

UNIVERSITY OF SAINT KATHERINE

Financial Statements
With Independent Auditors' Report
and
Federal Awards
In Accordance with the Uniform Guidance

Year Ended December 31, 2020

UNIVERSITY OF SAINT KATHERINE

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Saint Katherine
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of University of Saint Katherine (the University) which comprise the statement of financial position as of December 31, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
University of Saint Katherine
San Marcos, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Saint Katherine as of December 31, 2020, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended December 31, 2020, management determined that certain amounts included in net assets without donor restriction as of January 1, 2019, should have been reported as net assets with donor restriction. Accordingly, a restatement has been made as described in Note 11. 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 September 23, 2021, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Capin Crouse LLP

Pleasanton, California
September 23, 2021

UNIVERSITY OF SAINT KATHERINE

Statement of Financial Position

December 31, 2020

ASSETS:

Current assets:

Cash and cash equivalents	\$ 533,661
Student accounts receivable	115,060
Prepaid expenses and other assets	71,179
	<hr/>
	719,900

Pledge receivable	655,460
Student notes receivable - net	363,682
Property and equipment - at cost, net	167,263
	<hr/>

Total Assets	<hr/> <hr/>
	\$ 1,906,305

LIABILITIES AND NET ASSETS:

Current liabilities:

Accounts payable	\$ 111,467
Accrued expenses	43,675
Note payable	32,582
Deferred revenue	96,126
	<hr/>
	283,850

Note payable - net of current portion	<hr/>
	54,146

Total Liabilities	<hr/>
	337,996

Net assets:

Without donor restriction	912,849
With donor restriction	655,460
	<hr/>
	1,568,309
	<hr/>

Total Liabilities and Net Assets	<hr/> <hr/>
	\$ 1,906,305

See notes to financial statements

UNIVERSITY OF SAINT KATHERINE

Statement of Activities

Year Ended December 31, 2020

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:			
Tuition and fees, - net of discounts of \$2,369,053	\$ 3,844,175	\$ -	\$ 3,844,175
Grant revenue	517,671	478,700	996,371
Contributions	59,767	-	59,767
Other income	44,584	-	44,584
	<u>4,466,197</u>	<u>478,700</u>	<u>4,944,897</u>
Net assets released from donor restrictions:	514,750	(514,750)	-
Total Support, Revenue, and Reclassifications	<u>4,980,947</u>	<u>(36,050)</u>	<u>4,944,897</u>
EXPENSES:			
Program services:			
Athletics and Student Affairs	1,990,827	-	1,990,827
Faculty and Instruction	1,083,057	-	1,083,057
	<u>3,073,884</u>	<u>-</u>	<u>3,073,884</u>
Supporting activities:			
General and Administrative	1,157,922	-	1,157,922
Total Expenses	<u>4,231,806</u>	<u>-</u>	<u>4,231,806</u>
Change in Net Assets	749,141	(36,050)	713,091
Net Assets, Beginning of Year, as previously stated	855,218	-	855,218
Prior Period Adjustments	(691,510)	691,510	-
Net Assets, Beginning of Year, restated	<u>163,708</u>	<u>691,510</u>	<u>855,218</u>
Net Assets, End of Year	<u>\$ 912,849</u>	<u>\$ 655,460</u>	<u>\$ 1,568,309</u>

See notes to financial statements

UNIVERSITY OF SAINT KATHERINE

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Activities		Supporting Activities	Total
	Athletics and Student Affairs	Faculty and Instruction	General and Administrative	
Salaries, wages, and benefits	\$ 1,226,070	\$ 892,365	\$ 590,320	\$ 2,708,755
Services, supplies, and other	411,759	50,367	143,468	605,594
Professional fees	48,486	14,929	280,843	344,258
Occupancy expense	105,801	123,719	43,511	273,031
Student grants (HEERF)	123,469	-	-	123,469
Interest, finance fees, taxes	35,836	-	58,716	94,552
Depreciation	39,406	1,677	838	41,921
Bad debt expense	-	-	40,226	40,226
Total	\$ 1,990,827	\$ 1,083,057	\$ 1,157,922	\$ 4,231,806

See notes to financial statements

UNIVERSITY OF SAINT KATHERINE

Statement of Cash Flows

Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 713,091
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	41,921
Paycheck Protection Program loan forgiveness	(478,700)
Amortization of pledge receivable	36,050
Net change in:	
Student accounts and notes receivable	177,316
Prepaid expenses and other assets	2,995
Accounts payable	(39,723)
Accrued expenses	(8,137)
Deferred revenue	(184,362)
Net Cash Provided by Operating Activities	<u>260,451</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of property and equipment	(101,183)
Net Cash Used by Investing Activities	<u>(101,183)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from note payable	100,000
Repayment on line of credit	(249,892)
Payments on note payable	(13,272)
Payments on related-party debt	(70,000)
Proceeds from Paycheck Protection Program loan	478,700
Net Cash Provided by Financing Activities	<u>245,536</u>

Change in Cash and Cash Equivalents	404,804
Cash and Cash Equivalents, Beginning of Year	<u>128,857</u>
Cash and Cash Equivalents, End of Year	<u>\$ 533,661</u>

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	<u>\$ 17,811</u>
Paycheck Protection Program loan forgiveness	<u>\$ 478,700</u>

See notes to financial statements

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

1. NATURE OF ORGANIZATION:

Founded in 2010, the University of Saint Katherine (the University) (a California public benefit corporation) is an independent liberal arts university formed in the Orthodox Christian tradition. The University is accredited through the Western Association of Schools and Colleges (WASC) Senior College and University Commission. The University is approved and licensed by the California Bureau for Private Postsecondary Education to award Bachelor of Arts and Bachelor of Science degrees. The University derives its revenues principally from student tuition as well as private donations. The University participates in Title IV Financial Student Aid Programs, VA Educational Benefit Programs, and California State Aid Programs (Cal Grant eligibility approved in February of 2019). Additional revenue is generated by the University through student fees, including student life and technology fees, administrative-type fees, and finance charges on long-term balances as well as fundraising events.

As of December 31, 2020, and for the year the ended, the University had positive working capital of approximately \$436,000 and an increase in net assets of approximately \$713,000. During 2020, the University saw continued enrollment growth, resulting in an increase in revenue from student tuition and fees. Enrollment in terms of headcount reached approximately 240 students in the fall of 2020, an increase of 4% from the previous fall. In 2020, management added a graduate-level program, which will also add to student enrollment; three new graduate degree programs are planned for 2021. The University continues to search for property in North San Diego County for its primary campus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the University have been prepared on the accrual basis in accordance with the accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit, and money market deposits. As of December 31, 2020, the University's cash balances exceeded federally insured limits by approximately \$290,000. The University has not experienced any losses in such accounts.

PLEDGE RECEIVABLE

Unconditional promises-to-give expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. In future years, the discounts to present value are computed using risk-free rates established in the year in which those promises are received. Amortization of the discounts is included in contributions.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

STUDENT ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

Student accounts receivable are for tuition and other student fees. Students who have exhausted all federal and state financial aid programs and are unable to obtain private loans are allowed by the University to pay their fees over a period extending beyond one year. Such amounts represent institutional loans and are presented as accounts receivable in the accompanying statement of financial position. The loans are unsecured and generally payable over 10 years. Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of receivables at year end. The allowance for uncollectible accounts at December 31, 2020, was approximately \$54,000.

Note receivables is considered delinquent if payment is not received within 30 days of the due date. Notes are placed on non-accrual status if the financial position of the borrower has deteriorated to a level that future performance cannot be projected; or principal and/or interest have been delinquent for a period of ninety days or more. Notes are restored to accrual status when substantiated performance under the original loan agreement and outstanding principal and interest have been brought current or the note is no longer ninety days past due; or appropriate documentation has been executed by the borrower to show their agreement and obligation under a loan workout plan.

PROPERTY AND EQUIPMENT

Expenditures over \$500 for property and equipment are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 7 years. Gifts of land, buildings, and equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions must specify how the assets are to be used; gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The University reviews property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying value over the fair value of the asset. There was no impairment of property and equipment during the year ended December 31, 2020.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The financial statements report amounts by classification of net assets as follows:

Net assets without donor restriction are those currently available at the discretion of the board for use in the University's operations.

Net assets with donor restriction are those which are stipulated as purpose restricted grants or as time restricted pledges. As of December 31, 2020, the time restricted pledge receivable balance after the present value discount was \$655,460. See Note 4 for further details.

All contributions are considered available for unrestricted use unless specifically restricted by the donor.

REVENUE RECOGNITION

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the University.

Tuition and fees revenue

Student tuition and fees are recorded as revenue using the proportional performance method of revenue recognition in the year during which the academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue and are presented as unearned tuition in the statement of financial position. Collectability of student accounts is reviewed both individually and in the aggregate.

Grant Revenue

In May 2020, the University signed a loan agreement through a financial institution to obtain funding for a Paycheck Protection Program (PPP) loan through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, in the amount of \$478,700. The loan agreement provides for loan forgiveness up to the full amount of the loan, provided the University complies with certain loan stipulations. The University complied with the loan stipulations, including the determination of qualified expenses, to recognize the \$478,700 as revenue as of December 31, 2020. Such revenue is presented in the with donor restrictions column on the statement of activities. In April 2021, the University received notice that the Small Business Administration had approved forgiveness of the full balance of the loan.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Contributions

Contributions are recognized as revenues when received or unconditionally pledged. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of donor restrictions. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities based on department codes and time allocation. Currently, there are no joint costs that have been allocated among program, general and administrative, and fundraising.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in the delivery of student financial assistance programs under various programs administered by the Department of Education. The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties or the discontinuation of eligibility for participation.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the University's financial assets as of the statement of financial position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2020:

Financial assets:	
Cash and cash equivalents	\$ 533,661
Student accounts receivable	115,060
Student notes receivable - net	363,682
Pledge receivable	655,460
Financial assets, at year end	<u>1,667,863</u>
Less those unavailable for general expenditure within one year due to contractual or donor-imposed restrictions:	
Student accounts receivable	(115,060)
Student notes receivable - net	(363,682)
Pledge receivable	(655,460)
	<u>(1,134,202)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 533,661</u>

The University has established an operating reserve and reviews its funding level on an ongoing basis to ensure it is adequate. Cash is held in interest bearing and non-interest bearing bank accounts. The University structures its financial assets to be available as general expenditures, which includes liabilities and other obligations, become due.

4. PLEDGES RECEIVABLE:

In 2017, the University received a pledge of \$812,000 from the President of the University, which is expected to be paid in 2023; as such, the pledge was discounted to its net present value. The pledge receivable is recorded net with a present value discount of \$156,540 as of December 31, 2020, which reflects a discount rate of 5.5%.

In November 2018, the University was notified that it is named as a beneficiary in a trust. The trust was established as a revocable split interest agreement. Upon the death of one of the trustees, the surviving spouse retains ability to control the distribution of income and principal from the trust. The University does not have an unconditional right to receive benefit as of December 31, 2020, and, accordingly, has not recorded this beneficial interest in its financial statements.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

5. STUDENT RECEIVABLES:

The University followed the provisions of the *Receivables* topic of the FASB ASC. These provisions require disclosures about the credit quality of financing receivables and the allowance for credit losses. The University's student note receivables consists of an institutional loan fund created by the University to assist students in funding their education. Student accounts receivable represents amounts due from enrolled students for the current year. Student notes receivable - net represent institutional loans past due from both current and former students.

The following is a summary of student accounts and notes receivable as of December 31, 2020:

Student accounts receivable	<u>\$ 115,060</u>
Student notes receivable	<u>\$ 418,025</u>
Less: allowance for doubtful accounts	
Beginning of the year	(109,090)
Change in estimate for provisions and recoveries on receivables previously charged off	<u>54,747</u>
End of year	<u>(54,343)</u>
Student notes receivable - net	<u>\$ 363,682</u>

For student receivables, the credit quality indicator is performance determined by delinquency status which is analyzed monthly by the University. The allowance for doubtful student accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in student receivable accounts. The amount of the allowance is based on management's evaluation of the collectability of student accounts, including the age of the receivable, the history for each student's account balance, and economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments are recorded as an expense in the statement of activities with a corresponding adjustment to the allowance account in the period in which they become known.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

5. STUDENT RECEIVABLES, continued:

Current	\$	115,060
Less than 240 days past due		165,771
Greater than 240 days but less than 2 years past due		39,177
Greater than 2 years less than 5 years past due		138,544
Greater than 5 years past due		74,533
		<u>533,085</u>
Less allowance for uncollectibility		<u>(54,343)</u>
	\$	<u>478,742</u>

The following presents the recorded investment by credit quality indicator as of December 31, 2020:

Performing	\$	478,742
Nonperforming		<u>-</u>
	\$	<u>478,742</u>

6. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following as of December 31, 2020:

Leasehold improvements	\$	186,379
Furniture and fixtures		164,567
Computer equipment		58,450
		<u>409,396</u>
Less accumulated depreciation		<u>(242,133)</u>
	\$	<u>167,263</u>

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

7. NOTES PAYABLE:

Unsecured note payable to a bank in the amount of \$100,000 with monthly payments of approximately \$3,000 including principal and interest with a variable rate of 4.00%. The maturity date of the note is July 2023.

\$ 86,728

Future principal payments are due:

Years Ending December 31,

2021	\$ 32,582
2022	33,910
2023	<u>20,236</u>

\$ 86,728

LINES OF CREDIT

The University has access to a \$3,000,000 unsecured line of credit from its President. The line of credit is available for ten years interest free through October 2023. The outstanding balance was repaid in full in January 2020.

The University has a \$250,000 line of credit with a bank that has a maturity date of March 2023. The line of credit is guaranteed by two members of the Board. The outstanding balance was repaid in full in September 2020.

8. LEASE COMMITMENTS:

The University leases its administrative offices and instructional facilities from various parties. Lease expense during the year ending December 31, 2020, was approximately \$179,000.

The building that holds the University's administrative offices and instructional facilities is owned by a board member. The University entered into a lease with the board member that requires the University to pay monthly rent of \$9,195 through expiration in May 2025. Total lease expense related to this lease during the year ended December 31, 2020, was approximately \$110,000.

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

8. LEASE COMMITMENTS, continued:

The University's lease commitments pursuant to these lease agreements are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 110,340
2022	110,340
2023	110,340
2024	110,340
2025	45,975
	\$ 487,335

9. RELATED PARTIES:

As of December 31, 2020 it was noted that the board chair is an Umpqua Banking Manager and another board member contributed 11% of the total donations received in 2020. In addition, the pledge receivable between the President of the University and the University as noted in Note 4 is also a related party.

10. RISKS AND UNCERTAINTIES:

The University's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the University's financial position, operations and cash flows. Possible effects may include, but are not limited to, disruption to the University's donor population and revenue, absenteeism in the University's workforce, and a decline in value of assets held by the University, including student receivables and property and equipment. The financial impact cannot be estimated at this time because the duration cannot be estimated.

11. CORRECTION OF AN ERROR- PRIOR PERIOD ADJUSTMENTS:

During the year ended December 31, 2020, it was determined that the pledge receivable was not properly recorded as donor restricted net assets as of and for the year ended December 31, 2019. This adjustment had the following impact on the University's financial statements as of December 31, 2019 and for the year then ended:

	As previously reported	Correction	Restated
Net assets without donor restriction as of			
January 1, 2019	\$ 855,218	\$ (691,510)	\$ 163,708
Net assets with donor restriction as of			
January 1, 2019	\$ -	\$ 691,510	\$ 691,510

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Statements

December 31, 2020

12. SUBSEQUENT EVENTS:

Subsequent events were evaluated through September 23, 2021, which is the date the financial statements were available to be issued.

FEDERAL AWARDS

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL INFORMATION**

Board of Trustees
University of Saint Katherine
San Marcos, California

We have audited the financial statements of University of Saint Katherine as of and for the year ended December 31, 2020, and our report thereon dated September 23, 2021, which expressed an unmodified opinion on those financial statements, appears on page 1.

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 on page 18 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. The financial responsibility supplemental schedule on pages 30-32 is also presented for the purpose of additional analysis as required by the U.S. Department of Education and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Capin Crouse LLP

Pleasanton, California
September 23, 2021

UNIVERSITY OF SAINT KATHERINE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agreement Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:					
Student Financial Assistance Cluster:					
Federal Direct Student Loan Program	84.268			\$ -	\$ 2,144,660
Federal Pell Grants	84.063			-	538,799
Federal Supplemental Educational Opportunity Grant Program	84.007			-	10,152
Federal Work-Study Program	84.033			-	7,519
Total Student Financial Assistance Cluster					<u>2,701,130</u>
COVID-19 Education Stabilization Fund:					
COVID-19 HEERF-Student Portion	84.425E			-	123,469
COVID-19 HEERF-Institutional Portion	84.425F			-	123,468
COVID-19 HEERF -Developing Hispanic Serving Institutions	84.425L			-	15,016
COVID-19 HEERF-FIPSE	84.425N			-	238,047
Total COVID-19 Education Stabilization Fund					<u>500,000</u>
Total U.S. Department of Education					<u>3,201,130</u>
Total Expenditures of Federal Awards					<u>\$ 3,201,130</u>

See notes to schedule of expenditures of federal awards

UNIVERSITY OF SAINT KATHERINE

Notes to Schedule of Expenditures of Federal Awards

December 31, 2020

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of University of Saint Katherine (the University) under programs of the federal government for the year ending December 31, 2020. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Expenditures in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. If the University is required to match certain federal assistance, as defined by the grant agreements, no such matching has been included as expenditures in the schedule.

2. INDIRECT COST RATE:

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. RELATIONSHIP TO FINANCIAL STATEMENTS:

The amount of total expenditures of federal awards reconciles to the revenue in the statement of activities as follows:

Total expenditures of federal awards	\$ 3,201,130
Less:	
Federal Direct Student Loan Program	(2,144,660)
Federal Pell Grants	(538,799)
Plus:	
Paycheck Protection Program loan forgiveness	<u>478,700</u>
Grant revenue per statement of activities	<u><u>\$ 996,371</u></u>

4. SUBRECIPIENTS, NON-CASH ASSISTANCE, FEDERAL INSURANCE, LOANS, AND LOAN GUARANTEES:

The University did not provide any federal funds to subrecipients nor did they receive any federal non-cash assistance, insurance, or loan guarantees. The University did received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan in the amount of \$478,700. (See Note 2 to the financial statements) The SBA has indicated that PPP loans are not subject to Uniform Guidance audit requirements and therefore, the PPP loan is not included in the schedule

UNIVERSITY OF SAINT KATHERINE

Notes to Schedule of Expenditures of Federal Awards

December 31, 2020

5. ZONE ALTERNATIVE COMPLIANCE:

The University is operating under the Zone Alternative for failure to meet the Department of Education's standards of financial responsibility. The University must comply with all the requirements specified for the Zone Alternative. As part of the audit procedures, the University's compliance with the Zone Alternative including their administration of the heightened cash monitoring payment method, disbursing aid and paying out credit balances before requesting reimbursement and timely notification requirements was tested. No non-compliance with the requirements was noted.

**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
University of Saint Katherine
San Marcos, California

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 University of Saint Katherine (the University), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Board of Trustees
University of Saint Katherine
San Marcos, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 financial statements. 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*.

Organization's Response to Findings

The University's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of 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.

Capin Crouse LLP

Pleasanton, California
September 23, 2021

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
University of Saint Katherine
San Marcos, California

Report on Compliance for Each Major Federal Program

We have audited University of Saint Katherine's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended December 31, 2020. 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 of America; 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, University of Saint Katherine 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 December 31, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-003. Our opinion on each major federal program is not modified with respect to these matters.

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.

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 that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-003 that we consider to be a significant deficiency.

Board of Trustees
University of Saint Katherine
San Marcos, California

The University's response to the internal control over compliance 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.

Capin Crouse LLP

Pleasanton, California
September 23, 2021

UNIVERSITY OF SAINT KATHERINE

Schedule of Findings and Questioned Costs

December 31, 2020

Section I – Summary of Audit Results

Financial Statements:

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered a material weakness? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered a material weakness? yes none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings that are required to be reported in accordance with 2 CFR Part 200.516(a)?

yes no

Identification of major program(s):

CFDA Numbers
84.268, 84.063, 84.007,
and 84.033

Name of Federal Program or Cluster
Student Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

UNIVERSITY OF SAINT KATHERINE

Schedule of Findings and Questioned Costs

December 31, 2020

Section II – Financial Statement Findings

2020-001 Risk Assessment and Monitoring Over Internal Controls ***Significant Deficiency***

Condition: There is no formal risk assessment process currently in place which analyzes the various risks inherent to the University. The board's role should include responsibility for oversight of internal control, including risk assessment and the financial reporting process, beyond review and approval of financial statements and approval of financial policies and procedures. As the University grows in complexity, sufficient monitoring by the board becomes increasingly important.

Criteria: Current auditing standards and adequate internal control.

Cause: Turnover in staffing.

Effect: The purpose of this process is to safeguard the entity, its people, its assets, and to assure timely, accurate, and transparent financial reporting. Without it, there is an increased risk of and opportunity of errors and irregularities to go undetected.

Recommendation: We recommend the board evaluate and document management's risk assessment procedures and the internal controls established to mitigate identified risks as well as evaluate their effectiveness. We also recommend that once this review is in place and all significant risks have been identified and mitigated with adequate internal controls, a method of periodic monitoring should be established. The method should be based on which areas have a higher risk of error or misappropriation with higher impact to the University's financial condition, so the method is effectively aligned to the risk assessment. The results of the monitoring, including suggestions for improvement or direction to apply corrective measures as may be applicable, should be included in the written meeting minutes of the board.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

UNIVERSITY OF SAINT KATHERINE

Schedule of Findings and Questioned Costs

December 31, 2020

Section II – Financial Statement Findings, continued

2020-002 Internal Controls over Journal Entry, Revenue, Payroll and Disbursement Cycles *Significant Deficiency*

Condition: There was no evidence that non-standard journal entries recorded are being reviewed and approved by a supervisor and there was a lack of appropriate support for journal entries. There was no evidence of dual custody of controls of donor contributions made up of cash and checks. There is not a regular reconciliation between the general ledger and the donor and tuition systems. Payroll processing does not have a formal documented review by a person independent of the preparer. There were no signed agreements for hourly employees or a timecard system where employees can submit their hours. Vendor payments and check disbursements lacked evidence of review or approval.

Criteria: Proper internal control to safeguard assets.

Cause: Turnover in staffing.

Effect: There is an increased risk of and opportunity of errors and irregularities to go undetected.

Recommendation: For journal entries, we recommend the University implement a process that requires supporting documentation and approval for all non-standard journal entries. Approval of journal entries should be documented, such as by initialing the journal entry report or by email. We also recommend that any journal entries posted by the Controller be reviewed by a knowledgeable person that is not a subordinate. For revenue, we recommend two people be present when receiving and processing contributions into the donor module and creating the bank deposit. Both individuals involved in this process should sign off on a check log as evidence of this dual-person policy being implemented. We also recommend a monthly reconciliation between the tuition and donor module and the general ledger be performed by the Controller and reviewed by the Chief Financial Officer (CFO). For Payroll, we recommend an individual independent of the payroll preparer document their review of the report after payroll has been processed. We also recommend a supervisor or department head review and approve all submitted hours as well as establish written documentation approving pay rates for hourly employees. We also recommend that a payroll change report be sent to a knowledgeable individual, other than the preparer, to review to see if there were any unauthorized pay increases or ghost employees added. For disbursements, we recommend vendor payments be reviewed and this review be evidenced by initials or sign offs on invoices.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

UNIVERSITY OF SAINT KATHERINE

Schedule of Findings and Questioned Costs

December 31, 2020

Section III – Federal Award Findings and Questioned Costs

2020-003 Gramm-Leach-Bliley Act (GLBA) Compliance ***Significant Deficiency***

DEPARTMENT OF EDUCATION

CFDA #: 84.268, 84.063, 84.007, and 84.033, Student Financial Assistance Cluster

Federal Award Identification #: 19/20 and 20/21 financial aid years

Condition: The University did not sufficiently comply with all the requirements of GLBA.

Criteria: 16 CFR 314.3, 16 CFR 314.4

Questioned Costs: \$-0-

Context: The University has not documented its security risk assessment and safeguards.

Cause: The University has not allocated sufficient resources to address the requirements of GLBA.

Effect: The University has not adequately addressed the requirements of GLBA, which may lead to unintended exposure of student information to security risks.

Recommendation: We recommend the University allocate sufficient resources to address all requirements of GLBA.

Views of Responsible Officials and Planned Corrective Action: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan

UNIVERSITY OF SAINT KATHERINE				
Financial Responsibility Supplemental Schedule				
Year Ended December 31, 2020				
	Primary Reserve Ratio:			
		Expendable Net Assets:		
1	Statement of Financial Position - Net assets without donor restrictions, page 3	Net assets without donor restrictions		912,849
2	Statement of Financial Position - Net assets with donor restrictions, page 3	Net assets with donor restrictions		655,460
3	None	Secured and Unsecured related party receivable	\$ -	
4	None	Unsecured related party receivable		-
5	Notes to Financial Responsibility Supplemental Schedule - Property, plant and equipment, net, Line 3	Property, plant and equipment, net (includes Construction in progress)	167,263	
6	Notes to Financial Responsibility Supplemental Schedule - Property, plant and equipment, net, Line 1c	Property, plant and equipment pre-implementation		66,080
7	None	Property, plant and equipment post-implementation with outstanding debt for original purchase		-
8	Notes to Financial Responsibility Supplemental Schedule - Property, plant and equipment, net, Line 3d	Property, plant and equipment post-implementation <u>without</u> outstanding debt for original purchase		101,183
9	None	Construction in progress		-
10	None - ASU 2016-02 has not been implemented as of December 31, 2020	Lease right-of-use asset, net	-	
11	None - ASU 2016-02 has not been implemented as of December 31, 2020	Lease right-of-use asset, pre-implementation		-
12	None - ASU 2016-02 has not been implemented as of December 31, 2020	Lease right-of-use asset, post-implementation		-
13	None	Intangible assets		-
14	None	Post-employment and pension liabilities		-
15	None	Long-term debt - for long term purposes	-	
16	None	Long-term debt - for long term purposes pre-implementation		-
17	None	Long-term debt - for long term purposes post-implementation		-
18	None	Line of Credit for Construction in progress		-
19	None - ASU 2016-02 has not been implemented as of December 31, 2020	Lease right-of-use asset liability	-	
20	None - ASU 2016-02 has not been implemented as of December 31, 2020	Pre-implementation right-of-use asset liability		-
21	None - ASU 2016-02 has not been implemented as of December 31, 2020	Post-implementation right-of-use asset liability		-
22	None	Annuities, term endowments and life income with donor restrictions	-	
23	None	Annuities with donor restrictions		-
24	None	Term endowments with donor restrictions		-
25	None	Life income funds with donor restrictions		-
26	None	Net assets with donor restrictions: restricted in perpetuity		-

UNIVERSITY OF SAINT KATHERINE

Notes to Financial Responsibility Supplemental Schedule

Year Ended December 31, 2020

The Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These reconciliation disclosures are not required by accounting principles generally accepted in the United States of America but are intended for use by the Department of Education and to ensure compliance with Federal Title IV regulations.

Property, Plant and Equipment, net

1	Pre-implementation property, plant and equipment, net (PP&E, net)	
a.	Beginning pre-implementation property, plant, and equipment, net as of January 1, 2020	\$ 108,001
b.	Less depreciation and disposals after January 1, 2020	<u>(41,921)</u>
c.	Ending pre-implementation property, plant and equipment, net as of December 31, 2020	<u>66,080</u>
2	Debt Financed Post-implementation property, plant and equipment, net	
	Long-lived assets acquired with debt subsequent to December 31, 2020:	
a.	n/a - none	<u>-</u>
b.	Total property, plant and equipment, net acquired with debt exceeding 12 months	-
3	Post-implementation property, plant and equipment, net, acquired without debt:	
a.	Leasehold improvements	-
b.	Furniture and fixtures	101,183
c.	Computer equipment	<u>-</u>
d.	Total property, plant and equipment, net acquired without debt	<u>101,183</u>
4	Total Property, Plant and Equipment, net - December 31, 2020	<u>\$ 167,263</u>

Debt to be excluded from expendable net assets

8	Pre-implementation debt:	
a.	Beginning pre-implementation debt as of January 1, 2020	\$ 70,000
b.	Less debt repayments after January 1, 2020	<u>(70,000)</u>
c.	Ending pre-implementation debt as of December 31, 2020	<u>-</u>
9	Allowable post-implementation debt used for capitalized long-lived assets:	
a.	n/a - none	-
10	Construction in progress (CIP) financed with short term debt	-
11	Long-term debt not for the purchase of property, plant and equipment or liability greater than assets value	<u>86,728</u>
		<u>\$ 86,728</u>

Unsecured related party receivables

12	Secured and unsecured related party receivables	\$ 655,460
13	Unsecured related party receivables	\$ 655,460



UNIVERSITY of SAINT KATHERINE

Summary Schedule of Prior Audit Findings

December 31, 2020

Financial Statement Findings

Finding 2019-001: Segregation of Duties; Material Weakness

Condition – Many of the procedures in place for processing and posting transactions into QuickBooks were performed solely by the Chief Financial Officer (CFO). The CFO had check signing authority, online access to the bank account, and the ability to record transactions into the general ledger. The CFO was responsible for approving new vendors.

Current Status

Management addressed several of these issues in 2018, after the prior audit was completed and, also in 2019 and 2020:

- As of Nov 2018, the CFO no longer has check signing authority. Disagreement with finding in 2019, as condition corrected in 2018.
- In 2019 accounting staff was hired to record accounting transactions into the general ledger. In 2020 an accounting consulting firm was hired to correct segregation of duties by adding additional AP & AR staff and to address other material weaknesses. Condition corrected in 2020.
- As of 2019, new vendors are now approved by someone who does not have check signing authorization or processes payments or performs reconciliations. Condition corrected by year end 2019.

Finding 2019-002: Accounting Policies and Procedures; Material Weakness

Condition – The University did not record all necessary year-end closing adjustments, and in some cases recorded erroneous entries. The University did not have a proper process in place to reconcile student activity from its student database to its accounting software in a timely manner.

The University did not properly reconcile its cash accounts to the general ledger and did not evaluate the allowance for doubtful accounts throughout the year.

Current Status

The University increased its support staff significantly in the fall of 2019 to include monthly reconciliations of all bank and credit card accounts.

In 2020, an accounting consulting firm was hired to create process and procedure to insure current, accurate and timely reconciliations of student data, AR analysis and month end and year end closings. Condition corrected in 2020.



UNIVERSITY of SAINT KATHERINE

Finding 2019-003 – Supporting Documentation; Material Weakness

Criteria – All transactions included in the general ledger should be supported by appropriate documentation. Appropriate documentation examples include copies of checks received, approved invoices for disbursements, donor agreements, and timecards.

Current Status

Due to increased enrollment, management has been able to hire support staff to help ensure proper documentation. In 2020, a professional accounting firm was hired to assist with accounting procedure, document collection, and documentation filing. Condition corrected in 2020.

Federal Award Findings

Finding 2019-004: Special Tests – Return of Title IV – Material Weakness in Internal Control over Compliance and Instance of Material Non-Compliance

Condition - The University calculated some R2T4's incorrectly and did not always return funds timely.

Current Status

In 2020, the University changed third-party service providers for assistance with financial aid processing. The new service provides greater assistance on a day-to-day basis, including calculation of unearned financial aid funds.

In 2020, student advisors are assigned to every student and receive alerts when students are failing classes. All have been made aware that when a student does not officially withdraw, last day of attendance must be used as a withdrawal date (issue in both findings).

In 2020, the University hired an outside accounting consulting firm to assist in creating policy and procedure and to provide review of student accounts for Title IV compliance. Also, a dedicated Accounts Management position was added for the management and review of student accounts. Condition corrected in 2020.



UNIVERSITY of SAINT KATHERINE

Finding 2019-005: Special Tests – Enrollment Reporting – Material Weakness in Internal Control over Compliance and Instance of Material Non-Compliance

Condition – Status changes were not always reported accurately and within the required timeframes .

Current Status

In 2020, the responsibility for enrollment reporting and verification has been re-assigned to the financial aid office. The financial aid office is in a better position to respond and verify this data, as they have direct connection to students and attendance data and also monitor student progress on a regular basis. The FA office also verifies the SCHER report sent to NSLDS mailbox every other month. Condition corrected in 2020.

Finding 2019-006: Special Tests – Borrower Data Transmission and Reconciliation – Significant Deficiency in Internal Control Over Compliance

Condition – Lack of control over the process of reconciling the University’s direct loan data to the federal government’s data.

Current Status

In 2020, new Account Manager, works in conjunction with the new 3rd party financial aid administrator to reconcile direct loan data to the federal government’s data.

In 2020, the University hired an outside accounting consulting firm to assist with student account reconciliations and policy and procedure creation. Financial Aid Policy has been created and Accounting Policy is in progress Condition corrected in 2020.

Finding 2019-007: Eligibility – Significant Deficiency in Internal Control over Compliance

Condition – Incorrect cost of attendance was used in the need analysis for several students as it included the incorrect budget for fees.

Current Status

In 2020, a new internal Accounts Manager position was created to take primary responsibility for student account reconciliations to the COA. In addition, outside accounting consulting firm will perform a second reconciliation check. Condition corrected in 2020.



UNIVERSITY of SAINT KATHERINE

Finding 2019-008: Special Tests – Disbursements – Significant Deficiency in Internal Control over Compliance

Condition – The date of disbursement of federal aid to student accounts did not always agree to the date of disbursement as reported to the Common Origination and Disbursement (“COD”) system.

Current Status

Finance office will work with FAO and FAS to insure disbursement dates match across departments.

In 2020, Account Manager hired to manage student accounts and consistency of student data. Accounting firm was also hired to assist in student account reconciliations, to include disbursement posting dates and comparison to COD website data. In addition, current third-party provider provides a disbursement document for approval prior to disbursement. Condition corrected in 2020.

Finding 2019-009: Eligibility – Significant Deficiency in Internal Control over Compliance

Condition – Need analysis was not always completed accurately resulting in overawarding of need based Title IV aid.

Current Status

In 2020, a new third-party financial aid processor was hired to provide a greater level of service surrounding the COA and EFC. In addition, the University added a new Accounts Manager position whose primary responsibility is student accounts management. Also, in 2020, an outside consulting firm was hired to assist in student account review and reconciliation. A month-end checklist has also been created to assist in the process. Condition corrected in 2020.

Finding 2019-010: Special Tests – Disbursements – Significant Deficiency in Internal Control over Compliance

Condition – Title IV credit balances were not always paid out timely and the University didn’t have authorization to hold the Title IV credit balances.

Current Status

In 2020, the University created a dedicated Accounts Manager position for the management of student accounts, including notifying finance of any refunds due to students. All departments involved in processing of refunds, Accounts Manager, FAO, and Finance have been aware of this finding.

In 2020, the University also hired an outside accounting firm to assist in student account reconciliations to include review of open accounts balances. Condition corrected in 2020.



UNIVERSITY of SAINT KATHERINE

Corrective Action Plan

December 31, 2020

2020-001 Risk Assessment and Monitoring Over Internal Controls

Significant Deficiency

Condition: There is no formal risk assessment process currently **in** place which analyzes the various risks inherent to the University. The board's role should include responsibility for oversight of internal control, including risk assessment and the financial reporting process, beyond review and approval of financial statements and approval of financial policies and procedures. As the University grows in complexity, monitoring by the board becomes increasingly important.

Management's Response and Planned Corrective Action:

Beginning with fiscal year 21/22 a process will be put into place to have the board annually approve policy and procedures surrounding internal control and the financial reporting process. In addition, an outside 3rd party GLBA assessment will be performed in 2021.

Responsible parties for the new process are Charlotte Fowler, the Controller/CFO, President and Board of Directors

2020-002 Internal Controls over Journal Entry, Revenue, Payroll and Disbursement Cycles

Significant Deficiency

Condition: There was no evidence that non-standard journal entries recorded are being reviewed and approved by a supervisor and there was a lack of appropriate support for journal entries. There was no evidence of dual custody of controls of donor contributions made up of cash and checks. There is not a regular reconciliation between the general ledger and the donor and tuition systems. Payroll processing does not have a formal documented review by a person

Management's Response and Planned Corrective Action:

Effective 7/1/2020 part of the payroll processing procedure is to send a preprocessing payroll register to the president. The president reviews and emails back with questions or approval. Payroll is then submitted for processing.

Student hourly payroll is submitted to the Director of Student Affairs and also the Chief Academic Officer. These department, administrators review, approve, and submit hours to the Finance Dept for processing. Also, although hourly employees, which are mostly students, do not have signed contracts, hourly employees sign form LC2810.5 verifying their rate of pay, pay-period and hire date. This document is filed in their employee file.



UNIVERSITY of SAINT KATHERINE

Director of Student Affairs and Chief Academic officer are responsible for approval hourly payroll.

Charlotte Fowler, the Controller/CFO and President are responsible for payroll processing.

Effective 7/1/2020, the Populi tuition and donor database is reconciled monthly to the accounting system data.

Charlotte Fowler, Controller/CFO and President are responsible for this process

Effective with school year 21/22, the University will institute a dual custody procedure for processing donor cash receipts.

Charlotte Fowler, Controller/CFO and President are responsible for this process

2020-003 Gramm-Leach-Bliley Act (GLBA) Compliance

Significant Deficiency

DEPARTMENT OF EDUCATION

CFDA #: 84.268, 84.063, 84.007, and 84.033, Student Financial Assistance Cluster

Federal Award Identification#: 19/20 and 20/21 financial aid years

Condition: The University did not sufficiently comply with all the elements of GLBA.

Management's response and Planned Corrective Action: Per the Program Participation Agreement with the DOE, the University comply with (16 CFR, section 314)

USK will insure:

Ensure the security and confidentiality of customer records and information

USK has contracted with two outside service providers, Populi and Financial Aid Solutions (FAS). Both services providers were carefully selected and comply with GLBA, FERPA and address these concerns in their privacy policies. The CFO in conjunction with the Financial Aid Department and IT contractor create policy and assess risk for the security of personal customer data. No other departments have access to student financial data.

Protect against any anticipated threats or hazards to the security or integrity of that customer data – In Populi students are assigned an ID # associated with their account to prevent any identifying data from being included in reporting. In Regents, any reporting including identifying info is redacted before being sent to outside parties. No



UNIVERSITY of SAINT KATHERINE

identifying data is entered into the accounting system The University also contracts with an outside independent IT contractor to evaluate and assess cyber security risk, as it pertains to personal customer data. [

□Protect against unauthorized access to or use of customer data, which could result in substantial harm or inconvenience to customers – Authorized access to sensitive customer data is limited to a few financial aid and finance staff. Further, access is limited to info needed to complete job duties. Populi has layers of security based on needed access. Few persons have complete access to the entire database. FAS feeds sensitive data directly into Populi and currently there are 4 employees with access to the data in Populi. Two persons in the Finance Dept. and 2 persons in the Financial Aid Dept. Similarly, only 3 USK employees have access to the Regents database (location of FAS customer data files). Additionally, only 3 employees have access to the Dept of Ed website to limit use to necessary employees. Also, employee logins are never shared. New login applications are acquired when the need for access is becomes necessary.

USK will also obtain an outside 3rd party GLBA assessment of all risk areas in 2021 and will continue to assess annually.

Responsible parties are Charlotte Fowler, CFO/Controller and President and Board of Directors