certain financial ratio covenants. At June 30, 2019, the University was not in compliance with all of the required covenants under the Loan Agreement. The University received a waiver of the covenant violations from the lender on October 25, 2019.

<u>Promissory Note:</u> On April 30, 2019, the University entered into a line of credit promissory note agreement with a related organization. The promissory note allows for advances of up to $3,000,000. The promissory note bears interest at 5.5%, and requires quarterly payments of interest only, commencing in August 2019. All outstanding principal and interest is due upon maturity on May 1, 2021. The promissory note is secured by a subordinated deed of trust. At June 30, 2019, $3,000,000 was outstanding on the promissory note.

9. Presentation Of Depreciation And Amortization Expense

Operating expenses by function on the statement of activities do not include depreciation and amortization expense. These are allocated to the functional expenses as follows for the years ended June 30, 2019 and 2018:

	2019		
	Per Statement Of Activities	Depreciation/ Amortization Expense	Total
Instruction	$ 9,913,118	$ 539,340	$ 10,452,458
Academic support	2,682,179	154,394	2,836,573
Student services	5,117,697	225,787	5,343,484
Institutional support	5,443,600	91,323	5,534,923
Scholarships and fellowships	1,289,600	—	1,289,600
Auxiliary enterprises	2,252,482	504,421	2,756,903
	$ 26,698,676	$ 1,515,265	$ 28,213,941

	2018		
	Per Statement Of Activities	Depreciation/ Amortization Expense	Total
Instruction	$ 10,859,129	$ 563,802	$ 11,422,931
Academic support	2,965,652	161,397	3,127,049
Student services	5,338,642	236,027	5,574,669
Institutional support	5,681,865	101,096	5,782,961
Scholarships and fellowships	1,057,950	—	1,057,950
Auxiliary enterprises	2,402,061	527,299	2,929,360
	$ 28,305,299	$ 1,589,621	$ 29,894,920

10. Retirement Plans

The University sponsors a retirement plan for eligible employees. Employees are allowed to contribute a percentage of their salary up to a specified maximum. For the years ended June 30, 2019 and 2018, the University match percentage was 7%. Effective September 1, 2019, the University has elected to temporarily reduce the match percentage. The University's share of the cost of these benefits was $575,023 and $642,986 for the years ended June 30, 2019 and 2018, respectively.

11. Net Assets

Net assets with and without donor restrictions are available for the following purposes or periods noted below:

	2019	2018
Without donor restrictions:		
Board-designated endowment	$ 3,868,178	$ 2,332,319
Net investment property, plant and equipment	10,533,279	15,549,753
Undesignated	1,773,650	1,076,787
Total without donor restrictions	16,175,107	18,958,859
With donor restrictions:		
Time restricted - promises to give	3,132,300	649,215
Campus master plan	3,769	3,769
Restricted for purpose - expendable	12,150	356,189
Unspent earnings on perpetual endowment	2,884,609	2,316,266
Restricted in perpetuity	7,911,453	9,510,795
Total with donor restrictions	13,944,281	12,836,234
Total Net Assets	$ 30,119,388	$ 31,795,093

Net assets of $3,269,915 and $1,311,204 were released from donor-imposed restrictions during the years ended June 30, 2019 and 2018, respectively.

12. Fair Value Measurements

Accounting rules regarding fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;

- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

The following table sets forth by level, within the fair value hierarchy, the University's assets at fair value:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Money market funds - cash equivalents	$ 241,308	$ —	$ —	$ 241,308
Money market funds - investments	1,120,316	—	—	1,120,316
U.S. treasury securities	—	565,185	—	565,185
U.S. agency securities	—	219,755	—	219,755
Asset-backed securities	—	779,872	—	779,872
Investment grade corporate bonds	—	2,732,905	—	2,732,905
Taxable municipal bonds	—	860,063	—	860,063
Global bond funds	95,567	—	—	95,567
High-yield fixed income	—	277,869	—	277,869
Domestic preferred stock	121,050	—	—	121,050
Domestic mid cap growth fund	1,425,293	—	—	1,425,293
Domestic Equity- Large Cap	3,434,568	—	—	3,434,568
Domestic Equity- Small Cap Growth	300,272	—	—	300,272
Domestic Equity	1,029,062	—	—	1,029,062
International equity funds	2,025,157	—	—	2,025,157
Total assets at fair value	$ 9,792,593	$ 5,435,649	$ —	$ 15,228,242

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds - cash equivalents	$ 766,669	$ —	$ —	$ 766,669
Money market funds - investments	712,170	—	—	712,170
U.S. treasury securities	—	349,611	—	349,611
U.S. agency securities	—	213,995	—	213,995
Asset-backed securities	—	1,106,068	—	1,106,068
Investment grade corporate bonds	—	2,826,946	—	2,826,946
Taxable municipal bonds	—	833,693	—	833,693
Global bond funds	93,324	—	—	93,324
High-yield fixed income	—	394,792	—	394,792
Domestic preferred stock	118,153	—	—	118,153
Domestic Equity- Large Cap	730,719	—	—	730,719
Domestic Equity- Small Cap	675,348	—	—	675,348
Domestic mid cap growth fund	3,072,817	—	—	3,072,817
Domestic mid cap value fund	324,034	—	—	324,034
Emerging markets funds	1,011,512	—	—	1,011,512
International equity funds	2,001,036	—	—	2,001,036
Total assets at fair value	$ 9,505,782	$ 5,725,105	$ —	$ 15,230,887

There have been no changes in the methodologies used at June 30, 2019 or 2018.

13. Endowment Funds

The University's endowment consists of over 100 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (including the long-term reserves). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation Of Relevant Law

On August 28, 2009, the State of Missouri adopted UPMIFA, which amended the previous law (UMIFA). The Board of Trustees of the University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Asset Composition By Type Of Fund As Of June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ —	$ 10,588,531	$ 10,588,531
Board-designated endowment funds	3,868,178	—	3,868,178
	$ 3,868,178	$ 10,588,531	$ 14,456,709

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ —	$ 11,751,911	$ 11,751,911
Board-designated endowment funds	2,332,319	—	2,332,319
	$ 2,332,319	$ 14,084,230	$ 14,084,230

Changes In Endowment Assets For The Fiscal Years Ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Investments, July 1, 2018	$ 2,332,319	$ 11,751,911	$ 14,084,230
Current year additions	—	268,277	268,277
Funds appropriated for spending	(540,731)	(230,018)	(770,749)
Change in donor intention	1,984,172	(1,984,172)	—
Investment return:			
Interest and dividends	21,189	346,800	367,989
Realized and unrealized gains, net	71,229	435,733	506,962
Net investment return	92,418	782,533	874,951
Investments, June 30, 2019	$ 3,868,178	$ 10,588,531	$ 14,456,709

	Without Donor Restrictions	With Donor Restrictions	Total
Investments, July 1, 2017	$ 6,408,458	$ 10,812,138	$ 17,220,596
Current year additions	—	288,170	288,170
Funds appropriated for spending	(4,138,358)	(531,621)	(4,669,979)
Investment return:			
Interest and dividends	65,943	324,288	390,231
Realized and unrealized losses, net	(3,724)	858,936	855,212
Total investment return	62,219	1,183,224	1,245,443
Investments, June 30, 2018	$ 2,332,319	$ 11,751,911	$ 14,084,230

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that is deemed prudent by the Board of Trustees.

Return Objectives And Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The Fontbonne University Investment Committee recognizes that short-term fluctuations may cause variations in the Fund's performance. However, over a ten-year investment horizon, it expects the Fund's performance, net of expenses, to exceed the following benchmarks:

Before Inflation Benchmark	7% to 7.25%
After Inflation (Consumer Price Index) Benchmark	CPI plus 3.75%

Strategies Employed For Achieving Objectives

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

Spending Policy And How The Investment Objectives Relate To Spending Policy

The Board of Trustees of the University has set an annual spending rate equal to 5% of the portfolio market value, based on a three-year moving average, with a budgeting lead time of six months. The moving average is determined at the end of the calendar year immediately preceding the fiscal year in which the funds are to be spent. From time to time, the trustees may choose to increase or decrease this spending policy.

In setting this rate, the Trustees acknowledge a dual goal of providing funds to cover the near-term grants made from the Endowment and yet positioning the Endowment to be able to meet its longer-term needs.

In adopting the three-year moving average calculation method, the Trustees strive to accomplish two goals. First, the policy will provide for more consistent and predictable spending for the programs supported by the Endowment. Second, it allows the Board of Trustees to design an investment strategy which is more "aggressive" with a higher expected return than might be the case if spending were determined by annual investment performance. With an annual determination method, there is a tendency to pay out the "excess" earnings during periods of over performance, while maintaining a certain absolute dollar amount of spending during periods of underperformance. Over the long term, this pattern of spending may result in the erosion of the principal of the Endowment in terms of real (inflation adjusted) dollars. By smoothing the spending pattern, the Endowment reduces the likelihood of such erosion.

14. Commitments

Long-Term Employment Contracts

The University routinely enters into annual employment contracts with faculty and staff.

Lease Commitments

The University enters into lease agreements to rent facilities and space for instruction, parking, and other purposes. Total rent expenses incurred for facility rentals for the years ended June 30, 2019 and 2018 was $227,234 and $318,882, respectively.

The payment terms and lengths of these lease agreements vary. Many of these agreements are renewed annually to extend the leases for one additional year. The future lease commitments associated with the University's lease agreements are included in the following schedule:

For The Years Ending June 30,	Amount
2020	$ 159,397
2021	160,838
2022	162,279
2023	162,279
2024	92,400
Thereafter	1,123,122
	$ 1,860,315

15. Financial Assets And Liquidity Resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investments of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching, research and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loan receivables are not included in the analysis as principal and interest on these loans are used solely used to repay balances due to the Federal Government under the Perkins Loan Program.

In addition, the financial assets available to meet general expenditures over the next 12 months, the University has established a balanced budget for the 2020 fiscal year and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following table shows the total financial assets held by the University that could readily be available in the next 12 months to meet general expenditures as of June 30, 2019:

Cash and cash equivalents	$ 2,278,844
Student accounts receivable	1,441,901
Promises to give, current	176,848
Board-designated endowment	3,868,178
Anticipated spending on perpetual endowment	397,070
	$ 8,162,841

16. Subsequent Events

Management evaluates subsequent events through the date the financial statements are available for issue, which is the date of the Independent Auditors' Report.

FONTBONNE UNIVERSITY

SINGLE AUDIT REPORT

JUNE 30, 2019

Fontbonne University

Learn more. Be more.®

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Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Trustees and Audit Committee
Fontbonne University
St. Louis, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fontbonne University (the University), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RubinBrown LLP

November 19, 2019

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Independent Auditors' Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; And Report On The Schedule Of Expenditures Of Federal Awards Required By The Uniform Guidance

Board of Trustees and Audit Committee
Fontbonne University
St. Louis, Missouri

Report On Compliance For Each Major Federal Program

We have audited Fontbonne University's (the University) compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The University's major federal programs are 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 programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs 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 University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion On Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above, that 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 items 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

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

Report On Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and 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 University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that is considered to be significant deficiency.

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

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.

Report On Schedule Of Expenditures Of Federal Awards Required By The Uniform Guidance

We have audited the financial statements of the University as of and for the year ended June 30, 2019, and have issued our report thereon dated November 19, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RubinBrown LLP

March 16, 2020 (Except for
Paragraph 13, which is dated
November 19, 2019)

FONTBONNE UNIVERSITY

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

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Award Number	Total Federal Expenditures	Amounts Passed Through To Subrecipients
National Science Foundation:				
Education and Human Resources	47.076		$ 111,907	$ —
A Multi-Faceted Approach to Building STEM Teacher Education Capacity Utilizing Near-Peer Tutoring of High School Students	47.076		642	—
Total National Science Foundation			112,549	—
U.S. Department of Education:				
Direct Programs:				
Student Financial Aid Cluster:				
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	84.007		103,500	—
Federal Work Study Program (FWS)	84.033		96,715	—
Federal Perkins Loan Program (FPL)	84.038		1,096,556	—
Federal Pell Grant Program (PELL)	84.063		1,712,079	—
Federal Direct Loan Program (FDL)	84.268		9,500,966	—
Teacher Education Assistance for College and Higher Education (TEACH) Grant	84.379		64,308	—
Total Student Financial Aid Cluster			12,574,124	—
Special Education - Personnel Development To Improve Services And Results For Children With Disabilities	84.325		437,382	—
Total U.S. Department of Education			13,011,506	—
Total Expenditures of Federal Awards			$ 13,124,055	$ —

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

1. Basis Of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of Fontbonne University (the University) for the year ended June 30, 2019. The information on the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

For the purpose of the Schedule, federal awards include grants, contracts, loans and loan guarantee agreements entered into directly between the University and agencies and departments of the federal government or passed through other government agencies or other organizations.

2. Basis Of Accounting

Federal financial assistance revenues from the Federal Work Study and the Federal Supplemental Educational Opportunity Grant programs are reported in the University's financial statements as federal grant revenues. The activity of the Federal Direct Loan Program and Federal Pell Grant programs is not included in the University's financial statements, as the benefits of these programs are awarded directly to students and not to the University.

Amounts reported in the accompanying Schedule are presented using the accrual basis of accounting, which is described in Note 1 to the University's basic financial statements. Related federal financial reports are prepared on the cash basis of accounting.

3. Loan Programs

The University is responsible for the performance of certain administrative duties with respect to the Federal Direct Loan Program and, accordingly, it is not practical to determine the balance of loans outstanding to students and former students of the University under these programs at June 30, 2019.

The following schedule represents loans advanced by the University for the year ended June 30, 2019:

	CFDA	Advances
Department of Education:		
Student Financial Aid Cluster:		
Federal Perkins Loan Program (FPL)	84.038	$ —
Federal Direct Loan Program (FDL)	84.268	9,500,966
		$ 9,500,966

At June 30, 2019, there was $903,002 outstanding in Federal Perkins Loans.

4. Indirect Cost Rate

The Department of Health and Human Services has approved a maximum provisional indirect cost rate of 34.0%. The University recovers indirect costs at the maximum rate of 34.0% under federal programs that allow full indirect cost reimbursement, and recovers indirect costs at varying rates below 34.0% on other federal programs that do not allow full indirect cost recovery. Total indirect costs recovered under all federal programs were $14,512 for the year ended June 30, 2019.

FONTBONNE UNIVERSITY

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

Section I - Summary Of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	___ Yes _x_ No
• Significant deficiency(ies) identified?	___ Yes _x_ None reported
Noncompliance material to financial statements noted?	___ Yes _x_ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	___ Yes _x_ No
• Significant deficiency(s) identified?	_x_ Yes ___ 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 Section 200.516(a) of the Uniform Guidance?	_x_ Yes ___ No

Identification of major programs:

CFDA Number(s)	Name Of Federal Program Or Cluster
Student Financial Aid Cluster:	
84.007	Federal Supplemental Educational Opportunity Grant Program (FSEOG)
84.033	Federal Work Study Program (FWS)
84.038	Federal Perkins Loan Program (FPL)
84.063	Federal Pell Grant Program (PELL)
84.268	Federal Direct Loan Program (FDL)
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grant

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	_x_ Yes ___ No

Section II - Financial Statement Findings

NONE

Section III - Federal Award Findings And Questioned Costs

Finding No. 2019-001 – Significant Deficiency

Federal Program:	Student Financial Aid Cluster
Award ID No:	- -
CFDA No.	84.007, 84.003, 84.038, 84.063, 84.268, 84.379
Federal Agency	U.S Department of Education

Criteria: According to the October 2015 NSLDS Enrollment Reporting Guide, "As with any school/servicer arrangement for the administration of Title IV programs, if the school uses an Enrollment Reporting Servicer, the school still has the primary responsibility for submitting timely, accurate, and complete responses to Enrollment Reporting roster files, and for reporting any changes in student enrollment status in a timely manner" (page 9). "The school is ultimately responsible for timely and accurate reporting, even when it uses an Enrollment Reporting Servicer to submit the Enrollment Reporting files. Therefore, Late Enrollment Reporting email notifications are sent to the school and not to the servicer."

Condition: In our nonstatistical audit sample of 25 students, it was noted for 2 students that information was not properly updated in and accepted by NSLDS within the required time frame.

Cause: The delayed reporting of student status changes in NSLDS was a result of an improperly functioning control mechanism to accurately identify changes in student status within the University for all students. Regarding the 2 students for which untimely notification occurred, one resulted from the student participation in a consortium arrangement and a delay in obtaining information to confer a degree. The second instance of an untimely submission was the result of an administrative error. There were no errors noted in our sample to which timely reporting between the University and its third-party servicer, NSC, occurred.

Effect:	In our nonstatistical sample of 25 students, it was noted for 2 individuals that information was not properly updated in NSLDS within 60 days.
Questioned Costs:	None noted. All information for the impacted students was eventually uploaded in NSLDS by the University.
Identification As A Repeat Finding:	This is not a repeat finding.
Recommendation:	The University should review and consider revisions to its processes and related controls in place to ensure the timely receipt, processing, and tracking of data submitted to NSLDS.
Views of Responsible Officials:	The University agrees with this finding and will enhance its internal control procedures to prevent future instances of untimely reporting.

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CORRECTIVE ACTION PLAN
For The Year Ended June 30, 2019

Finding 2019-001

Corrective Action Plan:	The University agrees with this finding and is developing enhanced monitoring internal controls to ensure compliance. In addition to supervision and oversight, the University will implement a process to utilize a direct notification to NSLDS for students that are participating in a consortium arrangement.
Completion Date:	March 31, 2020

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SUMMARY STATUS OF PRIOR YEAR FINDINGS
For The Year Ended June 30, 2019

Previous Finding No. 2018-001

Condition: During the fiscal year 2018/19, the University was utilizing inconsistent or inaccurate program ending dates for students in a variety of different academic programs.

In our nonstatistical sample of 25 students for the June 30, 2018 single audit, the returns for 9 students were calculated incorrectly. In all cases, the number of days in the academic period used in the calculation was incorrect. All 9 of the incorrect calculations related to the number of days for breaks during the academic instruction period.

Status: Corrective action taken.

Previous Finding No. 2018-002

Condition: During the fiscal year 2018/19, The University utilized the National Student Loan Clearinghouse (NSC) as a service provider to upload information on behalf of the University to NSLDS. In our sample of 25 students, it was noted for 16 individuals that information was not properly updated in NSLDS within the allotted time frame.

Status: Corrective action taken.

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SUMMARY STATUS OF PRIOR YEAR FINDINGS *(Continued)*
For The Year Ended June 30, 2019

Previous Finding No. 2018-003

Condition:	Institutions are required to provide exit counseling to all student borrowers and must take reasonable steps to ensure that each student borrower receives the relevant informational materials and participates in and completes exit counseling. The institution is also required to provide repayment information to the borrower shortly before the borrower ceases at least half-time study or during the exit interview. The University was not able to provide documentation to support that a notification was sent to the student to communicate the requirement for exit counseling upon graduating.
Status:	Corrective action has been taken.

Previous Finding No. 2018-004

Condition:	The University has multiple cost of attendance tables by semester/session and based on student status, class load, and residency. These tables are used to calculate the student's cost of attendance, which is then used in the calculation of the student's financial need. The University did not utilize the proper cost of attendance table when calculating student's cost of attendance.
Status:	Corrective action has been taken.

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SUMMARY STATUS OF PRIOR YEAR FINDINGS *(Continued)*
For The Year Ended June 30, 2019

Previous Finding No. 2018-005

Condition:	In determining loan amounts for subsidized Federal Direct Loans, the financial aid administrator subtracts from the student's cost of attendance the expected family contribution (EFC) and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources. Unsubsidized Federal Direct Loans, PLUS loans, loans made by a school to assist the student, and State-sponsored loans may be used to substitute for EFC (34 CFR sections 685.102 and 685.200(d)). A financial aid administrator may use discretion to offer an unsubsidized Federal Direct Loan to a dependent student whose parents do not support the student and who refuse to complete a FAFSA (20 USC 1087tt(a)). In our nonstatistical sample of 25 students during the June 30, 2019, for 1 student, the University awarded subsidized loans when her EFC and non-Title IV financial aid exceeded her cost of attendance.
Status:	Corrective action has been taken.