

# **BOSTON ARCHITECTURAL COLLEGE**

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## **FINANCIAL STATEMENTS**

**JUNE 30, 2019**

# BOSTON ARCHITECTURAL COLLEGE

## Financial Statements

June 30, 2019 and 2018

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Boston Architectural College (the "College"), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities and changes in net assets, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

## **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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the College has adopted Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities: an amendment to Topic 958, Not-for-Profit Entities*. and ASU 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in Financial Accounting Standards Board Accounting Standards Codification *Topic 606-10*. Our opinion is not modified with respect to these matters.

## **Report on Internal Control**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, 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.



**Certified Public Accountants  
Braintree, Massachusetts**

November 20, 2019

**BOSTON ARCHITECTURAL COLLEGE**

**Statements of Financial Position**

**June 30, 2019 and 2018**

# BOSTON ARCHITECTURAL COLLEGE

## Statements of Financial Position

June 30,

### Assets

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
Cash and equivalents	\$ 961,702	\$ 1,616,275
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of \$250,000 and \$129,665 at June 30, 2019 and 2018, respectively	637,043	405,527
Pledges receivable (Note 3)	79,833	56,833
Grant receivable	53,417	20,389
Prepaid expenses	127,925	160,140
Investments, without donor restrictions (Notes 4 and 5)	4,325,092	3,746,538
Investments, with donor restrictions (Notes 4 and 5)	8,098,462	8,371,494
Property and equipment, net (Note 6)	<u>19,503,537</u>	<u>20,035,296</u>
<b>Total Assets</b>	<b><u>\$ 33,787,011</u></b>	<b><u>\$ 34,412,492</u></b>

### Liabilities and Net Assets

<b>Liabilities:</b>		
Accounts payable	\$ 269,864	\$ 277,101
Deferred revenues	956,998	1,006,465
Accrued expenses (Note 7)	782,161	929,452
Bonds payable (Note 8)	<u>13,252,778</u>	<u>13,711,739</u>
<b>Total Liabilities</b>	<b><u>15,261,801</u></b>	<b><u>15,924,757</u></b>
<b>Net Assets:</b>		
Without donor restriction (Note 10)	10,279,905	10,009,039
With donor restrictions (Note 10)	<u>8,245,305</u>	<u>8,478,696</u>
<b>Total Net Assets</b>	<b><u>18,525,210</u></b>	<b><u>18,487,735</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 33,787,011</u></b>	<b><u>\$ 34,412,492</u></b>

*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
<b>Operating Activities:</b>			
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)	-
<b>Total Revenues and Other Support</b>	<b>17,382,792</b>	<b>(678,335)</b>	<b>16,704,457</b>
Operating Expenses:			
Instruction	6,980,577	-	6,980,577
Student services	3,147,233	-	3,147,233
Academic support	2,263,941	-	2,263,941
Institutional support and fundraising	4,643,369	-	4,643,369
Housing expenses	292,840	-	292,840
<b>Total Operating Expenses</b>	<b>17,327,960</b>	<b>-</b>	<b>17,327,960</b>
<b>Changes in Net Assets from Operating Activities</b>	<b>54,832</b>	<b>(678,335)</b>	<b>(623,503)</b>
<b>Non-Operating Activities:</b>			
Net investment income (Note 4)	216,034	444,944	660,978
<b>Changes in Net Assets</b>	<b>270,866</b>	<b>(233,391)</b>	<b>37,475</b>
Net Assets, Beginning of Year	10,009,039	8,478,696	18,487,735
<b>Net Assets, End of Year</b>	<b>\$ 10,279,905</b>	<b>\$ 8,245,305</b>	<b>\$ 18,525,210</b>

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, 2018

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
<b>Operating Activities:</b>			
Revenues and Other Support:			
Tuition and fees	\$ 16,282,852	\$ -	\$ 16,282,852
Less: financial assistance	(806,800)	-	(806,800)
Net tuition and fees	15,476,052	-	15,476,052
Contributions	628,912	95,229	724,141
Government Grants	62,316	258,373	320,689
Housing revenues	242,225	-	242,225
Other revenues	53,220	-	53,220
Net assets released from restrictions (Note 10)	597,177	(597,177)	-
<b>Total Revenues and Other Support</b>	<b>17,059,902</b>	<b>(243,575)</b>	<b>16,816,327</b>
<b>Operating Expenses:</b>			
Instruction	7,202,296	-	7,202,296
Student services	2,907,066	-	2,907,066
Academic support	2,282,370	-	2,282,370
Institutional support and fundraising	4,325,888	-	4,325,888
Housing expenses	242,225	-	242,225
<b>Total Operating Expenses</b>	<b>16,959,845</b>	<b>-</b>	<b>16,959,845</b>
<b>Changes in Net Assets from Operating Activities</b>	<b>100,057</b>	<b>(243,575)</b>	<b>(143,518)</b>
<b>Non-Operating Activities:</b>			
Net investment income (Note 4)	303,496	695,962	999,458
<b>Changes in Net Assets</b>	<b>403,553</b>	<b>452,387</b>	<b>855,940</b>
Net Assets, Beginning of Year	9,605,486	8,026,309	17,631,795
<b>Net Assets, End of Year</b>	<b>\$ 10,009,039</b>	<b>\$ 8,478,696</b>	<b>\$ 18,487,735</b>

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



# BOSTON ARCHITECTURAL COLLEGE

## Statements of Cash Flows

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets:	\$ <u>37,475</u>	\$ <u>855,940</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Provision for bad debts	120,335	94,781
Interest expense on bond issuance costs	16,142	16,142
Depreciation	1,205,883	1,227,578
Net realized and unrealized gains on investments	(382,006)	(675,262)
Contributions restricted for long-term investment	(43,883)	(76,230)
Changes in operating assets and liabilities:		
Student accounts receivable	(351,851)	(396,171)
Pledges receivable	(23,000)	13,377
Grant receivable	(33,028)	74,923
Prepaid expenses	32,215	67,563
Accounts payable	(7,237)	59,738
Deferred revenues	(49,467)	29,173
Accrued expenses	<u>(147,291)</u>	<u>(124,133)</u>
<b>Net Adjustments</b>	<u>336,812</u>	<u>311,479</u>
<b>Net Cash Provided by Operating Activities</b>	<u>374,287</u>	<u>1,167,419</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of investments	351,315	850,000
Purchases of investments	(274,831)	(1,185,331)
Acquisition of property and equipment	<u>(674,124)</u>	<u>(572,239)</u>
<b>Net Cash Applied to Investing Activities</b>	<u>(597,640)</u>	<u>(907,570)</u>
<b>Cash Flows from Financing Activities:</b>		
Receipts of contributions restricted for long-term investments	43,883	76,230
Payments on bonds	<u>(475,103)</u>	<u>(457,551)</u>
<b>Net Cash Applied to Financing Activities</b>	<u>(431,220)</u>	<u>(381,321)</u>
<b>Net Decrease in Cash and Equivalents</b>	<u>(654,573)</u>	<u>(121,472)</u>
Cash and Equivalents, Beginning of Year	<u>1,616,275</u>	<u>1,737,747</u>
<b>Cash and Equivalents, End of Year</b>	<u>\$ 961,702</u>	<u>\$ 1,616,275</u>

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

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements

June 30, 2019 and 2018

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, non-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.

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 stipulations.

*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.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*Net Asset Classification - continued*

Revenues are reported as increases in without donor restrictions net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in without donor restrictions net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor restrictions net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Tuition revenue is recognized proportionately during the applicable academic term. When the College has met a portion of its performance obligation, it records a contract asset in the form of a receivable, if payment has not been received, or as cash, if payment has been collected. Amounts received that are not earned are reported as a deferred revenue, a contract liability.

*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, 2019 and 2018, uninsured cash balances in excess of FDIC insurable limits were approximately \$738,000 and \$1,470,000, 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.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*Investments*

Investments are 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*

Land, buildings and equipment are stated at cost or, if received as a gift, at fair market value at the date of the gift. Maintenance and repairs are charged to operations as incurred, while betterments and additions are capitalized. Provisions for depreciation are based on the following ranges of expected useful lives using the straight-line method:

Buildings	25-45 years
Improvements	15-30 years
Equipment and furnishings	3-7 years

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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.

Contributions

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded when there is reasonable assurance the contribution will be made. Unconditional promises to give due in the next year are reflected as current pledges and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term pledges receivable and are discounted. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year-end.

Contributions of cash and other assets received with donor stipulations that limit the use of the donated assets to time and/or purpose are classified as *With Donor Restrictions Net Assets* contributions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, *With Donor Restrictions Net Assets* are released to *Without Donor Restrictions* and reported in the Statement of Activities and Changes in Net Assets as net assets released from donor restrictions.

Contributions of assets other than cash are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

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.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*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.

UPMIFA requires donor-restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors’ stipulations must be classified as *With Donor Restrictions* until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as *With Donor Restrictions Net Assets* until approved for expenditure by the organization.

The College’s board classifies donor-restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to *Without Donor Restrictions Net Assets*. Unrealized gains will be classified as *Without Donor Restrictions Net Assets* to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the College’s spending policy.

The College’s investment policy for endowment funds is intended to preserve capital to the extent possible and provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*Income Taxes*

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.

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.

*Advertising*

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 receivable, depreciation, amortization and the recoverability of long-lived assets.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*Adoption of New Accounting Pronouncements*

*Revenue Recognition* - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in FASB ASC Topic 606-10. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of the amendments in ASU 2014-09 by one year. The amendments in ASU 2014-09 requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The College implemented this guidance for the year ended June 30, 2019. The adoption of this pronouncement did not have a material change to the financial statements and did not necessitate an adjustment to total net assets of prior periods or operations of the current period.

*Presentation of Financial Statements* - In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities: an amendment to Topic 958, Not-for-Profit Entities*. ASU 2016-14 makes several improvements to current reporting requirements that address the complexities related to not-for-profit reporting. The guidance requires an entity to present net assets in two categories, *With Donor Restrictions Net Assets* and *Without Donor Restrictions Net Assets*, instead of the traditional three categories. The guidance further requires the entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method but no longer requires the presentation of the indirect method reconciliation if using the direct method. It requires the entity to provide qualitative and quantitative information that communicates how the entity manages liquid resources available to meet cash needs within one year of the statement of net position date. It also requires the entity to disclose expenses by both natural and functional classification as well as methods used to allocate between program and support functions. ASU 2016-14 requires the entity to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The adoption of this pronouncement had a material effect of the presentation of the financial statements, but did not necessitate an adjustment to total net assets of prior periods or operations of the current period. The College implemented this guidance for the year ended June 30, 2019, and the new disclosures are located in the statements of financial position, statements of activities, and Notes 4, 10, 11, 12, and 18.



# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

*New Accounting Pronouncements*

*Leases* - FASB issued ASU 2016-02 effective for non-public and most not-for-profit entities for fiscal years beginning after December 15, 2019. Implementation of this standard 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 from this standard. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an amendment to Topic 958 - Not for Profit Entities was issued by FASB in June 2018. The purpose of this amendment is to provide guidance in determining whether resource providers and resource recipients are participating in an exchange transaction, or if the transfer of funds is a contribution, by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The amendments in this update should be applied on a modified prospective basis, however, retrospective application is permitted. For resource recipients involved in public markets, including over-the counter exchanges, the amendments are effective for periods beginning after June 15, 2018. For all other resource recipient entities, it is effective for annual periods beginning after December 15, 2018. The effective date for resource providers involved in public markets is periods beginning after December 15, 2018. All other resource providers should apply the amendment to periods beginning after December 15, 2019. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

*Reclassifications*

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 3 - **Pledges Receivable**

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

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 46,333	\$ 25,333
Between one and five years	<u>33,500</u>	<u>31,500</u>
	<u>\$ 79,833</u>	<u>\$ 56,833</u>

Note 4 - **Investments**

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

	<u>2019</u>	<u>2018</u>
Money market fund	\$ 1,553,474	\$ 1,646,895
International index mutual fund	961,304	955,863
Multi-asset mutual fund	2,896,214	3,055,205
Treasury inflation protection mutual fund	254,765	243,334
Bond index mutual fund	1,697,584	1,573,992
Stock index mutual fund	<u>5,060,213</u>	<u>4,642,743</u>
	<u>\$ 12,423,554</u>	<u>\$ 12,118,032</u>

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.

Included within net investment income, net unrealized appreciation without donor restrictions was \$73,292 and \$113,095, and with donor restrictions was \$155,933 and \$258,467 for the years ended June 30, 2019 and 2018, respectively.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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, 2019.

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

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 5 - **Fair Value Measurements - Continued**

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, 2019 and 2018, 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,:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 5,522,338	\$ 5,522,338
Buildings and improvements	25,345,095	24,821,335
Furniture, fixtures and equipment	4,617,623	4,448,038
Leasehold improvements	336,903	336,903
Construction in progress	<u>90,033</u>	<u>109,960</u>
	35,911,992	35,238,574
Accumulated depreciation	<u>(16,408,455)</u>	<u>(15,203,278)</u>
Property and equipment, net	<u>\$ 19,503,537</u>	<u>\$ 20,035,296</u>

Note 7 - **Accrued Expenses**

Accrued expenses consist of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Accrued interest	\$ 32,353	\$ 33,559
Accrued payroll and related expenses	517,154	631,024
Accrued operating expenses	<u>232,654</u>	<u>264,869</u>
Accrued expenses	<u>\$ 782,161</u>	<u>\$ 929,452</u>

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Long-Term Debt**

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

	<u>2019</u>	<u>2018</u>
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.	<b>\$ 5,010,720</b>	\$ 5,149,171
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.	<b><u>8,569,471</u></b>	<u>8,906,123</u>
Total long-term debt	<b>13,580,191</b>	14,055,294
Deferred finance charges, net of accumulated amortization of \$81,892 and \$65,750, respectively.	<b><u>(327,413)</u></b>	<u>(343,555)</u>
Long-Term Debt, net	<b><u>\$ 13,252,778</u></b>	<u>\$ 13,711,739</u>

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Long-Term Debt - Continued**

Future principal maturities of long-term debt subsequent to June 30, 2018 are as follows:

Fiscal Years <u>Ending June 30,</u>	
2020	\$ 491,947
2021	512,194
2022	531,839
2023	552,237
2024	572,262
Thereafter	<u>10,919,712</u>
	<u>\$ 13,580,191</u>

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, 2019 and 2018 amounted to \$535,464 and \$553,061, respectively. Interest expense includes \$16,142 of deferred bond charges as of June 30, 2019 and 2018, respectively.

Note 9 - **Line of Credit**

The College carries an unsecured line of credit with a maximum limit of \$1,000,000, expiring September 30, 2019. The line of credit carries interest at the prime rate as listed in the Wall Street Journal (5.50% and 5.00% at June 30, 2019 and 2018, respectively). The College had no outstanding balance at June 30, 2019 or 2018.

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

With donor restrictions net assets at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Student scholarships and other support	\$ 3,810,240	\$ 4,133,713
Art collections	87,230	87,230
Capital improvements	124,258	107,428
Instruction and institutional support	589,713	550,511
Investments in perpetuity	<u>3,633,864</u>	<u>3,599,814</u>
	<u>\$ 8,245,305</u>	<u>\$ 8,478,696</u>

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

	<u>2019</u>	<u>2018</u>
Student scholarships and other support	\$ 490,191	\$ 463,263
Instruction and institutional support	3,173,767	3,091,040
Unrestricted and undesignated	<u>6,615,947</u>	<u>6,454,736</u>
	<u>\$ 10,279,905</u>	<u>\$ 10,009,039</u>

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

	<u>2019</u>	<u>2018</u>
Student scholarships and other support	\$ 848,385	\$ 264,468
Instruction and institutional support	<u>377,149</u>	<u>332,709</u>
	<u>\$ 1,225,534</u>	<u>\$ 597,177</u>

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

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<b>Endowment net assets, at June 30, 2017</b>	<b>\$ 3,356,806</b>	<b>\$ 7,775,730</b>	<b>\$ 11,132,536</b>
Investment return:			
Net investment income	190,401	437,495	627,896
Net unrealized appreciation on investment	113,095	258,467	371,562
Contributions	-	95,229	95,229
Amounts appropriated for expenditure	<u>(106,000)</u>	<u>(280,513)</u>	<u>(386,513)</u>
<b>Endowment net assets, at June 30, 2018</b>	<b>3,554,302</b>	<b>8,286,408</b>	<b>11,840,710</b>
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	<u>(91,000)</u>	<u>(723,207)</u>	<u>(814,207)</u>
<b>Endowment net assets, at June 30, 2019</b>	<b><u>\$ 3,663,958</u></b>	<b><u>\$ 8,052,028</u></b>	<b><u>\$ 11,715,986</u></b>



# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - Natural Expenses

The statement of activities report certain categories of expenses attributable to programs and supporting functions of the College. Program Activities include Instruction, Student Services, and Academic Support. Certain categories of expenses are attributable to more than one program. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The College allocates expenses on a square-footage basis. The expenses that are allocated include depreciation and amortization, interest, insurance, occupancy costs, and wages and benefits associated with occupancy. The table below presents these functional expenses by their natural classifications for the fiscal year ended June 30, 2019:

	<u>Program Activities</u>			<u>Supporting Activities</u>			<u>Total</u>
	<u>Instruction</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>Institutional Support</u>	<u>Fundraising Costs</u>	<u>Housing Expense</u>	
Wages	\$ 4,273,301	\$ 1,665,703	\$ 1,007,609	\$ 2,002,981	\$ 303,157	\$ -	\$ 9,252,751
Benefits & Payroll Taxes	890,362	355,795	217,372	194,148	44,357	-	1,702,034
Advertising & Marketing	-	399,661	-	7,750	-	-	407,411
Bad Debt Expense	-	-	-	115,255	-	-	115,255
Conferences & Meetings	57,866	54,140	7,273	35,223	4,256	-	158,758
Depreciation Expense	696,667	68,633	286,865	153,718	-	-	1,205,883
Equipment Rental & Maintenance	1,120	-	56,977	161,791	-	-	219,888
Interest	327,257	23,010	113,329	71,868	-	-	535,464
Occupancy	508,081	176,083	258,366	176,825	-	-	1,119,355
Office Expenses	58,579	68,279	149,685	253,602	26,775	-	556,920
Outside Services	22,005	200,264	45,701	472,832	67,422	-	808,224
Rental Expense	3,658	1,711	17,582	11,100	-	292,840	326,891
Technology	-	52,772	88,839	248,613	-	-	390,224
Travel	133,683	41,471	12,990	20,741	401	-	209,286
Miscellaneous	7,998	39,711	1,353	965	269,589	-	319,616
<b>Total Expenses</b>	<b><u>\$ 6,980,577</u></b>	<b><u>\$ 3,147,233</u></b>	<b><u>\$ 2,263,941</u></b>	<b><u>\$ 3,927,412</u></b>	<b><u>\$ 715,957</u></b>	<b><u>\$ 292,840</u></b>	<b><u>\$ 17,327,960</u></b>

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **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, 2019 and 2018, the total amounts paid to the plans were approximately \$234,000 and \$275,000 respectively. Any employer funding of either plan is at the sole discretion of the College.

Note 14 - **Development Expenses**

The College incurred expenses amounting to \$715,957 and \$542,096 during the years ended June 30, 2019 and 2018, respectively, related to development and fund-raising. Such amounts are included in Institutional Support and Fundraising in the Statements of Activities and Changes in Net Assets.

Note 15 - **Cash Flow Information**

Interest paid by the College during the years ended June 30, 2019 and 2018 amounted to \$520,528 and \$538,081, respectively, as per the terms of bond debt agreements with Century Bank.

Note 16 - **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 \$148,923 and \$135,642 for the years ended June 30, 2019 and 2018, respectively. Subsequent to June 30, 2019, minimum future lease payments under such leases are as follows:

Fiscal Years	
<u>Ending June 30,</u>	
2020	\$ 159,940
2021	65,156
2022	56,448
2023	<u>28,224</u>
	<u>\$ 309,768</u>

# BOSTON ARCHITECTURAL COLLEGE

## Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 17 - **Contingencies**

*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.

Note 18 - **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, 2019:

Cash and equivalents	\$ 961,702
Accounts receivable	637,043
Contributions receivable	46,333
Operating investments (short-term investments)	601,572
Endowment spending rate distribution	307,200
Spending of funds intended for immediate needs	<u>325,000</u>
Total	<u>\$2,878,850</u>

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 \$3,663,960 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 our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

# **BOSTON ARCHITECTURAL COLLEGE**

## **Notes to the Financial Statements - Continued**

**June 30, 2019 and 2018**

Note 18 - **Liquidity and Availability of Resources - Continued**

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 19 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through November 20, 2019, the date for which the financial statements were available for issuance, and is unaware of any other subsequent events requiring disclosure.

**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, 2019, the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated November 20, 2019.

### **Internal Control over Financial Reporting**

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



**Certified Public Accountants  
Braintree, Massachusetts**

November 20, 2019