BOSTON ARCHITECTURAL COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2020

BOSTON ARCHITECTURAL COLLEGE

Financial Statements

June 30, 2020 and 2019

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Boston Architectural College
Boston, Massachusetts

Report on Financial Statements
We have audited the accompanying financial statements of Boston Architectural College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Architectural College as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

Our audits was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility supplemental schedule and disclosures on pages 24-25 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Report on Internal Control

In accordance with *Government Auditing Standards,* we have also issued our report dated February 1, 2021, on our consideration of Boston Architectural College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the College's 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 College's internal control over financial reporting and compliance.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

February 1, 2021

BOSTON ARCHITECTURAL COLLEGE

Statements of Financial Position

June 30, 2020 and 2019

BOSTON ARCHITECTURAL COLLEGE

Statements of Financial Position

June 30,

Assets

	2020	2019
Assets:		
Cash and equivalents	**$ 2,140,699**	$ 961,702
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of $30,000 and $250,000 at June 30, 2020 and 2019, respectively	**1,154,759**	637,043
Pledges receivable (Note 3)	**65,100**	79,833
Grant receivable	**8,632**	53,417
Other receivables	**180,301**	-
Prepaid expenses	**390,023**	127,925
Short-term Investments (Notes 4 and 5)	**1,048,434**	4,325,092
Long-term Investments (Notes 4 and 5)	**11,529,719**	8,098,462
Property and equipment, net (Note 6)	**18,903,737**	19,503,537
Total Assets	**$ 35,421,404**	$ 33,787,011

Liabilities and Net Assets

	2020	2019
Liabilities:		
Accounts payable	**$ 533,975**	$ 269,864
Deferred revenues	**1,015,327**	956,998
Accrued expenses	**656,807**	782,161
Bonds payable (Note 8)	**12,776,978**	13,252,778
Paycheck Protection Program (Note 7)	**1,901,500**	-
Total Liabilities	**16,884,587**	15,261,801
Net Assets:		
Without donor restriction (Note 10)	**10,337,843**	10,279,905
With donor restrictions (Note 10)	**8,198,974**	8,245,305
Total Net Assets	**18,536,817**	18,525,210
Total Liabilities and Net Assets	**$ 35,421,404**	$ 33,787,011

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECTURAL COLLEGE

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Operating Activities:			
Revenues and Other Support:			
Tuition and fees	**$ 17,322,324**	**$ -**	**$ 17,322,324**
Less: financial assistance	**(1,032,106)**	**-**	**(1,032,106)**
Net tuition and fees	**16,290,218**		**16,290,218**
Contributions	**132,364**	**151,061**	**283,425**
Government Grants	**83,318**	**165,515**	**248,833**
Housing revenues	**257,452**	**-**	**257,452**
Other revenues	**41,281**	**-**	**41,281**
Net assets released from restrictions (Note 10)	**819,424**	**(819,424)**	**-**
Total Revenues and Other Support	**17,624,057**	**(502,848)**	**17,121,209**
Operating Expenses:			
Program services	**12,634,297**	**-**	**12,634,297**
Management and general	**4,932,899**	**-**	**4,932,899**
Fundraising	**238,425**	**-**	**238,425**
Total Operating Expenses	**17,805,621**	**-**	**17,805,621**
Changes in Net Assets from Operating Activities	**(181,564)**	**(502,848)**	**(684,412)**
Non-Operating Activities:			
Net investment income (Note 4)	**239,502**	**456,517**	**696,019**
Changes in Net Assets	**57,938**	**(46,331)**	**11,607**
Net Assets, Beginning of Year	10,279,905	8,245,305	18,525,210
Net Assets, End of Year	**$ 10,337,843**	**$ 8,198,974**	**$ 18,536,817**

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECTURAL COLLEGE

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Operating Activities:			
Revenues and Other Support:			
Tuition and fees	$ 16,102,514	$ -	$ 16,102,514
Less: financial assistance	(1,078,266)	-	(1,078,266)
Net tuition and fees	15,024,248	-	15,024,248
Contributions	758,815	280,940	1,039,755
Government Grants	80,604	266,259	346,863
Housing revenues	248,955	-	248,955
Other revenues	44,636	-	44,636
Net assets released from restrictions (Note 10)	1,225,534	(1,225,534)	-
Total Revenues and Other Support	17,382,792	(678,335)	16,704,457
Operating Expenses:			
Program services	12,391,751	-	12,391,751
Management and general	4,220,252	-	4,220,252
Fundraising	715,957	-	715,957
Total Operating Expenses	17,327,960	-	17,327,960
Changes in Net Assets from Operating Activities	54,832	(678,335)	(623,503)
Non-Operating Activities:			
Net investment income (Note 4)	216,034	444,944	660,978
Changes in Net Assets	270,866	(233,391)	37,475
Net Assets, Beginning of Year	10,009,039	8,478,696	18,487,735
Net Assets, End of Year	$ 10,279,905	$ 8,245,305	$ 18,525,210

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECHTURAL COLLEGE

Statements of Functional Expenses

For the Years Ended June 30, 2020

	Program Activities						
	Instructional	Student Services	Academic Support	Total Program Services	Management and General	Fundraising Costs	Total
Wages	$ 4,580,056	$ 1,549,695	$ 1,056,470	$ 7,186,221	$ 2,332,812	$ 205,917	$ 9,724,949
Benefits & Payroll Taxes	867,336	318,949	198,842	1,385,127	342,988	20,977	1,749,093
Advertising & Marketing	-	473,050	-	473,050	27,450	-	500,500
Bad Debt Expense	-	-	-	-	132,849	-	132,849
Conferences & Meetings	71,851	29,507	2,517	103,875	48,364	-	152,239
Depreciation Expense	569,410	118,627	379,607	1,067,644	118,627	-	1,186,271
Equipment Rental & Maintenance	-	100	36,610	36,710	210,426	-	247,136
Interest	248,919	51,858	165,946	466,723	51,858	-	518,581
Professional Services	-	-	-	-	34,056	-	34,056
Miscellaneous	626	4,527	29,552	34,705	65,390	-	100,095
Occupancy	543,334	112,815	359,854	1,016,003	112,896	-	1,128,899
Office Expenses	67,781	71,940	174,865	314,586	286,279	4,681	605,546
Outside Services	28,942	236,165	26,881	291,988	510,186	4,000	806,174
Rental Expense	2,500	-	24,603	27,103	357,761	-	384,864
Student Awards	-	28,500	-	28,500	-	-	28,500
Technology	-	54,383	78,894	133,277	276,360	2,850	412,487
Travel	47,361	21,110	314	68,785	24,597	-	93,382
	$ 7,028,116	$ 3,071,226	$ 2,534,955	$ 12,634,297	$ 4,932,899	$ 238,425	$ 17,805,621

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECHTURAL COLLEGE

Statements of Functional Expenses

For the Years Ended June 30, 2019

	Program Activities						
	Instructional	Student Services	Academic Support	Total Program Services	Management and General	Fundraising Costs	Total
Wages	$ 4,273,301	$ 1,665,703	$ 1,007,609	$ 6,946,613	$ 2,002,981	$ 303,157	$ 9,252,751
Benefits & Payroll Taxes	890,362	355,795	217,372	1,463,529	194,148	44,357	1,702,034
Advertising & Marketing	-	399,661	-	399,661	7,750	-	407,411
Bad Debt Expense	-	-	-	-	115,255	-	115,255
Conferences & Meetings	57,866	54,140	7,273	119,279	35,223	4,256	158,758
Depreciation Expense	696,667	68,633	286,865	1,052,165	151,389	-	1,203,554
Equipment Rental & Maintenance	1,120		56,977	58,098	161,791	-	219,889
Interest	327,257	23,010	113,329	463,595	71,868	-	535,463
Miscellaneous	7,997	16,385	1,353	25,736	3,294	269,588	298,618
Occupancy	508,081	176,083	258,366	942,531	176,825	-	1,119,355
Office Expenses	58,579	68,279	149,685	276,543	253,602	26,775	556,920
Outside Services	22,005	200,264	45,701	267,970	472,832	67,422	808,225
Rental Expense	3,658	1,711	17,582	22,951	303,940	-	326,891
Student Awards	-	23,326	-	23,326	-	-	23,326
Technology	-	52,772	88,839	141,611	248,613	-	390,224
Travel	133,683	41,471	12,990	188,144	20,741	401	209,286
	$ 6,980,577	$ 3,147,233	$ 2,263,941	$ 12,391,751	$ 4,220,252	$ 715,957	$ 17,327,960

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECTURAL COLLEGE

Statements of Cash Flows

For the Years Ended June 30,

	2020	2019
Cash Flows from Operating Activities:		
Changes in net assets:	**$ 11,607**	$ 37,475
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Provision for bad debts	**132,849**	120,335
Interest expense on bond issuance costs	**16,142**	16,142
Depreciation	**1,186,271**	1,205,883
Net realized and unrealized gains on investments	**(495,382)**	(382,006)
Contributions restricted for long-term investment	**(500)**	(43,883)
Changes in operating assets and liabilities:		
Student accounts receivable	**(650,565)**	(351,851)
Pledges receivable	**14,733**	(23,000)
Grant receivable	**44,785**	(33,028)
Other receivable	**(180,301)**	-
Prepaid expenses	**(262,098)**	32,215
Accounts payable	**264,111**	(7,237)
Deferred revenues	**58,329**	(49,467)
Accrued expenses	**(125,354)**	(147,291)
Net Adjustments	**3,020**	336,812
Net Cash Provided by Operating Activities	**14,627**	374,287
Cash Flows from Investing Activities:		
Proceeds from sale of investments	**1,879,655**	351,315
Purchases of investments	**(1,538,872)**	(274,831)
Acquisition of property and equipment	**(586,472)**	(674,124)
Net Cash Applied to Investing Activities	**(245,689)**	(597,640)
Cash Flows from Financing Activities:		
Receipts of contributions restricted for long-term investments	**500**	43,883
Payments on bonds	**(491,941)**	(475,103)
Proceeds from Paycheck Protection Program loan	**1,901,500**	-
Net Cash (Applied to) Provided by Financing Activities	**1,410,059**	(431,220)
Net Increase (Decrease) in Cash and Equivalents	**1,178,997**	(654,573)
Cash and Equivalents , Beginning of Year	**961,702**	1,616,275
Cash and Equivalents, End of Year	**$ 2,140,699**	$ 961,702

The accompanying notes are an integral part of the financial statements.

BOSTON ARCHITECTURAL COLLEGE

Notes to the Financial Statements

June 30, 2020 and 2019

Note 1 - **Organization**

Founded in 1889, the Boston Architectural College (the "College"), is committed to providing excellence in design education grounded in practice and accessible to diverse communities. The College is New England's largest, independent, not-for-profit, accredited college of spatial design, and offers professional and non-professional degrees at both undergraduate and graduate levels.

The core of the College experience is concurrency, which is a belief that design education is best experienced in the classroom and professional workplace, simultaneously. Classes are taught predominantly by practicing design professionals, strengthening the connection between workplace and classroom learning.

The College is accredited by the New England Commission of Higher Education, the National Architectural Accrediting Board, the Council for Interior Design Accreditation, and the Landscape Architectural Accreditation Board.

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (COVID-19) as a pandemic. On March 18, 2020, the College transitioned students to a distance learning environment for the completion of the 2020 spring semester, and the 2020 summer semester was taught online. The College refunded a total of $64,157 before June 30, 2020 to students for a pro-rata share of the housing and meals fees charged for the period from when the College transitioned students to a distance learning environment to the completion of the 2020 spring semester.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The College was awarded $279,755 of which $139,878 is required to be distributed to students affected by the COVID-19 crisis as emergency grants and the other $139,877 is required by the College to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants.

As of June 30, 2020, the College expended $78,157 for emergency grants to students and $0 for institutional costs from the HEERF funds. In conjunction with CARES Act regulations, the College must spend these funds by September 30, 2022.

Note 2 - **Summary of Significant Accounting Policies**

Method of Accounting
The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Asset Classification
Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Without Donor Restrictions Net Assets - net assets that are not subject to donor-imposed restrictions and may be expensed for any purpose in performing the objectives of the College. The net assets may be used at the discretion of the College's management and the Board of Trsutees.

With Donor Restrictions Net Assets - Net assets, which carry specific donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulated or that expire by the passage of time or have been restricted by donors to be maintained by the College in perpetuity. Generally, the donors of these assets permit the College to use all or part of the income earned on the related investments for scholarships and institutional support.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivables, promises to give, and estimating depreciation.

Cash and Equivalents
Cash and equivalents include all highly liquid debt instruments with original maturities of three months or less and include bank deposits, money market funds and repurchase agreements, except that such investments purchased with endowment assets, set aside for long-term purposes or deposits with trustees, are classified as investments. At June 30, 2020

and 2019, uninsured cash balances in excess of FDIC insurable limits were approximately $2,180,000 and $738,000, respectively.

Student Accounts Receivable
Student accounts receivable consists of tuition and fee charges, and are recorded net of estimated uncollectible amounts. The adequacy of the allowance for doubtful accounts is reviewed on an ongoing basis by the College's management and adjusted as required. In determining the amount required in the allowance, management has taken into account a variety of factors including experience and history with students. No interest is charged on outstanding balances.

Pledges Receivable
Allowances for potential losses are determined by considering the financial condition and history of donors, and other economic factors affecting donors and the College.

Investments
Investments are initially reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return on the statements of activities and changes in net assets.

Purchase and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Financial Instruments
Financial instruments that potentially subject the College to concentrations of credit risk consist of cash and equivalents, accounts receivable, and investments. The College maintains its cash and equivalents in bank deposit accounts, the balances of which, at times, may exceed the federally insured limits. Investments are maintained at brokerage institutions. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions and insured brokerage houses.

The carrying amounts of certain financial instruments, including cash and equivalents and accounts receivable, approximate fair value because of the relatively short maturity of these instruments. The carrying amounts of investments are reported at fair market value.

Property and Equipment
Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the

lease term. The useful lives range from three to five years. The College's policy is to capitalize property and equipment acquired and expense normal repairs and maintenance as incurred. The College's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Compensated Absences
Eligible employees accrue vacation for time they work. Upon termination, the employees are entitled to receive payment of their unused balance. Based upon periodic reviews, management believes the amount to be immaterial at any given time. Accordingly, the College's policy is to expense compensated absences when actually paid to employees.

Deferred Revenues
Deferred revenues represent unearned income related to academic courses and programs related to the subsequent fiscal year-end. Student deposits are required payments by students who will be attending the College in the next academic year and are recognized as revenues upon the students' matriculation.

Revenue Recognition
Contributions are recognized as revenue when the conditions contained in the respective agreements have been met. Contributions are conditional if there is a barrier that must be overcome before the recipient is entitled to the asset transferred and the donor has the right to request the asset back if it was not used properly.

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. 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 statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding the purpose and how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Tuition and housing revenue is recorded as earned at the College's established rates, net of financial aid and endowment scholarships provided directly by the College to students.

Non-Operating Activities
Non-operating activities include all interest and dividends and realized and unrealized gains or losses on investments. It also includes activities that are not in the normal course of operations for the College.

Endowment Funds
Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor-restricted funds and focuses on the prudent spending of the entire donor-restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donors' intended purpose of the endowment fund, stipulated or otherwise.

The goal of the College's endowment spending and distribution policy is to preserve the purchasing power of the endowment and provide predictable support of operations and scholarships.

From time to time, the fair values of endowment fund assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained for a perpetual duration. The decline below the required perpetual duration, commonly referred to as "underwater", is reported as losses within net assets with donor restrictions. The Board of Trustees have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2020 and 2019, the College did not have endowment funds below the amount of the donor-required levels.

Income Taxes
The College has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax-exempt entity under Section 501 (c)(3) of the Internal Revenue Code. As a not-for-profit entity exempt from income taxes, the College may, however, be subject to tax on unrelated business income.

Accounting principles generally accepted in the United States of America require an entity to assess the probability that a tax position has a "more likely than not" sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances, the statute of limitations may remain open indefinitely.

Advertising
The College charges the cost of advertising to expense as incurred.

Adoption of New Accounting Pronouncements
FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The purpose of this pronouncement is to provide guidance in determining whether transactions are non-exchange (within the scope of Topic 958) or exchange (within the scope of Topic 606) and determining whether contributions are conditional. The College adopted the provisions of ASU 2018-08 for contributions received on a modified prospective basis as of July 1, 2019. Therefore, it is applied to any remaining portion of existing agreements not yet recognized as of July 1. 2019, in addition to all new agreements entered into after that date. The adoption of this pronouncement did not have a material effect on these financial statements. The College will adopt the provisions for contributions made on July 1, 2020, and does not expect a significant impact on its financial statements.

New Accounting Pronouncements
FASB issued *ASU 2014-09, Revenue from Contracts with Customers* and additional ASUs containing modifications to *ASU 2014-09* (collectively referred to as "the new revenue recognition standard"). It is effective for periods beginning after December 15, 2019 for non-public companies. The purpose of the new revenue recognition standard is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. It requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition. The current policy for exchange-based revenue is to recognize revenue as it is earned.

FASB issued *ASU 2016-02, Leases,* which is effective for periods beginning after December 15, 2021. The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded.

FASB issued *ASU 2018-13, Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,* which is effective for periods beginning after December 15, 2019. Implementation of this standard will add, modify, or eliminate certain fair value instrument disclosures.

FASB issued *ASU 2019-03, Updating the Definition of Collections,* which is effective for periods beginning after December 15, 2019. Implementation of this standard will expand the definition of collections to allow the sale of collections to be used for the direct care of existing collections.

Management is in the process of evaluating these pronouncements and has not yet determined their impact on the financial statements.

Reclassifications
Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Note 3 - **Pledges Receivable**

Pledges receivable as of June 30, are expected to be realized in the following time periods:

	2020	2019
In one year or less	**$ 35,100**	$ 46,333
Between one and five years	**30,000**	33,500
	$ 65,100	$ 79,833

No discount for long-term pledges have been recognized due to lack of materiality.

Note 4 - **Investments**

Investments are stated at fair market value and consist of the following at June 30,:

	2020	2019
Money market fund	**$ 1,048,434**	$ 1,553,474
International index mutual fund	**-**	961,304
Multi-asset mutual fund	**3,059,502**	2,896,214
Treasury inflation protection mutual fund	**275,374**	254,765
Bond index mutual fund	**3,271,793**	1,697,584
Stock index mutual fund	**4,923,050**	5,060,213
	$ 12,578,153	$ 12,423,554

As presented on the statement of financial position, certain investments are restricted for endowments, primarily for scholarships. Mutual fund investments are with Fidelity Investments, TIFF Multi-Asset Funds, Vanguard International Stock, and U.S. Bond/TIP and Stock Index Funds.

BOSTON ARCHITECTURAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Fair Value Measurements**

Promulgations of the Financial Accounting Standards Board have established a framework for measuring fair value, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is assigned to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Money Market and Mutual Funds: Net asset value of the shares held at fiscal year end.

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. As of June 30, 2020, and 2019, all investments are classified as Level 1 within the fair value hierarchy.

Note 6 - **Property and Equipment**

Land, buildings, and equipment consist of the following at June 30,:

	2020	2019
Land and improvements	**$ 5,522,338**	$ 5,522,338
Buildings and improvements	**25,339,681**	25,345,095
Furniture, fixtures and equipment	**4,750,781**	4,617,623
Leasehold improvements	**336,903**	336,903
Construction in progress	**548,761**	90,033
	36,498,464	35,911,992
Accumulated depreciation	**(17,594,727)**	(16,408,455)
Property and equipment, net	**$ 18,903,737**	$ 19,503,537

Note 7 - **Paycheck Protection Program Loan**

In April 2020, the College received a Paycheck Protection Program loan under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in the amount of $1,901,500. The loan will be forgiven based upon the College using the proceeds on eligible expenses over a twenty-four-week period from the time that the loan is obtained. Eligible expenses include payroll and related benefits, utilities, and rent or mortgage interest. It is the intent of management to use the entire funds from the loan in accordance with the provisions of the CARES Act and thus it is anticipated the loan will be forgiven.

Maturities of the Paycheck Protection Loan subsequent to June 30, 2020 if no portion of the debt is forgiven for the years ending June 30,:

2021	554,604
2022	950,750
2023	396,146
	$ 1,901,500

BOSTON ARCHITECTURAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Long-Term Debt**

Long-term debt consists of the following at June 30,:

	2020	2019
Series 2012 Massachusetts Finance Agency Revenue Bonds, in the amount of $ 5,800,000. The Bonds bear an initial interest rate of 3.64% for ten years at which time the interest rate is adjusted to the market rate designated and announced by the Federal Home Loan Bank of Boston plus 2.5%, but not less than 3.64% and each subsequent ten year period thereafter. Commencing April 2013, the bonds require monthly payments of $27,181, including principal and interest subject to changes in interest rates every ten years. The bonds mature in full in March 2042.	**$ 4,867,579**	$ 5,010,720
Series 2017, Massachusetts Finance Agency Revenue Bond in the amount of $9,365,668. The bonds bear an initial interest rate of 3.75% for ten years at which time the interest rate is adjusted to the product of the market rate designated and announced by the Federal Home Loan Bank of Boston plus 2.75% and the Tax –Exempt Equivalency Factor then in effect, which was initially 0.67. Commencing on February 1, 2017, the bonds require monthly payments of $55,789, including principal and interest subject to changes in interest rates every ten years. The bonds mature in full in December 2036.	**8,220,670**	8,569,471
Total long-term debt	**13,088,249**	13,580,191
Deferred finance charges, net of accumulated amortization of $98,034 and $81,892, respectively.	**(311,271)**	(327,413)
Long-Term Debt, net	**$ 12,776,978**	$ 13,252,778

BOSTON ARCHITECTURAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Future principal maturities of long-term debt subsequent to June 30, 2020 are as follows:

Fiscal Years Ending June 30,	
2021	$ 513,329
2022	533,018
2023	553,461
2024	573,533
2025	596,689
Thereafter	10,318,219
	$ 13,088,249

The bonds are secured by land, building and equipment, and certain revenues. The College must also meet certain covenants to maintain compliance with the loan agreements, including a restriction on new debt.

Interest expense on all indebtedness for the years ended June 30, 2020 and 2019 amounted to $518,581 and $535,463, respectively. Interest expense includes $16,142 of deferred bond charges as of June 30, 2020 and 2019, respectively.

Note 9 - **Line of Credit**

The College carries an unsecured line of credit with a maximum limit of $1,000,000, expiring February 28, 2021. The line of credit carries interest at the prime rate of 3.25% and 5.50% at June 30, 2020 and 2019, respectively. The College had no outstanding balance at June 30, 2020 or 2019.

Note 10 - **Net Assets and Net Assets Released from Restrictions**

Net assets with donor restrictions comprise the receipt of funds relating to activities the College engages in that are not restricted in nature, and gains on endowed net assets. Net assets with restrictions consist of the following at June 30,:

	2020	2019
Scholarships	**$ 3,772,930**	$ 3,810,240
Art collections	**87,230**	87,230
Capital improvement	**132,790**	124,258
Instruction and institutional support	**570,960**	589,713
Investment in perpetuity	**3,635,064**	3,633,864
	$ 8,198,974	$ 8,245,305

Without donor restrictions net assets include board-designated and undesignated, funds, and at June 30 consist of the following:

	2020	2019
Student scholarship and other support	**$ 519,908**	$ 490,191
Instruction and institutional support	**3,270,363**	3,173,767
Unrestricted and undesignated	**6,547,572**	6,615,947
	$ 10,337,843	$ 10,279,905

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose at June 30,:

	2020	2019
Student scholarships and other support	**$ 558,757**	$ 848,385
Instruction and institutional support	**260,667**	377,149
	$ 819,424	$ 1,225,534

The College has a $25,000 minimum threshold for all permanently restricted endowments funds.

Note 11 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, at June 30, 2018	**$ 3,554,302**	**$ 8,286,408**	**$ 11,840,710**
Investment return:			
Net investment income	127,364	289,011	416,375
Net unrealized appreciation on investment	73,292	155,933	229,225
Contributions	-	43,883	43,883
Amounts appropriated for expenditure	(91,000)	(723,207)	(814,207)
	3,663,958	**8,052,028**	**11,715,986**
Endowment net assets, at June 30, 2019			
Investment return:			
Net investment income	41,592	88,365	129,957
Net unrealized appreciation on investment	175,720	368,152	543,872
Contributions	-	113,057	113,057
Amounts appropriated for expenditure	(91,000)	(532,317)	(623,317)
Endowment net assets, at June 30, 2020	**$ 3,790,270**	**$ 8,089,285**	**$ 11,879,555**

Note 12 - **Retirement Benefits**

The College is a sponsor of both a 403(b) Plan and a 457(b) Plan. The 403(b) covers all eligible employees, and the 457(b) covers only certain employees. During the years ended June 30, 2020 and 2019, the total amounts paid to the plans were approximately $215,000 and $234,000 respectively. Any employer funding of either plan is at the sole discretion of the College.

Note 13 - **Cash Flow Information**

Interest paid by the College during the years ended June 30, 2020 and 2019 amounted to $518,580 and $535,463, respectively, as per the terms of bond debt agreements with Century Bank.

BOSTON ARCHITECTURAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Leases**

The College entered into long-term lease agreements for classroom and office space through July 2020, including a lease extension that the College signed in July 2019. The lease agreements require base rent payments plus lease incentives. Rent expense was $159,940 and $148,923 the years ended June 30, 2020 and 2019, respectively. Subsequent to June 30, 2020, minimum future lease payments under such leases are as follows:

Fiscal Years Ending June 30,	
2021	$ 65,156
2022	56,448
2023	28,224
	$ 149,828

Note 15 - **Contingencies and Uncertanties**

Employment Agreement
The College has an executive employment agreement in place for services extending to June 2024, with termination provisions in place.

Legal
Pending or threatened lawsuits arise as part of the ordinary course of operations. In the opinion of management, no litigation is now pending or threatened, which would materially affect the College's financial position.

The vast majority of higher educational institutions transitioned to distance learning during the 2020 spring semester due to the COVID-19 crisis. Many higher educational institutions have been served with a class action lawsuit due to this decision. The plaintiffs' claim that they have suffered academic harm after the 2020 spring semester transitioned to distance learning. Since the lawsuits are in the early stages, there has been no settlements or court decisions on this matter. The College has not been served with a lawsuit related to COVID-19. Management believes that any potential future adverse outcome is possible, but unlikely, and, would not be material to the College.

Uncertainty
The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined.

Note 16 - **Liquidity and Availability of Resources**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of balance sheet date, comprise the following at June 30,:

	2020	2019
Cash and equivalents	$ 2,140,699	$ 961,702
Accounts receivable	1,154,759	637,043
Pledges receivable, due within one year	35,100	46,333
Total	$ 3,330,558	$ 1,645,078

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The College considers all expenditures related to its ongoing activities of providing financial support through scholarships and grants, and institutional support, to be general expenditures.

Board-designated endowment of $3,347,075 is subject to an annual spending rate of 4% percent of 12-quarter rolling average. Although management does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, the College structures financial assets to be available as general expenditures, liabilities and other obligations become due. In addition, the College invests cash in excess of daily requirements in an overnight repurchase account through Century Bank. To help manage unanticipated liquidity needs, a committed line of credit of $1,000,000 can be drawn upon (see Note 9).

Note 17 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through February 1, 2021, the date for which the financial statements were available for issuance. With the exception of the following event, management accepted the financial statements and did not identify any other events subsequent to June 30, 2020 requiring disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

The Boston Architectural College

Financial Responsibility Supplemental Schedule

Year Ended June 30, 2020 (Unaudited)

Primary Reserve Ratio:				
		Expendable Net Assets:		
1	Statement of Financial Position (SFP)	Net assets without donor restrictions		10,337,843
2	SFP	Net assets with donor restrictions		8,198,974
3		**Secured and Unsecured related party receivable - Total**	-	
4	Not Applicable	Unsecured related party receivables		-
5	SD Line 7	**Property, Plant and Equipment, net (includes Construction in progress) - Total**	18,903,737	
6	SD Line 3d	Property, plant and equipment pre-implementation		18,317,266
7	Not Applicable	Property, plant and equipment post- implementation with outstanding debt for original purchase		-
8	SD Line 6a	Property, plant and equipment post-implementation without outstanding debt for original purchase		586,471
9	Not Applicable	Construction in progress		-
10	SFP	**Lease right-of-use asset, net - Total**	-	
11	Not Applicable	Lease right-of-use, pre-implementation (grandfather of leases option not chosen)		-
12	SD Line 15. Lease right-of-use of asset liability	Lease right-of-use asset, post-implementation		-
13	Not Applicable	Intangible assets		-
14	Not Applicable	Post-employment and pension liabilities		-
15	SD Lines 8d, 9a-c, 10	**Long-term debt- for long term purposes - Total**	14,678,478	
16	SD Line 8d	Long- term debt- for long term purpose pre-implementation		12,776,978
17	SD Lines 9a-c	Long-term debt- for long term purposes post-implementation		1,901,500
18	Not Applicable	Line of Credit for Construction in progress		-
19	SFP	**Lease right-of-use asset liability - Total**	-	
20	Not Applicable	Pre-implementation right-of-use asset liability (grandfather of leases option not chosen)		-
21	Not Applicable	Post-implementation right-of-use asset liability		-
22	SD Line 2d	**Annuities, term endowment and life income with donor restrictions - Total**	-	
23	SD Line 2a	Annuities with donor restrictions		-
24	SD Line 2b	Term Endowments with donor restrictions		-
25	SD Line 2c	Life income funds with donor restrictions		-
26	SD Line 1	Net Assets with donor restrictions - restricted in perpetuity		3,635,064
		Total Expenses without Donor Restrictions & Losses without Donor Restrictions:		
27	Statement of Activities (SOA)- Total Expense prior to Other Changes	Total expenses without donor restrictions- taken directly from Statement of Activities		17,805,621
28	SOA	Non-operating and Net Investment (loss)		-
29	SOA	Net Investment losses		-
30	SOA	Pension-related changes other than net periodic costs		-
Equity Ratio:				
		Modified Net Assets:		
31	SFP	Net assets without donor restrictions		10,337,843
32	SFP	Net assets with donor restrictions		8,198,974
33	Not Applicable	Intangible Assets		-
34	Not Applicable	Intangible Assets- Goodwill		-
35		**Secured and unsecured related party receivables- Total**	-	
36	Not Applicable	Unsecured related party receivables		-
		Modified Assets:		
37	SFP	Total Assets		35,421,404
38	SD Line 13	Lease right-of-use asset pre-implementation		-
39	SD Line 14	Pre-implementation right-of-use asset liability		-
40	Not Applicable	Intangible Assets		-
41	Not Applicable	Secured and unsecured related part receivables	-	
42	Not Applicable	Unsecured related party receivables		-
Net Income Ratio:				
		Change in Net Assets Without Donor Restrictions:		
43	SOA	Change in net assets without donor restrictions		57,938
		Total Revenue without Donor Restrictions & Gains without Donor Restrictions		
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	Total Revenues and Gains		17,624,057
45	SOA: Investments, Net	Investments, net (operating and non-operating)		239,502

The Boston Architectural College

Supplemental Disclosures - U.S. Department of Education

Year Ended June 30, 2020 (unaudited)

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate ratios for determining sufficient financial responsibility under Title IV.

Net Assets	
1 Net assets with donor restrictions: restricted in perpetuity	3,635,064
2 Other net assets with donor restrictions (not perpetually restricted):	
a. Annuities with donor restrictions	-
b. Term Endowments	-
c. Life income funds (trusts)	-
d. Total annuities, term endowment and life income funds with donor restrictions	-
Property, Plant and Equipment, net	
3 Pre-implementation property, plant and equipment, net (PP&E, net)	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019 financial statement)	19,503,537
b. Reclassify capital lease assets previously included in PP&E, net prior to the implementation of ASU 2016-02 leases standards	-
c. Less subsequent depreciation and disposals	(1,186,271)
d. Balance Pre-implementation property, plant and equipment, net	18,317,266
4 Debt Financed Post-Implementation property, plant and equipment, net Long-lived assets acquired with debt subsequent to June 30, 2019:	
a. Equipment	-
b. Land Improvements	-
c. Building	-
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	-
5 Construction in progress- acquired subsequent to June 30, 2019	-
6 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2019	586,471
7 Total Property, Plant and Equipment, net- June 30, 2020	18,903,737
Debt to be excluded from expendable net assets	
8 Pre-implementation debt:	
a. Ending balance of last financial statement submitted to the Department of Education (June 30, 2019)	13,252,778
b. Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standards.	-
c. Less subsequent debt repayments	(475,800)
d. Balance pre-implementation debt	12,776,978
9 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	-
b. Land Improvements	-
c. Buildings	-
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	1,901,500
	14,678,478

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*

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*

To the Board of Trustees of
Boston Architectural College
Boston, Massachusetts

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 of America, the financial statements of Boston Architectural College (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities and changes in financial position, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated February 1, 2021.

Internal Control over Financial Reporting
In planning and performing our audits of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

February 1, 2021