



URBAN COLLEGE OF BOSTON

Financial Statements

August 31, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Urban College of Boston:

Report on the Financial Statements

We have audited the accompanying financial statements of the Urban College of Boston (the College), which comprise the statements of financial position as of August 31, 2013 and 2012, 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 U.S. generally accepted accounting principles; 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 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. 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 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 the College as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.

KPMG LLP

April 2, 2014

URBAN COLLEGE OF BOSTON

Statements of Financial Position

August 31, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 271,275	86,395
Accounts receivable, net (note 8)	408,694	372,728
Grants and contributions receivable (note 9)	100,000	91,653
Prepaid expenses	18,693	556
Total assets	<u>\$ 798,662</u>	<u>551,332</u>
Liabilities and Net Assets (Deficit)		
Liabilities:		
Accounts payable	\$ 28,986	11,590
Deferred revenue	70,271	100,000
Deferred tuition	51,786	35,315
Accrued expenses	141,212	192,535
Due to ABCD (note 10)	—	672,169
Total liabilities	<u>292,255</u>	<u>1,011,609</u>
Net assets (deficit):		
Unrestricted	393,997	(610,353)
Temporarily restricted (note 3)	112,410	150,076
Total net assets (deficit)	<u>506,407</u>	<u>(460,277)</u>
Commitments and Contingencies (note 11)		
Total liabilities and net assets (deficit)	<u>\$ 798,662</u>	<u>551,332</u>

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Statements of Activities

Years ended August 31, 2013 and 2012

	2013	2012
Changes in unrestricted net assets (deficit):		
Revenues and other support:		
Tuition and fees	\$ 2,112,083	1,628,221
Less scholarships and grants	(385,299)	(177,597)
Net student revenue	1,726,784	1,450,624
Federal, state, and local grants	331,300	465,223
Contributions	236,971	119,351
Miscellaneous	19,256	12,227
Total revenues	2,314,311	2,047,425
Net assets released from restrictions (note 4)	26,398	21,954
Total revenues and net assets released from restrictions	2,340,709	2,069,379
Expenses:		
Instruction	1,106,416	1,000,406
Academic support	556,061	719,918
Institutional support	477,109	574,619
Total expenses	2,139,586	2,294,943
Total operating income (loss)	201,123	(225,564)
Nonoperating Income:		
Forgiveness of debt (note 10)	672,169	—
Net asset reclassification (note 3)	131,058	—
Total nonoperating income	803,227	—
Increase (decrease) in unrestricted net assets	1,004,350	(225,564)
Changes in temporarily restricted net assets:		
Contributions	119,790	4,810
Net assets released from restrictions (note 4)	(26,398)	(21,954)
Net asset reclassification (note 3)	(131,058)	—
Decrease in temporarily restricted net assets	(37,666)	(17,144)
Increase (decrease) in net total assets (deficit)	966,684	(242,708)
Net deficit, beginning of year	(460,277)	(217,569)
Net assets (deficit), end of year	\$ 506,407	(460,277)

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Statements of Cash Flows

Years ended August 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets (deficit)	\$ 966,684	(242,708)
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities:		
Depreciation	—	2,278
Forgiveness of debt	(672,169)	—
Change in assets/liabilities:		
Accounts receivable	(35,966)	(236,424)
Grants and contributions receivable	(8,347)	(76,653)
Prepaid expenses	(18,137)	800
Accounts payable	17,396	(31,894)
Deferred tuition revenue	16,471	(13,129)
Deferred revenue	(29,729)	100,000
Accrued expenses	(51,323)	16,621
Net cash provided by (used in) operating activities	184,880	(481,109)
Cash flows from financing activities:		
Receipt of financial assistance from ABCD	—	203,354
Receipt of loan proceeds from ABCD	—	300,000
Net cash provided by financing activities	—	503,354
Net increase cash	184,880	22,245
Cash and cash equivalents, beginning of year	86,395	64,150
Cash and cash equivalents, end of year	\$ 271,275	86,395

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2013 and 2012

(1) Background

Urban College of Boston (the College), incorporated on November 30, 1997, is a two-year institution whose mission is to identify, encourage, and support persons whose access to higher education opportunities has been limited by poverty and other barriers. It offers an Associate of Arts in Early Childhood Education degree, Associate of Arts in Human Services Administration degree, and Associate of Arts in General Studies degree.

(2) Summary of Significant Accounting Policies

(a) *Basis of Financial Statement Presentation*

The accompanying financial statements of the College are presented on the accrual basis of accounting.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

(b) *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 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.

(c) *Property, Plant, and Equipment*

Acquisitions of property, plant, and equipment are recorded at cost, unless they are donated, in which case they are recorded at estimated fair value at the date of the donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are expensed in the period in which they are incurred.

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2013 and 2012

(d) Contract-Related Fees

In accordance with certain grant program agreements, the College receives reimbursement from program participants for goods and services provided under the grants. Such reimbursement is stipulated in the grant agreements.

(e) Income Taxes

The Urban College of Boston is a not-for-profit organization as described under Internal Revenue Code (IRC) Section 501(c)(3) and is generally exempt from income taxes under IRC Section 501(a). The College has not engaged in activities that would put the tax exempt status at risk and believes it has taken no uncertain tax positions.

(f) Use of 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(g) Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to 2013 presentation.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at August 31:

	2013	2012
Purpose restrictions:		
Scholarships	\$ 6,607	144,273
Equipment and materials	5,803	5,803
Time restrictions:		
Contributions receivable	100,000	—
Total	\$ 112,410	150,076

For the year ended August 31, 2013, based upon an analysis of its purpose restrictions, the College reclassified \$131,058 of previously recorded temporarily restricted net assets to unrestricted net assets.

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2013 and 2012

(4) 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>2013</u>	<u>2012</u>
Purpose restrictions:		
Scholarships	\$ <u>26,398</u>	<u>21,954</u>

(5) Furniture and Equipment

At August 31, 2013 and 2012, the College's furniture and equipment were comprised of:

	<u>Estimated lives</u>		<u>2013</u>	<u>2012</u>
Computer equipment	3 – 4 years	\$	85,769	85,769
Furniture	10 years		41,517	41,517
Other equipment	5 years		<u>4,636</u>	<u>4,636</u>
			131,922	131,922
Less accumulated depreciation			<u>(131,922)</u>	<u>(131,922)</u>
Net furniture and equipment		\$	<u>—</u>	<u>—</u>

Depreciation expense for the years ended August 31, 2013 and 2012 was \$0 and \$2,278, respectively.

(6) Leases

The College leased facilities at 178 Tremont Street from Action for Boston Community Development Real Estate Corp., a related party, which expired on August 31, 2011. In addition, the College leased facilities, currently located at 19 Temple Place, from Action for Boston Community Development, Inc., which also expired on August 31, 2011. Subsequent to the expiration of these leases, the College entered into a new lease for 178 Tremont Street and 19 Temple Place with each of the new leases expiring August 31, 2015. For the years ended August 31, 2013 and 2012, total rental expense was \$144,976 and \$172,771 respectively.

Based upon the renegotiated leases, the College had the following lease commitments:

Year ending August 31:		
2014	\$	172,771
2015		<u>172,771</u>
Total	\$	<u><u>345,542</u></u>

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2013 and 2012

(7) 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, 2013 and 2012, the College's contributions and administrative expenses under the Plan amounted to \$34,523 and \$30,093, respectively.

(8) Accounts Receivable

Student accounts receivable are net of an allowance for uncollectible accounts of \$212,576 and \$77,992, respectively, at August 31, 2013 and 2012.

(9) Contributions and Grants Receivable

Contributions receivable consisted of the following at August 31, 2013 and 2012:

	2013	2012
Unconditional promises expected to be collected in one year	\$ 100,000	—

Grants receivable consisted of the following at August 31, 2013 and 2012:

	2013	2012
Funds for the Improvement of Post-Secondary Education	\$ —	91,653

(10) Due to ABCD

The College is indebted to Action for Boston Community Development, Inc. (ABCD), a related party, at August 31, 2013 and 2012 as follows:

	2013	2012
Notes payable:		
Due January 31, 2013, interest rate of 3.25%	\$ —	145,397
Due January 31, 2013, interest rate of 3.25%	—	300,000
Total notes payable	—	445,397
Accounts payable	—	226,772
Total	\$ —	672,169

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August 31, 2013 and 2012

On April 25, 2013, ABCD and the College executed an agreement to forgive all debt owed by the College to ABCD. The debt forgiven, totaling \$672,169, is recognized as nonoperating income on the College's Statements of Activities.

(11) 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) which provides student financial assistance to the College in accordance with the Higher Education Act (HEA) of 1965, as amended, in Title IV programs.

NEASC

By letter dated October 3, 2012, NEASC's Commission on Institutions of Higher Education (the Commission), formally placed the College on probation for a period of two years for failing to meet certain of the Commission's Standards of Accreditation (Standards). Since then, the College has been subject to increased monitoring by the Commission and has been required to submit several "show cause" letters to address the Commission's concerns. The Commission will consider at its November 2014 meeting, the end of the two-year probationary period, whether the College has come into compliance with the Standards. If the College does not meet these Standards, the Commission will take action to terminate the College's accreditation. If the Standards are met, the Commission will remove the College from probation, continue the institution in accreditation, and determine further monitoring.

DOE

Since 2011, the College was deemed to be in violation of DOE's general financially responsible standard as its composite ratio, as calculated in accordance with 34 CFR 668.171 (b)/(1), fell below the minimum standard required by DOE. The College is permitted to continue to participate in the Title IV, HEA programs for no more than three years provided the College posts a letter of credit and adheres to heightened cash management procedures. Prior to August 31, 2013, ABCD guaranteed the College's letter of credit. On November 7, 2013, Urban renewed its letter of credit by posting its own cash collateral in the amount of \$94,497. DOE's next scheduled desk review of the College will occur upon receipt of the audited fiscal 2013 financial statements. Management's analysis of the audited 2013 results indicate that the College's composite ratio will be within the acceptable range of 34 CFR 668.171(b)/(1).

These regulatory matters pose a significant risk to the College. Consequently, the accompanying financial statements have not been adjusted to reflect any commitments or contingencies related to these matters.

(12) Subsequent Events

The College evaluated subsequent events for potential recognition or disclosure through April 2, 2014, the date on which the financial statements were issued. Adjustments or additional disclosures, if any, have been included in these financial statements.