

URBAN COLLEGE OF BOSTON

FINANCIAL STATEMENTS

AUGUST 31, 2016

URBAN COLLEGE OF BOSTON

Financial Statements

August 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Urban College of Boston
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Urban College of Boston (the "College"), which comprise the statement of financial position as of August 31, 2016 and 2015, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban College of Boston as of August 31, 2016 and 2015, 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.

Report on Internal Control

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of Urban College of Boston'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

December 14, 2016

URBAN COLLEGE OF BOSTON

Statements of Financial Position

August 31, 2016 and 2015

URBAN COLLEGE OF BOSTON

Statements of Financial Position

August 31,

Assets

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and equivalents	\$ 243,496	\$ 360,628
Accounts receivable, net	524,994	421,912
Contributions receivable, net	284,905	278,047
Other assets	-	4,856
Prepaid expenses	15,900	-
Property and equipment, net	<u>50,000</u>	<u>-</u>
Total Assets	<u>\$ 1,119,295</u>	<u>\$ 1,065,443</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 27,695	\$ 31,200
Deferred tuition	31,114	33,000
Accrued expenses	<u>150,710</u>	<u>166,806</u>
Total Liabilities	<u>209,519</u>	<u>231,006</u>
Net Assets:		
Unrestricted	624,871	556,390
Temporarily restricted	<u>284,905</u>	<u>278,047</u>
Total Net Assets	<u>909,776</u>	<u>834,437</u>
Total Liabilities and Net Assets	<u>\$ 1,119,295</u>	<u>\$ 1,065,443</u>

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

URBAN COLLEGE OF BOSTON

Statement of Activities and Changes in Net Assets

For the Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenues:			
Revenues and Other Support:			
Tuition and fees	\$ 2,972,616	\$ -	\$ 2,972,616
Less: scholarships and grants	<u>(493,750)</u>	<u>-</u>	<u>(493,750)</u>
Net tuition and fees	2,478,866	-	2,478,866
Federal, state and local grants	260,548	-	260,548
Contributions	376,238	135,515	511,753
Net assets released from restrictions	<u>128,657</u>	<u>(128,657)</u>	<u>-</u>
Total Operating Revenues	<u>3,244,309</u>	<u>6,858</u>	<u>3,251,167</u>
Operating Expenses:			
Instructional	1,453,040	-	1,453,040
Institutional support	975,994	-	975,994
Academic support	473,376	-	473,376
Student services	<u>273,418</u>	<u>-</u>	<u>273,418</u>
Total Operating Expenses	<u>3,175,828</u>	<u>-</u>	<u>3,175,828</u>
Changes in Net Assets from Operating Activities	68,481	6,858	75,339
Net Assets, Beginning of Year	<u>556,390</u>	<u>278,047</u>	<u>834,437</u>
Net Assets, End of Year	<u>\$ 624,871</u>	<u>\$ 284,905</u>	<u>\$ 909,776</u>

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

URBAN COLLEGE OF BOSTON

Statement of Activities and Changes in Net Assets

For the Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenues:			
Revenues and Other Support:			
Tuition and fees	\$ 2,836,601	\$ -	\$ 2,836,601
Less: scholarships and grants	<u>(422,565)</u>	<u>-</u>	<u>(422,565)</u>
Net tuition and fees	2,414,036	-	2,414,036
Federal, state and local grants	225,655	-	225,655
Contributions	351,403	278,047	629,450
Net assets released from restrictions	<u>34,000</u>	<u>(34,000)</u>	<u>-</u>
Total Operating Revenues	<u>3,025,094</u>	<u>244,047</u>	<u>3,269,141</u>
Operating Expenses:			
Instructional	1,328,131	-	1,328,131
Institutional support	914,195	-	914,195
Academic support	711,730	-	711,730
Student services	<u>213,486</u>	<u>-</u>	<u>213,486</u>
Total Operating Expenses	<u>3,167,542</u>	<u>-</u>	<u>3,167,542</u>
Changes in Net Assets	(142,448)	244,047	101,599
Net Assets, Beginning of Year	<u>698,838</u>	<u>34,000</u>	<u>732,838</u>
Net Assets, End of Year	<u>\$ 556,390</u>	<u>\$ 278,047</u>	<u>\$ 834,437</u>

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

URBAN COLLEGE OF BOSTON

Statements of Cash Flows

For the Years Ended August 31,

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ <u>75,339</u>	\$ <u>101,599</u>
Adjustments to reconcile increase in net assets to net cash applied to operating activities:		
Bad debt expense	20,000	192,593
In-kind donation of property and equipment	(50,000)	-
Change in operating assets and liabilities:		
Accounts receivable	(123,082)	(153,367)
Contributions receivable	(6,858)	(273,047)
Other assets	4,856	(4,856)
Prepaid expense	(15,900)	-
Accounts payable	(3,505)	1,010
Deferred tuition	(1,886)	(7,060)
Accrued expenses	<u>(16,096)</u>	<u>65,967</u>
Net adjustments	<u>(192,471)</u>	<u>(178,760)</u>
Net Cash Applied to Operating Activities	(117,132)	(77,161)
Cash and Equivalents, Beginning of Year	<u>360,628</u>	<u>437,789</u>
Cash and Equivalents, End of Year	<u>\$ 243,496</u>	<u>\$ 360,628</u>
Supplemental Information:		
In-kind donation of property and equipment	<u>\$ 50,000</u>	<u>\$ -</u>

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

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements

August 31, 2016 and 2015

Note 1 - **Organization**

Urban College of Boston (the "College"), located in Boston, Massachusetts, was incorporated on November 30, 1997. The College, a two-year institution, with a mission to identify, encourage and support persons whose access to higher education opportunities have been limited by poverty and other barriers offers Associate of Arts degrees in Early Childhood Education, Human Services Administration, and General Studies.

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

Method of Accounting

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

Financial Statement Presentation

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

Unrestricted Net Assets – Include all resources that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Carry specific, donor-imposed, restrictions on the expenditure or other use of donated assets. Temporary restrictions may expire either because of the passage of time or because the College has taken certain actions that fulfill the restrictions. When a donor-imposed restriction expires; that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but may permit the College to use or expend part or all of the economic benefits derived from the donated assets. Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. As of August 31, 2016, the College has no permanently restricted net assets.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

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

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Equivalents

Cash and equivalents include all highly liquid debt instruments with maturities of three months or less, and bank deposits and money market funds.

Accounts Receivable

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 with students.

Financial Instruments

Financial instruments that potentially subject the College to concentrations of credit risk consist of cash and equivalents, accounts, notes and loans receivable, and investments. The College maintains its cash and equivalents in bank deposit accounts, the balances of which, at times, 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, notes and loans receivable, approximate fair value because of the relatively short maturity of these instruments. The carrying amounts of investments are reported at fair market value.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

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

Property and Equipment

Furniture 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:

Computer equipment	3 - 4 years
Furniture	10 years
Other equipment	5 years

Deferred Tuition

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

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus must be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Donor restricted contributions whose restrictions are met in the same reporting period have been reported as unrestricted support in the statements of activities and changes in net assets.

Tuition and Fees

Tuition and fees revenues are recognized as revenue when earned.

Advertising

The College expenses the cost of advertising as incurred. Advertising expense was approximately \$14,000 and \$9,000 for the years ended August 31, 2016 and 2015, respectively.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies - Continued

Tax Status

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” (“MLTN”) 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. As a not-for-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, the College may, however, be subject to tax on unrelated business income.

New Accounting Pronouncements

Leases - The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-02 (“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.

Presentation of Financial Statements of Not-for-Profit Entities – FASB issued ASU 2016-14, an amendment to Topic 958, Not-for-Profit Entities, in June 2016 with an effective date for fiscal years beginning after December 15, 2017. The purpose of this amendment is to improve the transparency and utility of information contained in the financial statements of such entities. Net assets will be presented in two categories, net assets with donor restrictions and net assets without donor restrictions, as opposed to the current three categories. Additional information and disclosures will be required to enable a reader to more readily understand liquidity limitations due to restrictions on net assets. Early application is permitted. Management has not begun its review of the standard, but does not expect implementation to have a material effect on financial position or results of operations.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 3 - **Accounts Receivable**

Student accounts receivable are net of an allowance for uncollectible accounts of \$114,000 and \$94,000, at August 31, 2016 and 2015, respectively.

Note 4 - **Contributions Receivable**

Contributions receivable as of August 31, are expected to be realized in the following time periods:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 236,125	\$ 132,300
Between one and five years	<u>50,000</u>	<u>150,000</u>
	286,125	282,300
Discount at 2.50%	<u>(1,220)</u>	<u>(4,253)</u>
 Total Contributions Receivable, net	 \$ <u>284,905</u>	 \$ <u>278,047</u>

Note 5 - **Property and Equipment**

The College's property, plant and equipment consist of the following at August 31,:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 85,769	\$ 85,769
Furniture	91,517	41,517
Other equipment	<u>4,636</u>	<u>4,636</u>
	181,922	131,922
Accumulated depreciation	<u>(131,922)</u>	<u>(131,922)</u>
 Property and equipment, net	 \$ <u>50,000</u>	 \$ <u> -</u>

Note 6 - **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist entirely of time restrictions related to contributions receivable at August 31, 2016 and 2015.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 7 - **Net Assets Released from Restrictions**

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time were as follows for the years ended August 31:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Scholarships	\$ -	\$ 29,000
Time restrictions:		
Contributions receivable	<u>128,657</u>	<u>5,000</u>
Total	<u>\$ 128,657</u>	<u>\$ 34,000</u>

Note 8 - **Lease Agreements**

The College leases two facilities, both under five-year lease agreements expiring August 31, 2020. The College also rents space under tenant-at-will agreements. For the years ended August 31, 2016 and 2015, total rental expense was \$212,960 and \$186,921, respectively. Based on these lease agreements, subsequent to August 31, 2016, minimum future lease payments under such leases are as follows:

Years Ending <u>August 31,</u>	
2017	\$ 172,771
2018	172,771
2019	172,771
2020	<u>172,771</u>
	<u>\$ 691,084</u>

The College will be moving from the two facilities into one location during 2017, under a ten-year lease agreement expiring ten years after commencement of the lease. The College will not incur any expense for opting out of its current leases.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 8 - **Lease Agreements – Continued**

Subsequent to August 31, 2016, minimum future lease payments, based on an estimated commencement date, under such leases are as follows:

Years Ending <u>August 31,</u>	
2017	279,132
2018	332,313
2019	332,313
2020	354,521
2021	365,625
Thereafter	<u>4,833,376</u>
	<u>\$ 6,497,280</u>

Note 9 - **Pension Plan**

The College has a defined contribution money purchase plan (the “Plan”), which provides benefits for its employees through membership in the Association of Community Service Agencies, Inc. Group Pension Plan. Eligible employees contribute a minimum of 5% of their annual compensation to the College’s tax-sheltered annuity plan, and the College contributes 9% of eligible employee compensation to the Plan. For the years ended August 31, 2016 and 2015, the College’s contributions under the Plan amounted to \$76,275 and \$50,804, respectively.

Note 10 - **Regulatory Matters**

The College is subject to regulatory oversight by the New England Association of Schools and Colleges (“NEASC”), which provides the College with its academic accreditation and the United States Department of Education (“DOE”) that provides student financial assistance to the College in accordance with the Higher Education Act (“HEA”) of 1965, as amended, in Title IV programs.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 10 - **Regulatory Matters – Continued**

Department of Education

The College is required to demonstrate financial responsibility as defined in the United States Department of Education (“ED”) Regulations as a condition of eligibility to participate in the various Federal financial assistance programs. Financial responsibility, as defined in ED regulations, 34 C.F.R. 668.172, is maintaining a "composite score standard" of at least 1.5. The regulations also established a composite score zone (the “zone”) between 1.0 and 1.4, demonstrating an institution as financially weak, but viable. Regulations allow institutions falling within this zone up to three consecutive years to improve their financial condition without requiring surety. If an institution falls below 1.0, the ED will require the college to provide surety in its name in order to participate in the financial assistance programs on a provisional basis.

As of August 31, 2016 and 2015, the College has calculated a composite score standard, of 2.76 and 2.22, respectively, out of a maximum score of 3.00.

Note 11 - **Commitments, Contingencies, and Uncertainties**

Cash

From time to time, the College's cash balances fluctuate and may exceed the federally insured limits. Management monitors the financial condition of the banking institution along with its cash balances and tries to keep the potential risk to a minimal. As of August 31, 2016, the College did not have any uninsured cash.

Government Grants and Financial Aid Programs

All funds expended by the College in connection with government grants and financial aid programs are subject to review or audit by governmental agencies. In the opinion of management, any liability resulting from a review or audit would not have a significant impact on the financial statements of the College.

Employment Agreement

The College has an executive employment agreement in place for services extending to October 2017, with termination provisions in place.

URBAN COLLEGE OF BOSTON

Notes to the Financial Statements - Continued

August 31, 2016 and 2015

Note 12 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through December 14, 2016, the date for which the financial statements were available for issuance, and it is unaware of any other subsequent events requiring disclosure, with the exception of the lease agreement disclosed in Note 8.

**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 ACORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Urban College of Boston
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, the financial statements of Urban College of Boston (the "College"), which comprise the statements of financial position as of August 31, 2016, 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, which collectively comprise Urban College of Boston's basic financial statements and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Urban College of Boston'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 audit 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 Urban College of Boston'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

December 14, 2016