

BECKER COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019
AND
INDEPENDENT AUDITOR'S REPORT

BECKER COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Becker College

Report on the Financial Statements

We have audited the accompanying financial statements of Becker College (the "College"), which comprise the statement of financial position as of June 30, 2019, the related statements 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Becker College as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Emphasis of a Matter

As disclosed in Note 2 to the financial statements, the College adopted the provisions of ASU 2016-14 - Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Becker College's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
October 11, 2019

BECKER COLLEGE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With Summarized Comparative Information for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 1,298,236	\$ 1,910,813
Student accounts receivable, less allowance for doubtful accounts of \$212,592 and \$299,530 in 2019 and 2018, respectively	205,849	268,721
Other receivables	356,029	470,151
Contributions receivable, net	500,377	276,645
Inventories and prepaid expenses	<u>712,807</u>	<u>476,343</u>
Total current assets	3,073,298	3,402,673
Long-term contributions receivable, net	182,085	300,165
Other receivables	2,128,000	2,128,000
Investments	5,116,037	4,962,182
Student loans - Federal Perkins Loan Program	48,156	48,156
Other assets	265,551	357,868
Assets under capital leasing arrangements, net	3,200,599	3,795,195
Property and equipment, net	<u>34,241,485</u>	<u>36,550,423</u>
	<u>\$ 48,255,211</u>	<u>\$ 51,544,662</u>
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt	\$ 508,636	\$ 533,636
Current portion of capital lease obligations	922,696	891,228
Accounts payable, trade	562,166	1,114,609
Accrued and other liabilities	1,680,316	1,376,416
Prepayments and deposits	<u>1,635,779</u>	<u>2,028,767</u>
Total current liabilities	<u>5,309,593</u>	<u>5,944,656</u>
Long-term debt, less current maturities, net	10,486,508	10,972,184
Capital lease obligations, less current portion	3,908,065	4,637,455
Prepayments and deposits	4,243,625	5,018,125
Student loans - Federal Perkins Loan Program	<u>56,499</u>	<u>56,499</u>
	<u>18,694,697</u>	<u>20,684,263</u>
Net assets		
Without donor restrictions	18,310,705	19,106,295
With donor restrictions	<u>5,940,216</u>	<u>5,809,448</u>
Total net assets	<u>24,250,921</u>	<u>24,915,743</u>
	<u>\$ 48,255,211</u>	<u>\$ 51,544,662</u>

See accompanying independent auditor's report and notes to financial statements.

BECKER COLLEGE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

(With Summarized Comparative Information for 2018)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2019	2018
Operating				
Revenue and other support				
Tuition and fees, net of financial aid of \$26,475,017 and \$26,158,575 in 2019 and 2018, respectively	\$ 33,285,198	\$ -	\$ 33,285,198	\$ 33,620,577
Auxiliary enterprises	10,479,282	-	10,479,282	11,317,934
Educational services	115,384	-	115,384	107,936
Contributions and gifts	973,506	408,348	1,381,854	825,963
Net investment return	14,128	321,605	335,733	286,938
Other revenue	344,404	-	344,404	180,544
Net assets released from restrictions				
Satisfaction of purpose restrictions	214,020	(214,020)	-	-
Investment return appropriated for programs and scholarships	331,343	(331,343)	-	-
Total	45,757,265	184,590	45,941,855	46,339,892
Expenses				
Program services				
Instruction	10,941,944	-	10,941,944	10,845,707
Academic support	2,452,918	-	2,452,918	2,410,008
Student services	9,380,808	-	9,380,808	9,316,242
Auxiliary enterprises	9,747,100	-	9,747,100	9,603,081
Institutional support	13,122,031	-	13,122,031	13,943,487
Institutional development	866,405	-	866,405	928,677
Total	46,511,206	-	46,511,206	47,047,202
Change in net assets from operating activities	(753,941)	184,590	(569,351)	(707,310)
Non-operating				
Contributions restricted for expenditures for capital improvements	-	85,389	85,389	166,437
Contributions restricted for long-term investment	-	165,749	165,749	3,460
Gain (loss) on interest rate swap agreements	(275,457)	-	(275,457)	239,982
Gain (loss) on disposal of property and equipment	(71,152)	-	(71,152)	20,433
Other non-operating revenue	-	-	-	377,910
Net assets released from restrictions				
Satisfaction of purpose restrictions	304,960	(304,960)	-	-
Change in net assets from non-operating activities	(41,649)	(53,822)	(95,471)	808,222
Change in net assets	(795,590)	130,768	(664,822)	100,912
Net assets, beginning of year	19,106,295	5,809,448	24,915,743	24,814,831
Net assets, end of year	\$ 18,310,705	\$ 5,940,216	\$ 24,250,921	\$ 24,915,743

See accompanying independent auditor's report and notes to financial statements.

BECKER COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

(With Summarized Comparative Information for 2018)

	Program Services						Totals	
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Institutional Development	2019	2018
Salaries and wages	\$ 8,003,121	\$ 1,407,384	\$ 3,909,372	\$ 241,810	\$ 4,847,969	\$ 285,287	\$ 18,694,943	\$ 18,494,006
Employee benefits and payroll taxes	1,615,665	358,338	974,498	56,696	1,410,000	77,888	4,493,085	5,120,067
Outside service vendors	48,918	254,884	461,690	3,241,715	2,088,802	25,014	6,121,023	5,962,647
Professional fees	84,414	61,470	155,347	24,087	922,490	274,058	1,521,866	1,449,858
Food services	-	-	-	3,543,005	-	-	3,543,005	3,507,437
Communication	-	-	-	-	388,467	-	388,467	444,536
Supplies	224,746	118,171	346,478	22,966	167,047	389	879,797	1,021,736
Repairs and maintenance	5,699	9,629	33,709	154,447	298,464	-	501,948	801,980
Advertising	44,165	-	132,010	-	91,437	675	268,287	358,506
General insurance	-	-	-	-	668,354	-	668,354	680,250
Operation and maintenance of plant	333,098	58,782	999,295	78,376	470,256	19,594	1,959,401	1,998,536
Printing and publications	13,894	1,951	186,384	1,653	16,669	88,504	309,055	216,924
Rent and leases	1,034	84,000	132,777	817,386	54,747	-	1,089,944	1,014,867
Travel	40,475	5,681	272,686	2,417	115,820	14,364	451,443	511,196
Uncollectible accounts expense	-	-	-	-	146,899	-	146,899	267,600
Interest	-	-	-	847,551	437,857	-	1,285,408	1,204,548
Depreciation and amortization	482,859	85,210	1,448,578	708,210	681,684	28,404	3,434,945	3,235,152
Other	43,856	7,418	327,984	6,781	315,069	52,228	753,336	757,356
	<u>\$ 10,941,944</u>	<u>\$ 2,452,918</u>	<u>\$ 9,380,808</u>	<u>\$ 9,747,100</u>	<u>\$ 13,122,031</u>	<u>\$ 866,405</u>	<u>\$ 46,511,206</u>	<u>\$ 47,047,202</u>

See accompanying independent auditor's report and notes to financial statements.

BECKER COLLEGE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

(With Summarized Comparative Information for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (664,822)	\$ 100,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,434,945	3,235,152
Amortization of deferred financing costs	22,960	16,327
(Gain) loss on disposal of property, plant, and equipment	71,152	(20,433)
Uncollectible accounts expense	146,899	267,600
Net investment gains	(162,346)	(162,404)
(Gain) loss on interest rate swap agreements	275,457	(239,982)
Contributions restricted for long-term investment	(165,749)	(3,460)
Contributions restricted for expenditures for capital improvements	(85,389)	(166,437)
(Increase) decrease in operating assets:		
Student accounts receivable	(84,027)	(145,818)
Other receivables	114,122	252,056
Contributions receivable	(230,864)	5,000
Inventories and prepaid expenses	(239,464)	(54,622)
Other assets	29,602	29,595
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(328,078)	483,719
Accrued and other liabilities	91,158	12,531
Prepayments and deposits	(1,167,488)	(384,535)
Total adjustments	<u>1,722,890</u>	<u>3,124,289</u>
Net cash provided by operating activities	<u>1,058,068</u>	<u>3,225,201</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(985,190)	(4,915,729)
Proceeds from disposals of property and equipment	450,000	20,433
Proceeds from sales and maturities of investments	2,770,802	1,357,945
Payments for purchases of investments	<u>(2,762,311)</u>	<u>(1,329,453)</u>
Net cash used in investing activities	<u>(526,699)</u>	<u>(4,866,804)</u>
Cash flows from financing activities:		
Principal payments of long-term debt	(533,636)	(332,349)
Proceeds from borrowings on long-term debt	-	2,500,000
Expenditures for deferred financing costs	-	(64,114)
Principal payments of capital lease obligations	(986,660)	(1,006,808)
Change in student loans - Federal Perkins Loan Program	-	2
Contributions restricted for long-term investment	63,467	3,460
Contributions restricted for expenditures for capital improvements	<u>312,883</u>	<u>101,046</u>
Net cash provided by (used in) financing activities	<u>(1,143,946)</u>	<u>1,201,237</u>
Net decrease in cash	(612,577)	(440,366)
Cash, beginning of year	<u>1,910,813</u>	<u>2,351,179</u>
Cash, end of year	<u>\$ 1,298,236</u>	<u>\$ 1,910,813</u>

See accompanying independent auditor's report and notes to financial statements.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION

Becker College (the "College") is a nonprofit, private college, with locations in Worcester and Leicester, Massachusetts. The College is governed by a local Board of Trustees. The College is empowered to award associate, baccalaureate and graduate degrees as well as programs of continuing education.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the College are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of accounting

The financial statements of the College have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the College obtains the rights of ownership or is entitled to claims for receipt, and liabilities are recorded when the obligation is incurred.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the College's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The College's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the College, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. In addition, the governing board of the College may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the College must continue to use the resources in accordance with the donor's instructions.

The College's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the College, unless the donor provides more specific directions about the period of its use.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash

The College maintains accounts at various institutions which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts. The College believes it is not exposed to any significant credit risk on cash. Cash held in money market accounts by the College's investment custodian awaiting reinvestment is considered to be part of the investment portfolio.

Student accounts receivable

Student accounts receivable are reported net of any anticipated losses due to uncollectible amounts. The College considers an account to be past due when a student leaves mid-semester with an unpaid account balance or when a student has an account balance after the final payment due date of the semester. Past due accounts are subject to past due letter collection efforts and are subsequently placed with third-party collection agencies. If an account balance still exists at the conclusion of the six month collection period, the account is written off. The collectability of individual accounts is evaluated closely at the close of each fiscal year, and the allowance for uncollectible accounts is adjusted to a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. Historical write-off history as a percentage of outstanding receivable balances is used to help establish an appropriate allowance for uncollectible amounts.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received in writing. Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Investments

Investments are reported at fair value. The net investment return is reported in the statement of activities as increases or decreases in net assets without donor restrictions unless its use is restricted by explicit donor stipulations or by law.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds

The College's endowment consists of individual donor restricted funds established for a variety of purposes. Its endowment includes donor restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions. Endowment funds include invested gifts and cash.

As required by generally accepted accounting principles, the College classifies as donor restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds is classified as expendable net assets with donor restrictions until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the College may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the College and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the College; and the investment policies of the College.

The College has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a portfolio of debt and equity securities with the objective of achieving long-term capital appreciation while moderating the level of investment risk. Actual returns in any given year may vary from this amount.

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

The College has a policy of appropriating for distribution, as needed, amounts for the purposes of scholarships and financial aid, capital projects, and special programs. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require the College to retain as a fund of perpetual duration. The College may appropriate for expenditure from these underwater endowment funds in accordance with the prudent measures prescribed by state law. As of June 30, 2019, funds with an original gift value of \$54,178 were underwater by \$2,145. As of June 30, 2018, funds with an original gift value of \$24,874 were underwater by \$712.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$2,500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Deferred financing costs

Deferred financing costs represent fees and other costs associated with obtaining long-term financing. Such costs are being amortized on a straight-line basis, which is not materially different from the level-yield method, over the terms of the related financing. Long-term debt is presented net of unamortized deferred financing costs on the statement of financial position.

Leases

Leases for a portion of the College's facilities and certain equipment and motor vehicles are classified as either capital or operating leases in the financial statements. Leases containing a bargain purchase option or a transfer of ownership at the end of the lease term are capitalized and the related asset included in property and equipment on the statement of financial position.

Leases with terms covering a majority of the underlying asset's economic life, or for which the present value of the payments substantially exceeds the fair value of the underlying asset, are capitalized and the related asset included in "assets under capital leasing arrangements" on the statement of financial position.

All other leases are classified as operating leases and are expensed on a straight-line basis over the lease term.

Derivative instruments

Derivative instruments, including interest rate swaps, are recorded on the statement of financial position as either assets or liabilities measured at their fair value. All changes in the fair value of derivatives are recognized currently in the statement of activities.

Prepayments and deposits

Certain deposits and advance payments received for tuition and fees related to the College's summer continuing education, nursing program, and ensuing academic year are deferred and are recorded as deferred tuition and fees. Refundable advances received from the College's food service and maintenance vendors are recorded as deferred revenue and recognized ratably over the life of the contract.

Measure of operations

In its statement of activities, the College includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Contributions and other revenue restricted for endowment and capital purposes and changes in the fair value of the College's interest rate swap agreements are recognized as non-operating activities.

Contributions, gifts, grants

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense recognition and allocation

The cost of providing the College's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages and employee benefits and payroll taxes are allocated based on the time spent by employees on the College's programs and supporting activities.
- Operation and maintenance of plant and depreciation and amortization are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Management periodically evaluates the bases on which costs are allocated.

Institutional support expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the College.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The College generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising expense was \$268,287 and \$358,506 in 2019 and 2018, respectively.

Tax-exempt status

The College is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the College are tax deductible to donors under Section 170 of the IRC. The College is not classified as a private foundation.

Change in accounting principles

The College implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called "net assets with donor restrictions."
- The unrestricted net asset class has been renamed "net assets without donor restrictions."
- A Statement of Functional Expenses has been included as a required statement.
- The financial statements include a disclosure about liquidity and availability of resources (note 3).
- Investment fees are recorded as a component of investment return.
- At June 30, 2018, the classification has changed from unrestricted net assets to net assets with donor restrictions for the \$712 deficit on endowment funds that had investments with a fair value of \$27,162, and an original gift amount of \$24,874, and the College has disclosed how this underwater situation affects spending from the funds.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting principles (continued)

The changes have the following effect on net assets at June 30, 2018:

	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016- 14</u>
Net asset class		
Unrestricted net assets	\$ 19,105,583	\$ -
Temporarily restricted net assets	1,938,181	-
Permanently restricted net assets	3,871,979	-
Net assets without donor restrictions	-	19,106,295
Net assets with donor restrictions	-	<u>5,809,448</u>
Total net assets	<u>\$ 24,915,743</u>	<u>\$ 24,915,743</u>

3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are:

	<u>2019</u>
Financial assets:	
Cash and cash equivalents	\$ 1,298,236
Student accounts receivable, net	205,849
Contributions receivable, net	682,462
Other receivables	2,484,029
Investments	<u>5,116,037</u>
Total financial assets	9,786,613
Less: Financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	783,442
Contributions receivable unavailable for spending until due, which are also subject to purpose restrictions	682,462
Donor-restricted endowment funds	4,474,312
Less: Financial assets not available within one year:	
Other receivables	<u>2,128,000</u>
Amount available for general expenditures within one year	<u>\$ 1,718,397</u>

The above table reflects donor-restricted endowment funds as unavailable because it is the College's intention to invest those resources for the long-term support of the College. However, in the case of need, the Board of Trustees could appropriate resources from the donor-restricted funds available for general use (\$4,474,312, of which \$3,935,448 is the original gift). Note 2 provides more information about those funds and about the spending policies for all endowment funds.

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition to the available financial assets summarized above, the College has various sources of liquidity at its disposal, including a line of credit. See note 7 for information about the College's line of credit. Further, the College operates with a balanced budget and anticipates collecting sufficient contributions and tuition revenue to cover general expenditures not covered by donor-restricted resources and endowment appropriations. Refer to the statement of cash flows, which identifies the sources and uses of the College's cash and shows positive cash flows from operations for 2019 and 2018.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2019 are expected to be received as follows:

2020	\$ 512,365
2021	155,000
2022	24,782
2023	10,000
2024	<u>10,000</u>
	712,147
Less: Allowance for uncollectible contributions receivable	11,988
Unamortized discount	<u>17,697</u>
	<u>\$ 682,462</u>

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2019</u>	<u>2018</u>
With donor restrictions		
Donor restricted endowment	\$ 4,474,312	\$ 4,420,583
Purpose restrictions	<u>641,725</u>	<u>541,599</u>
	<u>\$ 5,116,037</u>	<u>\$ 4,962,182</u>

Investments are composed of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mutual funds				
Equities	\$ 767,123	\$ 948,553	\$ 1,035,915	\$ 1,257,241
Fixed income	721,401	723,070	735,645	696,712
Money market funds	101,372	101,372	95,987	95,987
Closed-end funds	1,044,124	1,123,535	804,056	834,533
Equities	1,562,895	1,851,634	1,567,799	1,744,456
Municipal bonds	70,308	71,527	80,988	80,190
Corporate bonds	134,172	139,676	139,449	137,631
U.S. Treasury securities	<u>150,605</u>	<u>156,670</u>	<u>116,938</u>	<u>115,432</u>
	<u>\$ 4,552,000</u>	<u>\$ 5,116,037</u>	<u>\$ 4,576,777</u>	<u>\$ 4,962,182</u>

Net investment return reflected in the financial statements is comprised of:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 227,679	\$ 181,184
Net investment gains	162,346	162,404
Investment fees	<u>(54,292)</u>	<u>(56,650)</u>
Net investment return	<u>\$ 335,733</u>	<u>\$ 286,938</u>

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - PROPERTY AND EQUIPMENT

Property and equipment, together with estimated useful lives, consists of the following:

	Estimated Useful Lives	2019	2018
Land, building and improvements	10 - 50 years	\$ 57,046,916	\$ 56,648,923
Equipment	3 - 20 years	11,926,872	10,839,842
Furniture and fixtures	5 - 10 years	1,906,989	1,892,372
Motor vehicles	5 years	905,036	850,009
Construction-in-process	-	128,522	1,154,778
		<u>71,914,335</u>	<u>71,385,924</u>
Less: Accumulated depreciation		<u>37,672,850</u>	<u>34,835,501</u>
		<u>\$ 34,241,485</u>	<u>\$ 36,550,423</u>

Depreciation expense was \$2,837,349 and \$2,653,905 in 2019 and 2018, respectively.

7 - NOTE PAYABLE

The College has a \$1,000,000 line of credit with its bank, secured by significant assets of the College. Interest is charged at the one-month LIBOR plus 1.75% (4.15% at June 30, 2019). There were no amounts outstanding on the line of credit as of June 30, 2019 and 2018.

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	2019	2018
Bonds payable, secured by significant assets of the College, interest is due in monthly installments at a variable rate. Annual principal installments ranging from \$175,000 to \$970,000, due through February 2040.	\$ 8,870,000	\$ 9,265,000
Bonds payable, secured by significant assets of the College, due in annual principal installments of \$25,000, plus interest at 3.00% through April 2019.	-	25,000
Term note, secured by significant assets of the College, due in monthly installments of \$9,470 plus interest at a variable rate, through September 2022, with a lump sum due in October 2022.	<u>2,339,016</u>	<u>2,452,652</u>
	11,209,016	11,742,652
Less: Current maturities of long-term debt	508,636	533,636
Unamortized deferred financing costs	<u>213,872</u>	<u>236,832</u>
	<u>\$ 10,486,508</u>	<u>\$ 10,972,184</u>

The College has an interest rate swap agreement, expiring in October 2022, to fix the interest rate at 2.85% on \$8,870,000 of the College's borrowings under the above term debt. In January 2018, the College entered into a second interest rate swap agreement, expiring in October 2022, to fix the interest rate at 4.63% on \$2,339,016 of the College's borrowings under the above term debt. Payments made or received under these agreements are recorded as a component of interest expense. The fair value of the remaining agreements as of June 30, 2019 was \$(212,742) and the loss recorded in 2019 was \$(275,457).

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT (Continued)

Maturities of long-term debt in subsequent years are as follows:

2020	\$ 508,636
2021	508,636
2022	508,636
2023	2,393,108
2024	395,000
Thereafter	<u>6,895,000</u>
	<u>\$ 11,209,016</u>

9 - ENDOWMENT ASSETS

Changes in endowment assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ -	\$ 4,420,583	\$ 4,420,583
Investment return:			
Interest and dividend income, net	-	159,259	159,259
Net investment gains	-	162,346	162,346
Total investment return	-	321,605	321,605
Additions	-	63,467	63,467
Appropriation for expenditure	-	(331,343)	(331,343)
End of year	<u>\$ -</u>	<u>\$ 4,474,312</u>	<u>\$ 4,474,312</u>

10 - LEASES

The College leases a portion of its facilities, primarily for student housing, and certain equipment and motor vehicles under various lease agreements. The College's agreements for its facilities leases require the College to pay all executory costs such as insurance, maintenance and utilities. These leases are classified as either capital or operating leases in the financial statements.

The following is a summary of the leased property under capital leases:

	2019	2018
Land and buildings	\$ 4,935,574	\$ 4,935,574
Equipment	1,787,330	1,905,682
Motor vehicles	<u>242,167</u>	<u>187,140</u>
	6,965,071	7,028,396
Less: Accumulated depreciation	<u>2,933,441</u>	<u>2,147,159</u>
	<u>\$ 4,031,630</u>	<u>\$ 4,881,237</u>

Equipment and motor vehicles included in property and equipment had a net book value of \$831,031 and \$1,086,042 as of June 30, 2019 and 2018, respectively. The balance of the land and buildings is classified as "Assets under capital leasing arrangements, net" in the statement of financial position.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - LEASES (Continued)

Future minimum lease payments under operating leases, together with the present value of future minimum capital lease payments as of June 30, 2019 are as follows:

	Capital Leases	Operating Leases
2020	\$ 1,710,692	\$ 602,184
2021	1,394,104	503,453
2022	1,315,225	73,792
2023	1,306,050	70,000
2024	449,285	70,000
Thereafter	1,550,000	210,000
Total minimum lease payments	7,725,356	<u>\$ 1,529,429</u>
Less: Amount representing interest	2,894,595	
Present value of minimum lease payments	<u>\$ 4,830,761</u>	

Rent expense was \$1,089,944 and \$1,014,867 in 2019 and 2018, respectively.

11 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019 and 2018, net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Purpose restrictions, available for spending:		
Capital projects	\$ 15,123	\$ 17,200
Scholarships and financial aid	68,642	93,091
Special programs	699,677	701,764
Total purpose restricted net assets	<u>783,442</u>	<u>812,055</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due and are also subject to purpose restrictions	<u>682,462</u>	<u>576,810</u>
Endowment funds, which must be appropriated by the Board of Trustees before use:		
Scholarships and financial aid (original gifts of \$2,311,233 in 2019 and \$2,247,766 in 2018)	2,747,021	2,643,846
Special programs (original gifts of \$1,624,215 in 2019 and 2018)	<u>1,727,291</u>	<u>1,776,737</u>
Total endowment funds managed by the College	<u>4,474,312</u>	<u>4,420,583</u>
Total net assets with donor restrictions	<u>\$ 5,940,216</u>	<u>\$ 5,809,448</u>

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	2019	2018
Capital projects	\$ 304,960	\$ 456,040
Scholarships and financial aid	214,020	216,162
Investment return appropriated for programs and scholarships	331,343	273,166
	\$ 850,323	\$ 945,368

12 - FAIR VALUE MEASUREMENTS

The College reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When available, the College measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the College is required to measure at fair value (for example, unconditional promises to give).

The primary uses of fair value measures in the College's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and other long-term investments.
- recurring measurement of the interest rate swaps.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2019 and 2018.

Mutual funds and closed-end funds: Determined by the published net asset value (NAV) per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Equities: Determined by the closing price on the last business day of the fiscal year.

Municipal bonds and corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. Treasury securities: Determined using the contractual cash flows and the interest rate determined by the closing bid price on the last business day of the fiscal year if the same obligation or an obligation with a similar maturity is actively traded.

Hedging instrument: Valued at the present value of the estimated future payments.

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

The College's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2019 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds				
Equities	\$ 948,553	\$ -	\$ -	\$ 948,553
Fixed income	723,070	-	-	723,070
Money market funds	101,372	-	-	101,372
Closed-end funds	1,123,535	-	-	1,123,535
Equities	1,851,634	-	-	1,851,634
Municipal bonds	-	71,527	-	71,527
Corporate bonds	-	139,676	-	139,676
U.S. Treasury securities	-	156,670	-	156,670
Total investments	<u>\$ 4,748,164</u>	<u>\$ 367,873</u>	<u>\$ -</u>	<u>\$ 5,116,037</u>

The College's financial liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2019 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,742</u>	<u>\$ 212,742</u>

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value (continued)

The College's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2018 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds				
Equities	\$ 1,257,241	\$ -	\$ -	\$ 1,257,241
Fixed income	696,712	-	-	696,712
Money market funds	95,987	-	-	95,987
Closed-end funds				
Equities	834,533	-	-	834,533
Equities	1,744,456	-	-	1,744,456
Municipal bonds	-	80,190	-	80,190
Corporate bonds	-	137,631	-	137,631
U.S. Treasury securities	-	115,432	-	115,432
Total investments	<u>4,628,929</u>	<u>333,253</u>	<u>-</u>	<u>4,962,182</u>
Hedging instruments	<u>-</u>	<u>-</u>	<u>62,715</u>	<u>62,715</u>
Total	<u>\$ 4,628,929</u>	<u>\$ 333,253</u>	<u>\$ 62,715</u>	<u>\$ 5,024,897</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis on the statement of financial position as of June 30, 2018.

There were no significant transfers between the levels during the year, although some investments moved into level 2 when the markets for them became less active. The College's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

A reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) follows:

Hedging instruments

Balance at June 30, 2018	\$ 62,715
Unrealized loss	<u>(275,457)</u>
Balance at June 30, 2019	<u>\$ (212,742)</u>

13 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2019</u>	<u>2018</u>
Cash paid during the year for interest	\$ 1,267,130	\$ 1,169,085

The College acquired property, plant and equipment and incurred capital lease obligations in the amount of \$288,738 and \$3,376,911 in 2019 and 2018, respectively.

BECKER COLLEGE

NOTES TO FINANCIAL STATEMENTS

(Continued)

14 - RETIREMENT PLANS

The College participates in a retirement plan which covers substantially all employees. The plan is administered by the Teachers Insurance Annuity College - College Retirement Equities Fund (TIAA-CREF). In general, contributions to this defined contribution plan are made by the College and its employees. Contributions provided by the College amounted to \$545,707 and \$1,022,754 in 2019 and 2018, respectively.

15 - COMMITMENTS AND CONTINGENCIES

The College is subject to certain claims which arise in the normal course of business. Management believes that adverse decisions, if any, relative to these matters will not have a material effect on the College's financial position.

16 - CONCENTRATIONS OF RISK

The College's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the College's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

17 - RELATED-PARTY TRANSACTIONS

At June 30, 2019, contributions receivable included \$60,000 from members of the College's Board of Trustees. Total contributions received from board members was approximately \$62,000 in 2019.

18 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 11, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

19 - RECLASSIFICATIONS

Certain amounts in the 2018 comparative information have been reclassified to conform with the 2019 presentation. Such reclassifications had no effect on the change in net assets as previously reported.