Report to the Board of Trustees and Audit Committee

Park University

November 4, 2019

Results of the 2019 consolidated financial statement audit, internal control matters and other required communications.

BKD
CPAs & Advisors

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November 4, 2019

Board of Trustees and Audit Committee
Park University
Parkville, Missouri

Dear Board of Trustees and Audit Committee:

We have completed our audit of the consolidated financial statements of Park University (the University) as of and for the year ended June 30, 2019. This report includes communication required under auditing standards generally accepted in the United States of America as well as other matters.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the University. Specifically, auditing standards require us to:

- Express an opinion on the June 30, 2019, consolidated financial statements and supplementary information of the University.
- 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*.
- Report on compliance with requirements that could have a direct and material effect on the major federal program and on internal control over compliance in accordance with OMB Uniform Guidance.
- Issue communications required under auditing standards generally accepted in the United States of America to assist the board in overseeing management's financial reporting and disclosure process.

This report also presents an overview of areas of audit emphasis, as well as future accounting standards and industry developments for the college and university environment.

This communication is intended solely for the information and use of management, the board of trustees, the audit committee and others within the University and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Dustin Haywood
Director

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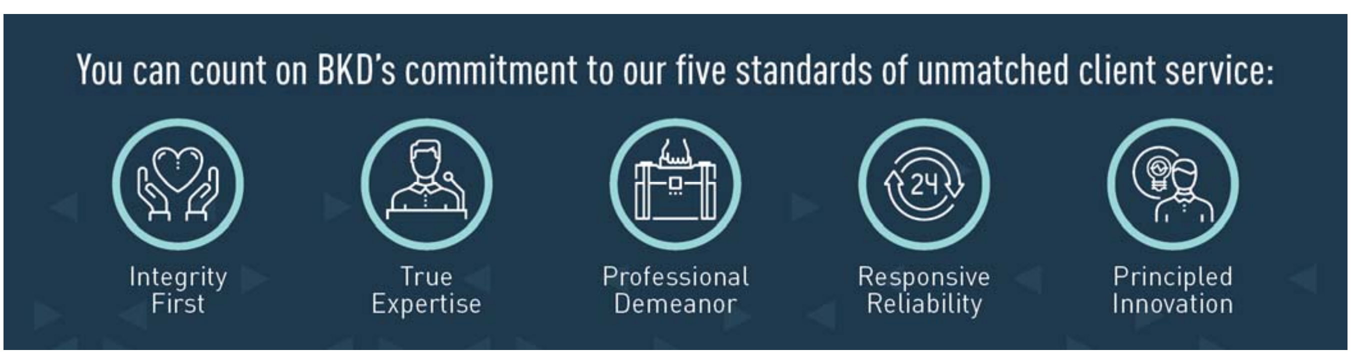
Our Responsibilities

An audit performed in accordance with Auditing Standards Generally Accepted in the United States of America, Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) includes:

- We obtain reasonable, rather than absolute, assurance about the consolidated financial statements and about whether noncompliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on a major federal program occurred.
- We establish scopes of audit tests in relation to the consolidated financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.
- We communicate significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit.
- The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.



Summary of Our Audit Approach & Results

Our Approach

BKD's audit approach focuses on areas of higher risk—the unique characteristics of Park University's

- Operating environment,
- The design effectiveness of your internal controls, and
- Financial statement amounts and disclosures.

The objective is to express an opinion on the conformity of your consolidated financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Risk Area	Results
Management override of controls – The risk that management may override existing and functioning accounting controls is an inherent risk to the University	No matters are reportable.
Revenue recognition – The risk that revenue is improperly categorized or recorded in the improper period	The University adopted ASC 2014-09, *Revenue from Contracts with Customers* (Topic 606) during 2019. See additional disclosures in *Note 3* to the consolidated financial statements.
Existence and valuation of investments and funds held in trusts – The assumptions and methods used by management to value difficult-to-value investments, such as alternative investments	No matters are reportable.
Existence and valuation of accounts and notes receivable – The assumptions used by management to value collectibility of accounts and notes receivable	No matters are reportable.
Long-term debt and financial covenant compliance	No matters are reportable.
Compliance with major federal award program regulations	No matters are reportable.

Unmodified, or "Clean," Opinion Issued on Consolidated Financial Statements

We have issued an unmodified opinion as to whether the consolidated financial statements of Park University, as of and for the year ended June 30, 2019, attached, are fairly presented, in all material respects.

Significant Estimates

The preparation of the consolidated financial statements requires considerable judgment because some assets, liabilities, revenues and expenses are "estimated" based on management's assumptions about future outcomes. Estimates may be dependent on assumptions related to economic or environmental conditions, regulatory reform or changes in industry trends.

Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management's estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements.

The following are considered to be significant estimates for Park University:

- **Accounts Receivable and Pledges Receivable Allowances –** Management believes that outstanding accounts receivable and pledges receivable allowances are reasonable as of June 30, 2019. The estimate could change in future period due to unforeseen events and circumstances.
- **Investments & Funds Held in Trusts by Others –** 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 certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.
- **Depreciation –** Management's estimate of the useful life of each asset and depreciation method used to depreciate the assets.
- **Refundable Government Loan Programs –** Management's estimate of refund of federal capital contributions to Perkins program if discontinued.

Quality of Accounting Practices

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates are listed above.

- See significant estimates above

Financial Statement Disclosures

The areas listed below involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.

- Changes in Accounting Principles (*Note 2*)
- Revenue from Contracts with Students (*Note 3*)
- Fair Value Measurements and Disclosures (*Note 7*)

- Endowments (*Note 11*)
- Liquidity and Availability (*Note 12*)

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the consolidated financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

See reconciliation of change in net assets for areas in which adjustments were proposed.

Auditor's Judgments About the Quality of the University's Accounting Policies

During the course of the audit, we made observations regarding the University's application of accounting principles listed below.

- The University's application of accounting principles was consistent with industry practice

Disagreements with Management

- No matters are reportable

Significant Issues Discussed with Management

- No matters are reportable

Difficulties Encountered in Performing the Audit

- No matters are reportable

Other Material Communications

Other material communications between management and us related to the audit include:

- Management representation letter (attached)

Requirements Under OMB Uniform Guidance

Our audit included reporting on major federal award programs and includes:

- Schedule of Federal Awards
- 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*
- Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance
- Schedule of Findings and Questioned Costs
- Data Collection Form

Reconciliation of Change in Net Assets

As a result of our audit, we proposed adjustments that management determined were necessary to prevent the consolidated financial statements from being materially misstated. A summary of adjustments impacting the change in net assets is presented below:

Increase in net assets, as internally reported	$ 5,594,703
Adjustments	
Management proposed entries	
Record close out of SEOG and CWS	(184,807)
Record legal expense accrual	(26,250)
Increase in net assets, per audited consolidated financial statements	$ 5,383,646

We also proposed the following adjustments that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole.

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets	174,373,476	-	174,373,476	0.00%
Total Liabilities	(36,877,183)	77,729	(36,799,454)	-0.21%
Net Assets	(137,496,293)	(77,729)	(137,574,022)	0.06%
Revenues	(88,266,781)	-	(88,266,781)	0.00%
Expenses	82,883,135	(77,729)	82,805,406	-0.09%
Increase in Net Assets	(5,383,646)	(77,729)	(5,461,375)	1.44%

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the consolidated financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Cybersecurity and Privacy Challenges for Higher Education Institutions

Higher education institutions are currently experiencing elevated cyber threat levels never seen before. The rapid increase in the number of cyber-attacks, business email compromises and ransomware upon colleges and universities alarms trustees, administrators, faculty and students alike.

In response to these attacks, regulators are stepping up their efforts to protect the public by increasing enforcement of current compliance requirements. New regulations, *e.g.*, the *EU General Data Protection Regulation* (GDPR) and the *California Consumer Privacy Act* (CCPA), are aimed at limiting the amount of personal information that organizations can collect and providing students, faculty, alumni and others the ability to access and correct this data, or even to deny certain processing activities.

As a first step to improving their cyber-readiness, higher education institutions must identify the personal data that they have collected, assess the current state of their cybersecurity processes, controls and technology. Performing a cybersecurity risk assessment will help identify potential vulnerabilities and allow them to focus resources on areas of greatest risk.

In addition, institutions must monitor their IT systems to detect the occurrence of an attack and put in place a strong incident response plan so that management can move quickly to limit disruption and recover quickly.

This climate of increased cyber-threats is expected to continue into the future. Colleges and universities must take strong steps now to protect the personal data that they hold and the IT systems on which they rely.

Understanding Program Costs and Margins

Although the traditional residential undergraduate college experience has been proven to be very effective, the cost of providing live instruction, advising and related education continues to rise. Due to increased competition and declining demographics in many places, net tuition and other funding sources are flat or in decline.

As a result, many institutions are implementing key strategies designed to identify ways to improve financial sustainability. An essential step in this process is understanding the costs and revenues associated with existing academic programs at the course and program level. Identifying which programs provide the greatest contribution margin to the institution and which programs are lagging financially is critical in the information gathering process needed to make good decisions regarding academic offerings, enrollment strategies and resource allocation. Many institutions have done several rounds of cost reduction, but have not yet worked on academic programs. This is likely due to a lack of good information.

BKD has developed a sophisticated modeling tool to assist institutions with understanding program revenues, costs and financial contribution margins. Our interactive margin analysis tool provides a visual analysis of the financial contribution and margin at various levels of detail for the institution. If you are interested in learning more about this service, please contact your BKD Advisor.

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BKD, LLP

Kansas City, Missouri
November 4, 2019

Future Accounting Pronoucements

New Lease Accounting Standard

FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), the long-awaited new standard on lease accounting. The FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors are required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

Effective Dates

- For public business entities, not-for-profit entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, and employee benefit plans that file financial statements within the U.S. Securities and Exchange Commission, the final leases standard will be effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years.
- All other entities are currently* required to adopt Topic 842 for fiscal years beginning after December 15, 2019 – that is fiscal year 2020 for calendar year end entities and fiscal year 2021 for those entities with other fiscal years. Early application is permitted.

*A tentative board decision was reached by the FASB at its July 17, 2019 meeting to delay the effective date of Topic 842 by one year for these entities (*i.e.*, fiscal year beginning after December 15, 2020). Issuance of a final ASU related to this decision is expected later in 2019.

Implementation

The proposed delay by FASB of the effective date of the new leases standard (ASC 842) by one year for private companies and most non-profit organizations is welcome relief as many of these entities continue to work on their implementations of the new revenue standard (ASC 606).

However, there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842
    a. Check out www.bkd.com for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts

2. Early Decision Points:
    a. Transition method
    b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases
4. Communicate with lenders – expected impact of ASC 842 on existing debt covenants?
5. Systems analysis – Do you need lease software? If so, vendor selection takes time
6. Start developing the processes and controls necessary for effective implementation of the ASC 842 as well as the ongoing accounting requirements

Appendix

Condensed Consolidated Statements of Financial Position

	2019	2018
Assets		
Cash and cash equivalents	$ 17,540,851	$ 13,740,478
Restricted cash	665,809	447,986
Accounts, notes and pledges receivable, net	9,615,442	6,957,305
Investments and funds held in trusts by others	78,284,519	77,973,746
Property, plant, equipment and library books, net	66,392,656	69,047,480
Other assets	1,874,199	1,395,756
Total assets	$ 174,373,476	$ 169,562,751
Liabilities		
Accounts payable and accrued expenses	$ 7,481,034	$ 7,645,595
Deferred income and deposits	8,039,959	6,280,759
Notes and bonds payable	20,845,410	22,559,792
Refundable federal student loans	510,780	963,958
Total liabilities	36,877,183	37,450,104
Net Assets		
Without donor restrictions	78,703,757	74,109,375
With donor restrictions	58,792,536	58,003,272
Total liabilities and net assets	$ 174,373,476	$ 169,562,751

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Condensed Consolidated Statements of Activities

	2019	2018
Revenues, Gains and Other Support		
Student tuition and fees	$ 72,321,256	$ 72,229,589
Net investment return	5,164,328	7,912,933
Contributions, gifts and grants	2,917,919	2,153,002
Auxiliary enterprises	2,821,645	2,625,549
Other income	5,041,633	2,059,766
Total revenues, gains and other support	88,266,781	86,980,839
Expenses and Losses		
Instruction	35,370,315	34,448,655
Academic support	6,172,108	5,872,363
Student services	10,548,679	10,439,029
Auxiliary enterprises	4,612,372	4,478,518
Libraries	821,505	808,533
Institutional support	25,358,156	24,790,937
Total expenses and losses	82,883,135	80,838,035
Changes in Net Assets	5,383,646	6,142,804
Net Assets, Beginning of Year	132,112,647	125,969,843
Net Assets, End of Year	$ 137,496,293	$ 132,112,647

Audited Financial Statements & Report Required by OMB Uniform Guidance

See attached.

Management Representation Letter & Schedule of Uncorrected Misstatements

See attached.

Value-Added Learning

Networking and Learning Opportunities	
Roundtables	**Date**
Not-for-Profit Day Long Seminar	January 8, 2020

Value Added Articles, Trainings & Webinars*	
Webinars and Articles	**Date**
Grant Compliance – Avoiding Common Pitfalls	May 9, 2019
Four Soft Skills to Improve Board & Staff Relationships	April 9, 2019
Nonprofit Insights Part 1 – Why Donors Give: The Psychology of Fundraising	April 23, 2019

**All articles, trainings and webinars noted above are still available on www.bkd.com.*