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2012
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URBAN COLLEGE OF BOSTON
Financial Statements
August 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

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

2012
Audit
037816

Independent Auditors' Report

The Board of Directors
Urban College of Boston:

We have audited the accompanying statements of financial position of the Urban College of Boston (the College) as of August 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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. This standard requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the College will continue as a going concern. As discussed in note 12 to the financial statements, the College has suffered losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP

April 4, 2013

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URBAN COLLEGE OF BOSTON

Statements of Financial Position

August 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 86,395	64,150
Accounts receivable, net (note 8)	372,728	136,304
Grants receivable	91,653	—
Contributions receivable (note 9)	—	15,000
Furniture and equipment, net (note 5)	—	2,278
Prepaid expenses	556	1,356
Total assets	<u>\$ 551,332</u>	<u>219,088</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 11,590	43,484
Deferred revenue	100,000	—
Deferred tuition	35,315	48,444
Accrued expenses	192,535	175,914
Due to ABCD (note 10)	672,169	168,815
Total liabilities	<u>1,011,609</u>	<u>436,657</u>
Net deficit:		
Unrestricted	(610,353)	(384,789)
Temporarily restricted (note 3)	150,076	167,220
Total net deficit	<u>(460,277)</u>	<u>(217,569)</u>
Total liabilities and net deficit	<u>\$ 551,332</u>	<u>219,088</u>

See accompanying notes to financial statements.

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URBAN COLLEGE OF BOSTON

Statements of Activities

Years ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and fees	\$ 1,628,221	1,306,866
Less scholarships and grants	(177,597)	—
Net student revenue	1,450,624	1,306,866
Federal, state, and local grants	465,223	802,775
Contributions	119,351	135,169
Miscellaneous	12,227	730
Total revenues	<u>2,047,425</u>	<u>2,245,540</u>
Net assets released from restrictions (note 4)	21,954	13,964
Total revenues and net assets released from restrictions	<u>2,069,379</u>	<u>2,259,504</u>
Expenses:		
Instruction	1,000,406	1,123,280
Academic support	719,918	837,881
Institutional support	574,619	655,824
Total expenses	<u>2,294,943</u>	<u>2,616,985</u>
Decrease in unrestricted net assets	<u>(225,564)</u>	<u>(357,481)</u>
Changes in temporarily restricted net assets:		
Contributions	4,810	29,000
Net assets released from restrictions (note 4)	(21,954)	(13,964)
Increase (decrease) in temporarily restricted net assets	<u>(17,144)</u>	<u>15,036</u>
Decrease in net total assets	<u>(242,708)</u>	<u>(342,445)</u>
Net assets, beginning of year	<u>(217,569)</u>	<u>124,876</u>
Net deficit, end of year	<u>\$ (460,277)</u>	<u>(217,569)</u>

See accompanying notes to financial statements.

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URBAN COLLEGE OF BOSTON
 Statements of Cash Flows
 Years ended August 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Decrease in net assets	\$ (242,708)	(342,445)
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	2,278	9,262
Change in assets/liabilities:		
Prepaid expenses	800	5,103
Grants and accounts receivable	(328,077)	163,077
Contributions receivable	15,000	10,000
Payables	(31,894)	(74,271)
Deferred tuition revenue	(13,129)	43,932
Deferred revenue	100,000	—
Accrued expenses	16,621	(6,216)
Net cash used in operating activities	(481,109)	(191,558)
Cash flows from financing activities:		
Receipt of financial assistance from ABCD	203,354	23,418
Receipt of loan proceeds from ABCD	300,000	145,397
Net cash provided by financing activities	503,354	168,815
Net increase (decrease) cash	22,245	(22,743)
Cash and cash equivalents, beginning of year	64,150	86,893
Cash and cash equivalents, end of year	\$ 86,395	64,150

See accompanying notes to financial statements.

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URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2012 and 2011

(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.

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URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2012 and 2011

(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 2011 financial statements have been reclassified to conform to 2012 presentation.

(3) Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Purpose restrictions:		
Scholarships	\$ 144,273	162,227
Equipment and materials	5,803	4,993
Total	<u>\$ 150,076</u>	<u>167,220</u>

(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>2012</u>	<u>2011</u>
Purpose restrictions:		
Scholarships	\$ 21,954	13,964

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URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2012 and 2011

(5) Furniture and Equipment

At August 31, 2012 and 2011, the College's furniture and equipment were comprised of:

	<u>Estimated lives</u>		<u>2012</u>	<u>2011</u>
Computer equipment	3 – 4 years	\$	85,769	85,769
Furniture	10 years		41,517	41,517
Other equipment	5 years		4,636	4,636
			<u>131,922</u>	<u>131,922</u>
Less accumulated depreciation			<u>(131,922)</u>	<u>(129,644)</u>
Net furniture and equipment		\$	<u><u>—</u></u>	<u><u>2,278</u></u>

Depreciation expense for the years ended August 31, 2012 and 2011 was \$2,278 and \$9,262, 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, 2012 and 2011, total rental expense was \$172,771.

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

Year ending August 31:		
2013	\$	172,771
2014		172,771
2015		<u>172,771</u>
Total	\$	<u><u>518,313</u></u>

(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 such earnings to the Plan.

For the years ended August 31, 2012 and 2011, the College's contributions and administrative expenses under the Plan amounted to \$30,093 and \$45,005, respectively.

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URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2012 and 2011

(8) Accounts Receivable

Student accounts receivable are net of an allowance for uncollectible accounts of \$77,992 and \$68,559, respectively, at August 31, 2012 and 2011.

(9) Contributions Receivable

Contributions receivable consisted of the following at August 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional promises expected to be collected in:		
One year	\$ —	15,000

(10) Due to ABCD

The College is indebted to Action for Boston Community Development, Inc. (ABCD), a related party, at August 31, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Notes payable:		
Due January 31, 2013, interest rate of 3.25%	\$ 145,397	145,397
Due January 31, 2013, interest rate of 3.25%	300,000	—
Total notes payable	<u>445,397</u>	<u>145,397</u>
Accounts payable	<u>226,772</u>	<u>23,418</u>
Total	<u>\$ 672,169</u>	<u>168,815</u>

On August 11, 2011, the College signed a promissory note with Action for Boston Community Development, Inc (ABCD) in the amount of \$145,397 for expenses paid by ABCD on the College's behalf for the period January 1, 2011 through July 31, 2011. The note carries an interest rate of 3.25% per annum and interest begins accruing as of July 30, 2011. The unpaid principal and accrued interest are due in full on January 31, 2013.

In addition to the promissory note, ABCD extended a revolving line of credit to the College in the amount of \$300,000 beginning on August 12, 2011. Advances under the revolving line of credit accrue interest at a rate of 3.25%. As of August 31, 2012, the College has drawn down the entire line of credit. Any advances and accrued interest owed on the balance are due in full on January 31, 2013.

At a Special Meeting of the ABCD Board of Directors on April 3, 2013, ABCD voted to execute an agreement with the College to forgive all outstanding debt due to ABCD. This includes two notes totaling \$445,397 and accounts payable totaling \$226,772. The vote requires ratification of the full ABCD Board of Directors to be effective. This vote is scheduled to occur on April 24, 2013.

Additionally, ABCD collateralized a letter of credit entered into between Citizens Bank and the College. The letter of credit was posted in response to heightened cash management procedures imposed by the U.S. Department of Education on the College. The letter of credit expires on December 13, 2013.

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URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2012 and 2011

(11) Subsequent Events

Management of the College has evaluated events subsequent to August 31, 2012 and through April 4, 2013, the date on which the financial statements were issued and determined that no events other than the debt discussed in note 10 occurred that warrant disclosure.

(12) Going Concern

Due to the unexpected loss of a Congressional earmark that supported the College for many years, the College has suffered recent operating losses and a deficiency in net assets which raises substantial doubt about the College's ability to continue as a going concern. In order to address this, the management of the College took immediate steps to reduce the operating costs of the College while actively looking for additional revenue sources. The College also raised tuition without adversely affecting enrollments.

The College is subject to the oversight of the U.S. Department of Education (US DOE) and the New England Association of Schools and Colleges (NEASC). Both organizations have notified the College of concerns as a result of the College's financial condition.

The US DOE has required and the College has posted a letter of credit in response to their concern. See note 10.

In June 2012 NEASC issued a "show cause" letter to the College expressing concerns about its compliance with the accrediting association's finance standard. The College's response was considered by NEASC at its September 2012 meeting and as a result the College was placed on probation for a period not to exceed two years. In March 2013, NEASC again issued a "show cause" letter and will meet with the College in April 2013 to review the College's current status.

Management of the College has focused on raising the profile and value of the College throughout the community. The College has increased its grant writing and fund raising activities to secure grants and donations that are new revenue sources to the College. Further, through this effort, the College has achieved an increase in enrollment for the Spring 2013 semester. Due to this outreach and tight fiscal management, the College is projecting positive operating results for the year ending August 31, 2013.

Additionally, at a Special Meeting of the ABCD Board of Directors on April 3, 2013, ABCD voted to execute an agreement with the College to forgive all outstanding debt due ABCD, totaling \$672,169. The vote requires ratification of the full ABCD Board of Directors to be effective. This vote is scheduled to occur on April 24, 2013.