

Financial Statements and Report of
Independent Certified Public Accountants

CAMBRIDGE COLLEGE

August 31, 2019 and 2018

CAMBRIDGE COLLEGE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Cambridge College

Report on the financial statements

We have audited the accompanying financial statements of Cambridge College (the "College"), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College'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 Cambridge College as of August 31, 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.

Grant Thornton LLP

Boston, Massachusetts
December 20, 2019

CAMBRIDGE COLLEGE
Statements of Financial Position
As of August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,171,732	\$ 1,364,131
Accounts receivable, net	2,052,402	1,891,113
Other receivables	76,555	51,544
Contributions receivable - current portion	223,959	16,977
Prepaid expenses and other current assets	<u>1,040,050</u>	<u>1,044,649</u>
Total current assets	5,564,698	4,368,414
NON-CURRENT ASSETS		
Investments	63,911,099	70,082,274
Restricted cash	6,220,476	6,516,428
Other	210,102	223,102
Property and equipment, net	<u>10,232,021</u>	<u>11,293,482</u>
Total assets	<u>\$ 86,138,396</u>	<u>\$ 92,483,700</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 670,047	\$ 552,503
Accrued expenses	1,960,030	1,340,712
Tuition deposits	980,531	827,217
Deferred rent	282,802	302,878
Line of credit	9,300,000	9,300,000
Notes payable, current portion	534,030	515,891
Capital lease obligations, current portion	<u>687,713</u>	<u>715,696</u>
Total current liabilities	14,415,153	13,554,897
NON-CURRENT LIABILITIES		
Capital lease obligations, net of current portion	1,678,022	2,267,376
Notes payable, net of current portion	6,944,182	7,478,326
Non-current accrued expenses	171,100	180,269
Non-current deferred rent	2,102,738	1,792,288
Perkins loan refundable advances	<u>55,460</u>	<u>55,460</u>
Total liabilities	<u>25,366,655</u>	<u>25,328,616</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions	47,992,566	54,534,437
With donor restrictions	<u>12,779,175</u>	<u>12,620,647</u>
Total net assets	<u>60,771,741</u>	<u>67,155,084</u>
Total liabilities and net assets	<u>\$ 86,138,396</u>	<u>\$ 92,483,700</u>

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

CAMBRIDGE COLLEGE

Statement of Activities

For the year ended August 31, 2019

(With comparative summarized financial information for the year ended August 31, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees, net	\$ 21,759,111	\$ -	\$ 21,759,111	\$ 21,288,899
Contributions	478,540	705,464	1,184,004	565,720
Rental income	111,463	-	111,463	-
Investment income and gains	2,921,138	343,824	3,264,962	2,265,646
Other income	129,066	-	129,066	191,616
Net assets released from restrictions	992,592	(992,592)	-	-
Appropriation of Board-designated endowment funds for operations	<u>6,541,871</u>	<u>-</u>	<u>6,541,871</u>	<u>8,123,754</u>
Total revenues, gains and other support	<u>32,933,781</u>	<u>56,696</u>	<u>32,990,477</u>	<u>32,435,635</u>
EXPENSES				
Educational				
Instruction	9,988,490	-	9,988,490	10,158,219
Academic support	6,869,740	-	6,869,740	6,811,507
Student services	8,278,433	-	8,278,433	7,497,838
Management and general	7,210,984	-	7,210,984	7,201,570
Fundraising	<u>586,134</u>	<u>-</u>	<u>586,134</u>	<u>694,988</u>
Total expenses	<u>32,933,781</u>	<u>-</u>	<u>32,933,781</u>	<u>32,364,122</u>
Change in net assets from operations	<u>-</u>	<u>56,696</u>	<u>56,696</u>	<u>71,513</u>
NON-OPERATING ACTIVITIES				
Contributions for long-term investment	-	124,033	124,033	2,350
Change in value of split-interest agreements	-	(22,201)	(22,201)	(22,076)
Appropriation of Board-designated endowment funds for operations	<u>(6,541,871)</u>	<u>-</u>	<u>(6,541,871)</u>	<u>(8,123,754)</u>
Total non-operating activities	<u>(6,541,871)</u>	<u>101,832</u>	<u>(6,440,039)</u>	<u>(8,143,480)</u>
Changes in net assets	<u>(6,541,871)</u>	<u>158,528</u>	<u>(6,383,343)</u>	<u>(8,071,967)</u>
Net assets, beginning of year	<u>54,534,437</u>	<u>12,620,647</u>	<u>67,155,084</u>	<u>75,227,051</u>
Net assets, end of year	<u>\$ 47,992,566</u>	<u>\$ 12,779,175</u>	<u>\$ 60,771,741</u>	<u>\$ 67,155,084</u>

The accompanying notes are an integral part of this financial statement.

CAMBRIDGE COLLEGE
Statement of Activities
For the year ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees, net	\$ 21,288,899	\$ -	\$ 21,288,899
Contributions	198,402	367,318	565,720
Investment income and gains	1,634,899	630,747	2,265,646
Other income	191,616	-	191,616
Net assets released from restrictions	926,552	(926,552)	-
Appropriation of Board-designated endowment funds for operations	<u>8,123,754</u>	<u>-</u>	<u>8,123,754</u>
Total revenues, gains and other support	<u>32,364,122</u>	<u>71,513</u>	<u>32,435,635</u>
EXPENSES			
Educational			
Instruction	10,158,219	-	10,158,219
Academic support	6,811,507	-	6,811,507
Student services	7,497,838	-	7,497,838
Management and general	7,201,570	-	7,201,570
Fundraising	<u>694,988</u>	<u>-</u>	<u>694,988</u>
Total expenses	<u>32,364,122</u>	<u>-</u>	<u>32,364,122</u>
Change in net assets from operations	<u>-</u>	<u>71,513</u>	<u>71,513</u>
NON-OPERATING ACTIVITIES			
Contributions for long-term investment	-	2,350	2,350
Change in value of split-interest agreements	-	(22,076)	(22,076)
Appropriation of Board-designated endowment funds for operations	<u>(8,123,754)</u>	<u>-</u>	<u>(8,123,754)</u>
Total non-operating activities	<u>(8,123,754)</u>	<u>(19,726)</u>	<u>(8,143,480)</u>
Changes in net assets	(8,123,754)	51,787	(8,071,967)
Net assets, beginning of year	<u>62,658,191</u>	<u>12,568,860</u>	<u>75,227,051</u>
Net assets, end of year	<u>\$ 54,534,437</u>	<u>\$ 12,620,647</u>	<u>\$ 67,155,084</u>

The accompanying notes are an integral part of this financial statement.

CAMBRIDGE COLLEGE
Statements of Cash Flows
For the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (6,383,343)	\$ (8,071,967)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,247,442	1,046,035
Provision for doubtful accounts	583,723	595,865
Contributions restricted for long-term investment purposes	(124,033)	(2,350)
Net realized and unrealized gains on investments	(1,584,139)	(1,421,738)
Change in operating assets and liabilities		
Accounts receivable	(745,012)	(766,088)
Other receivables	(25,011)	1,075,352
Contributions receivable	(206,982)	(4,377)
Prepaid expenses and other current assets	4,599	(86,901)
Other assets	13,000	(110,550)
Accounts payable	117,544	(1,183,263)
Accrued expenses	610,149	(474,459)
Deferred rent	153,314	530,632
Tuition deposits	290,374	(2,575)
Net cash used in operating activities	<u>(6,048,375)</u>	<u>(8,876,384)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(41,171)	(3,712,207)
Purchases of investments	(60,611,469)	(82,530,913)
Sales and maturities of investments	68,366,783	34,443,172
Net cash provided by (used in) investing activities	<u>7,714,143</u>	<u>(51,799,948)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in restricted cash	295,952	14,398,092
Payments on note payable	(516,005)	(502,036)
Payments on capital lease obligations	(762,147)	(561,120)
Contributions restricted for long-term investment purposes	124,033	2,350
Net cash (used in) provided by financing activities	<u>(858,167)</u>	<u>13,337,286</u>
Net increase (decrease) in cash and cash equivalents	<u>807,601</u>	<u>(47,339,046)</u>
Cash and cash equivalents, beginning of year	<u>1,364,131</u>	<u>48,703,177</u>
Cash and cash equivalents, end of year	<u>\$ 2,171,732</u>	<u>\$ 1,364,131</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 886,220</u>	<u>\$ 786,605</u>
Computer and office equipment purchased through capital leases	<u>\$ 144,810</u>	<u>\$ 2,635,076</u>

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

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2019 and 2018

1. ORGANIZATION

Cambridge College (the “College”) is a private, nondenominational institution offering graduate and undergraduate educational opportunities for working adults. The College is accredited by the New England Commission of Higher Education. The College’s main campus is located in Boston, Massachusetts, with additional regional centers located in Springfield and Lawrence, Massachusetts; Rancho Cucamonga California and Guaynabo, Puerto Rico. Students enrolled in the College’s traditional programs at the College’s main campus are primarily from the Greater Boston area. Students enrolled at the College’s regional centers are primarily from the cities, towns and states that are in close proximity to the center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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 (“US GAAP”).

Classification and Reporting of Net Assets

Net assets and revenues, expenses, gains and losses of the College are classified into two categories, 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:

Net assets without donor restrictions include amounts not subject to donor-imposed stipulations, including net investment in plant and funds designated by the Board of Trustees. Net assets designated for by the Board of Trustees to function as endowment totaled \$52,054,058 and \$57,743,610 at August 31, 2019 and 2018, respectively.

Net assets with donor restrictions are subject to donor-imposed restrictions that will be satisfied by actions of the College and/or the passage of time. In addition, net assets with donor restrictions also include net assets whereby the respective donors have stipulated that the corpus contributed be invested and/or maintained in perpetuity. Contributions receivable, funds held in support of split-interest agreements, and beneficial interest in split-interest agreements also classified as net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by express donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Expirations of donor-imposed-restrictions on net assets, that is, the donor-imposed stipulated purpose has been met and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Dividends, interest, and net realized unrealized gains or losses, arising from investments, are reported:

as increases in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund; and

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2019 and 2018

as increases in net assets with donor restrictions if the terms of the gift or state law impose restrictions on the current use of the income or net gains; and as increases in net assets without donor restrictions in all other cases.

Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash, consist of bank accounts and money market funds with original maturities of 90 days or less.

Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts on accounts receivable is determined based upon management's judgment considering such factors as prior collection history and type of receivable. The College writes off receivables when they are deemed uncollectible, and payments subsequently received on such receivables are recorded when received. As of August 31, 2019 and 2018, the allowance related to accounts receivable was \$2,000,000.

Other Receivables

As of August 31, 2019 and 2018, other receivables consist primarily of amounts due from the U.S. Department of Education under student financial aid programs and from an unrelated third party under an exchange contract.

Restricted Cash

Restricted cash represents funds held in security of the College's notes payable and line of credit, as well as note payable proceeds not yet utilized for capital acquisitions (see Note 7).

Investments

The College's investments are comprised primarily of marketable equity, mutual funds and money market funds and are reported at fair value. Investment income is recorded as revenue when earned. The College records its purchases and sales of investments on a trade date basis.

Charitable Gift Annuities

The College has entered into several charitable gift annuity agreements whereby the donor contributes assets to the College in exchange for distributions over a specific period of time. At the end of such time, the remaining assets are available for the College's use. Charitable gift annuities are recognized in the period in which the contract is executed. Contribution revenue is recorded equal to the difference between the fair value of the assets received and the liability for future payment to the donor. Assets held under charitable gift annuities are included in investments and were approximately \$560,000 and \$576,000 at August 31, 2019 and 2018, respectively. Accrued expenses include approximately \$203,000 and \$212,000 as of August 31, 2019 and 2018, respectively, for the annuity payment liability. Any change in such value is recorded as a change in value of split-interest agreements on the accompanying statements of activities.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2019 and 2018

Property and Equipment

Property and equipment are recorded at cost. Additions, renewals and betterments, unless of a relatively minor amount, are capitalized if greater than \$1,000. Expenditures for repairs and maintenance are charged to expense as incurred. Fixed assets are depreciated or amortized using the straight-line method.

Building and improvements	25 - 40 years
Leasehold improvements and assets under capital leases	The lesser of the lease term or economic useful life
Furniture and equipment	5 years
Telephone system	7 years
Computer equipment and integrated system	4-5 years

Tuition Deposits

Tuition deposits represent amounts that have not yet been earned as the underlying obligation has not been satisfied by the College and for which the student may request either a refund or to have the amounts applied to future tuition charges.

Perkins Loan Refundable Advances

Perkins Loan refundable advances represent federal funds received by the College that are used in the Perkins Loan Program. Subsequent repayments of loans by students are used to provide future financial aid to new students. The funds revert back to the Federal government should the College's participation in the Perkins Loan Program cease. In September 2017, the Federal government terminated the Perkins Loan Program. Subsequent to this date students can no longer receive Perkins loan advances.

Tuition and Fees

Tuition and fees are recognized as revenue when earned. Tuition and fee revenues are reported net of scholarships. Scholarships are provided from unrestricted College resources, endowment earnings, or donor-restricted gifts and are awarded to students by the College. Tuition and fees on the statement of activities are shown net of discounts and scholarships of \$832,818 and \$758,555 for the years ended August 31, 2019 and 2018, respectively.

Contributions

Contribution revenue is recorded at fair value at the time of transfer. Transactions reported as contributions represent transfers to the College of cash or other assets or the cancellation of its liabilities in a nonreciprocal and voluntary transfer. Promises to give are recognized when the donor makes a pledge to the College that is, in substance, unconditional. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the donor, are recognized only when the conditions are substantially met.

Contributions and promises to give are classified as with or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2019 and 2018

Advertising

The College expenses the cost of advertising the first time an advertisement occurs. Advertising expense was approximately \$869,000 and \$778,000 for the years ended August 31, 2019 and 2018, respectively, and is included in educational expenses on the accompanying statements of activities.

Functional Allocation of Expenses

Costs for operation and maintenance of plant, interest expense and other general costs have been allocated to functional classifications services based on percentage of level of effort, square footage and other criteria.

Operations

Nonoperating revenues principally include permanently restricted gifts, gifts for property and equipment, changes in value of split-interest agreements, and net assets released from restrictions for capital acquisitions. To the extent amounts are used for operations, as approved by the College's Board of Trustees, they are reclassified as amounts appropriated for operations on the statements of activities. All other activity is classified as operating revenues.

Concentration of Credit Risk

Financial instruments of the College that expose it to concentration of credit risk consist primarily of cash and investments. These funds are held in various high quality financial instruments managed by College personnel or outside advisors. Cash could be in excess of Federal Deposit Insurance Corporation insurance limits. The College believes that concentration of credit risk is limited with respect to its cash and investments.

Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. There is a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority 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 below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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Notes to Financial Statements
August 31, 2019 and 2018

Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The College is required to assess uncertain tax positions and has determined that there were no such uncertain positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 statements and reported amounts of support and revenues and operating expenses during the reporting period. Actual results could differ from these estimates.

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the College’s audited consolidated financial statements as of and for the year ended August 31, 2018, from which the summarized information was derived.

Not-for-profit Financial Statement Presentation

During fiscal 2019, the College adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14; Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”). This guidance was intended to provide more useful information to donors, grantors, creditors, and other financial statement users. Main provisions of the guidance include: presentation of two classes of net assets versus the previously required three; as requiring additional disclosures for expenses by nature and function, and for the liquidity and availability of resources.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09; Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) as amended by (“ASU 2016-20”). The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should 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 amendments are effective for annual reporting periods beginning after December 15, 2018 (fiscal year 2020). Two adoption methods are permitted: retrospectively to all prior reporting periods presented, with certain practical expedients permitted; or retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. The College does not believe the adoption of this guidance will have a material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This guidance requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: A lease liability, which is a lessee’s obligation to make lease payments arising

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Notes to Financial Statements
August 31, 2019 and 2018

from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The amendment is effective for annual reporting periods beginning after December 15, 2020 (fiscal year 2022). The adoption of this guidance is not expected to have significant impact, however management is evaluating the impact on the presentation of the College’s financial statements.

Reclassifications

As a result of the implementation of ASU 2016-14 reclassifications were made to the 2018 financial statements to conform to the 2019 presentation.

Subsequent Events

The College has evaluated all subsequent events that occurred after August 31, 2019 through December 20, 2019, the date the financial statements were available for issuance. The College is not aware of any subsequent events which would require additional recognition or disclosure in the financial statements as of August 31, 2019.

3. INVESTMENTS

Investments are comprised of and are classified within the fair value hierarchy as follows at August 31:

<u>2019</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	\$ 1,835,879	\$ -	\$ 1,835,879
U.S. government obligations	-	11,089,010	11,089,010
Marketable equity securities	11,914,727	-	11,914,727
Marketable debt securities	5,934,563	-	5,934,563
Municipal obligations	-	3,511,651	3,511,651
Mutual funds	<u>29,625,269</u>	<u>-</u>	<u>29,625,269</u>
	<u>\$ 49,310,438</u>	<u>\$ 14,600,661</u>	<u>\$ 63,911,099</u>

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<u>2018</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	\$ 3,508,750	\$ -	\$ 3,508,750
U.S. government obligations	-	19,783,274	19,783,274
Marketable equity securities	5,835,237	-	5,835,237
Marketable debt securities	6,269,090	-	6,269,090
Municipal obligations	-	3,208,776	3,208,776
Mutual funds	<u>31,477,147</u>	<u>-</u>	<u>31,477,147</u>
	<u>\$ 47,090,224</u>	<u>\$ 22,992,050</u>	<u>\$ 70,082,274</u>

Marketable securities and mutual funds are valued using active market prices (Level 1) U.S. government obligations and municipal obligations are valued using other observable inputs (Level 2).

Investment return is comprised of the following for the years ended August 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends, net	\$ 1,680,823	\$ 843,908
Net realized and unrealized gains	<u>1,584,139</u>	<u>1,421,738</u>
Total investment return	<u>\$ 3,264,962</u>	<u>\$ 2,265,646</u>

Investment management expenses of \$317,786 and \$214,035 are netted against interest and dividends for the years ended August 31, 2019 and 2018, respectively.

4. ENDOWMENT

The College's endowment consists of 29 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi-endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees which function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the College classifies as net assets with donor restrictions the original fair value of gifts donated to its permanent endowment. The remaining portion of the donor-restricted endowment fund is included within net assets with until such amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the “historic dollar value.” Deficiencies of this nature are reported as a change to net assets with donor restrictions in the College’s statement of financial position. There were no deficiencies at August 31, 2019 or 2018.

Return Objectives and Risk Parameters

The College has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under the College’s investment policy and spending policy, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College outsources the management of the investment portfolio to an independent investment manager. The Investment Committee of the Board periodically makes recommendations to the Finance Committee regarding manager selection.

Spending Policy

Distributions from investment income earned on permanently restricted endowment funds are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. The Board of Trustees has established a spending rate that calculates the average annual return on the portfolio, net of management fees, for the previous thirty-six months less the average annual consumer price index percentage growth for the same period. Net assets are then released from restriction by vote of the Board of Trustees up to this spending rate of a maximum of 5%. The College has adopted this spending policy in order to protect the inviolate nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future.

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The College's endowment is comprised of the following at August 31:

<u>2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,803,962	\$ 11,803,962
Board-designated funds	<u>52,054,058</u>	<u>-</u>	<u>52,054,058</u>
Total funds	<u>\$ 52,054,058</u>	<u>\$ 11,803,962</u>	<u>\$ 63,858,020</u>

Included in Board-designated endowment funds at August 31, 2019 is \$6,220,476 of restricted cash, as reported on the statement of financial position.

<u>2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,904,092	\$ 11,904,092
Board-designated funds	<u>57,743,610</u>	<u>-</u>	<u>57,743,610</u>
Total funds	<u>\$ 57,743,610</u>	<u>\$ 11,904,092</u>	<u>\$ 69,647,702</u>

Included in Board-designated endowment funds at August 31, 2018 are \$6,516,428 of cash and equivalents and restricted cash, as reported on the statement of financial position.

The activity in the College's endowment for the year ended August 31, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 57,743,610	\$ 11,904,092	\$ 69,647,702
Investment return			
Investment income	1,299,089	247,483	1,546,572
Net appreciation	<u>1,446,481</u>	<u>81,386</u>	<u>1,527,867</u>
Total investment return	2,745,570	328,869	3,074,439
New gifts/additions	-	124,033	124,033
Appropriation of endowment assets			
For operations	(6,541,871)	(553,032)	(7,094,903)
For other than operations	<u>(1,893,251)</u>	<u>-</u>	<u>(1,893,251)</u>
Net assets, end of year	<u>\$ 52,054,058</u>	<u>\$ 11,803,962</u>	<u>\$ 63,858,020</u>

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The activity in the College's endowment for the year ended August 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 64,481,291	\$ 11,884,863	\$ 76,366,154
Investment return			
Investment income	555,688	192,637	748,325
Net appreciation	<u>830,385</u>	<u>408,858</u>	<u>1,239,243</u>
Total investment return	1,386,073	601,495	1,987,568
New gifts/additions	-	2,350	2,350
Appropriation of endowment assets for operations	<u>(8,123,754)</u>	<u>(584,616)</u>	<u>(8,708,370)</u>
Net assets, end of year	<u>\$ 57,743,610</u>	<u>\$ 11,904,092</u>	<u>\$ 69,647,702</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment is comprised of the following at August 31:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 120,522	\$ 120,522
Leasehold improvements	9,502,391	9,413,511
Furniture and equipment	2,669,250	2,802,638
Telephone, computer equipment and integrated system	<u>1,842,132</u>	<u>1,853,441</u>
Subtotal	14,134,295	14,190,112
Accumulated depreciation	<u>(3,902,274)</u>	<u>(2,896,630)</u>
Net property and equipment	<u>\$ 10,232,021</u>	<u>\$ 11,293,482</u>

Depreciation expense was \$1,247,442 and \$1,046,035 for the years ended August 31, 2019 and 2018, respectively.

Total assets capitalized under lease arrangements amounted to \$4,154,942 and \$4,010,132 at August 31, 2019 and 2018, respectively. The related accumulated depreciation associated with the assets capitalized under lease arrangements was \$1,672,155 and \$951,057 at August 31, 2019 and 2018, respectively.

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6. LINE OF CREDIT AND NOTES PAYABLE

Line of Credit

The College has a line of credit with a bank which allows for borrowings up to \$11,000,000 at the bank's prime rate. The rate was 5.25% and 5.00% at August 31, 2019 and 2018, respectively. The line of credit is cross collateralized by a cash account held at the bank and the unrestricted portion of the College's endowment. The College had an outstanding balance on the line of credit of \$9,300,000 at August 31, 2019 and 2018. The line of credit expires and is subject to renewal in August, 2020.

Notes Payable

Notes payable consists of the following at August 31:

	<u>2019</u>	<u>2018</u>
Note payable to a bank, due in monthly interest and principal payments of approximately \$8,500 through March 2023. Interest is fixed at 5.07%. This note is cross-collateralized by unrestricted investments and cash held in an account with the lending bank.	\$ 334,434	\$ 417,417
Note payable to a bank, due in monthly interest and principal payments of approximately \$37,400 through August 2032. Interest is fixed at 2.75%. This note is cross-collateralized by unrestricted investments and cash held in an account with the lending bank.	4,889,872	5,197,977
Note payable to a bank, due in monthly interest and principal payments of approximately \$19,100 through August 2032. Interest is fixed at 4.45%. This note is cross-collateralized by unrestricted investments and cash held in an account with the lending bank.	<u>2,253,906</u>	<u>2,378,823</u>
	7,478,212	7,994,217
Less:		
Current portion	<u>534,030</u>	<u>515,891</u>
Notes payable, net of current portion	<u>\$ 6,944,182</u>	<u>\$ 7,478,326</u>

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Required principal payments for the next five fiscal years and thereafter are as follows:

2020	\$ 534,026
2021	554,244
2022	574,574
2023	552,185
2024	509,970
Thereafter	<u>4,733,213</u>
Total principal payments	<u>\$ 7,478,212</u>

The line of credit and note payable agreements contain certain financial covenants with which the College must adhere. The College was in compliance with these covenants as of August 31, 2019.

The line of credit and note payable are cross collateralized by a cash account held at the bank and the unrestricted portion of the College's endowment.

Capital Leases

The College leases certain computer equipment, copiers, office equipment and furniture under various capital lease arrangements, which expire at various dates through June 2026.

Future minimum lease payments under capital leases for the next five fiscal years and thereafter are as follows:

2020	\$ 773,977
2021	678,343
2022	612,713
2023	286,520
2024	99,229
Thereafter	<u>127,733</u>
Total minimum lease payments	2,578,515
Less amount representing interest	<u>(212,780)</u>
Present value of minimum lease payments	2,365,735
Current portion	<u>687,713</u>
Non current portion	<u>\$ 1,678,022</u>

Interest expense on the line of credit, note payables and capital leases was approximately \$888,000 and \$793,000 for the years ended August 31, 2019 and 2018, respectively.

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7. NET ASSETS

Net assets with donor restrictions are available for the following purposes at August 31:

	<u>2019</u>	<u>2018</u>
<u>With purpose restrictions</u>		
Scholarships	\$ 424,042	\$ 99,807
Program support	<u>177,631</u>	<u>235,391</u>
	601,673	335,198
<u>With time restrictions</u>		
Annual fund pledges	16,405	16,977
Charitable gift annuities	357,133	364,380
Accumulated unspent gains on donor-restricted endowment funds	4,033,696	4,257,857
Restricted in perpetuity for endowment	<u>7,770,268</u>	<u>7,646,235</u>
Total	<u>\$ 12,779,175</u>	<u>\$ 12,620,647</u>

Net assets were released for the following purposes during the years ended August 31:

	<u>2019</u>	<u>2018</u>
Scholarships	\$ 568,036	\$ 553,516
Program support	383,565	334,723
Annual fund pledges	14,897	12,600
General purposes	<u>26,094</u>	<u>25,713</u>
Total	<u>\$ 992,592</u>	<u>\$ 926,552</u>

8. PENSION PLAN

The College has a defined contribution pension plan covering all eligible faculty, administrative and staff employees. The College contributes between 8% and 10% of the current year salary for eligible employees, depending on the employee's classification. Pension expense was approximately \$866,000 and \$944,000 for the years ended August 31, 2019 and 2018, respectively.

The College has two nonqualified deferred compensation plans (the "457 Plans"), which are subject to the provisions of the Code Section 457. Until paid or made available to the participant, all deferred amounts and investment earnings related to deferral amounts are solely the property and rights of the College and are subject to the claims of the College's creditors. A participant's rights under the 457 Plans are equal to those of a general creditor of the College. As of August 31, 2019 and 2018, the 457 Plan assets and corresponding liabilities totaled \$101,000 and \$55,000, respectively, and are included in investments and accrued expenses in the accompanying statements of financial position.

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9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The College leases classroom and administrative space for the main campus and regional centers. These leases expire at various dates through December 2036. The College also leases certain copiers and postage machines. The leases for copiers and postage machines expire at various dates through July 2022. Minimum future lease payments for leases for the next five years are as follows:

2020	\$	4,446,898
2021		4,362,296
2022		4,353,907
2023		4,236,858
2024		4,045,987
Thereafter		<u>48,785,636</u>
Total minimum future lease payments	\$	<u>70,231,582</u>

The College recognizes the total rent obligation as rent expense on a straight-line basis over the term of the leases. The difference between rental payments and rent expense is reflected as deferred rent in the statements of financial position.

Rent expense was approximately \$4,808,000 and \$4,631,000 for the years ended August 31, 2019 and 2018, respectively.

Legal

The College is involved in various legal cases that arise in the normal course of the College's operations. Based on discussion with legal counsel, the College believes that currently outstanding cases will not have a material effect on the financial position of the College.

Other

The College's core faculty, hourly staff and non-managerial administrative staff are covered by separate collective bargaining agreements and are represented by the Massachusetts Federation of Teachers and the American Federation of Teachers. The union agreements with the hourly staff and non-managerial administrative staff expire on August 31, 2019. The agreement with the core faculty is being negotiated. Management anticipates that the agreement will be finalized during the year ending August 31, 2020.

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10. LIQUIDITY AND AVAILABILITY

The College's financial assets available within one year of the statement of financial position for general expenditure are as follows as of August 31, 2019:

Cash and cash equivalents	\$ 2,171,732
Receivables to be collected during the year	2,352,916
Short-term investments available within one year	4,473,453
Other investments appropriated for use in fiscal year 2020	<u>9,248,206</u>
 Total financial assets available within one year	 <u>\$ 18,246,307</u>

As part of the College's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, the College has available a line of credit in the amount of \$11,000,000 (\$1,700,000 available at August 31, 2019), which it could draw upon. Although the College does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its spending policy, amounts from its board-designated endowment could be made available if necessary.

11. FUNCTIONAL EXPENSES

Expenses are reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. The College's primary program service is instruction. Expenses reported as academic support, student services, institutional support and auxiliary services are incurred in support of these program services. The costs associated with physical plant (maintenance, depreciation and amortization, and interest) are allocated to functional expense categories based on estimated percentage of effort, usage, and other criteria determined by management to be reasonable and appropriate.

The following table presents the College's expenses by functional and natural category for the year ended August 31, 2019, with comparative totals for the year ended August 31, 2018.

	<u>Instruction</u>	<u>Academic Support and Student Services</u>	<u>Institutional Support</u>	<u>Fundraising</u>	<u>2019</u>	<u>2018</u>
Salaries and benefits	\$ 6,617,849	\$ 8,643,467	\$ 2,845,660	\$ 476,724	\$ 18,583,700	\$ 19,226,953
Supplies and services	2,771,761	5,678,843	3,570,783	107,505	12,128,892	11,196,384
Travel and entertainment	2,214	59,971	21,176	1,905	85,266	102,139
Depreciation	471,230	581,715	194,497	-	1,247,442	1,046,035
Interest	<u>125,436</u>	<u>184,177</u>	<u>578,868</u>	<u>-</u>	<u>888,481</u>	<u>792,611</u>
	<u>\$ 9,988,490</u>	<u>\$ 15,148,173</u>	<u>\$ 7,210,984</u>	<u>\$ 586,134</u>	<u>\$ 32,933,781</u>	<u>\$ 32,364,122</u>