

**Consolidated Financial Statements**  
**William James College, Inc. and Affiliate**

**May 31, 2017 and 2016**



# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Consolidated Financial Statements*

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## *Independent Auditors' Report*

To the Board of Trustees  
William James College, Inc. and Affiliate

We have audited the accompanying consolidated financial statements of William James College, Inc. and Affiliate (the "College"), which comprise the consolidated statements of financial position as of May 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of William James College, Inc. and Affiliate as of May 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Maye Hoffman McCann P.C.*

September 13, 2017  
Boston, Massachusetts

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Consolidated Statements of Financial Position*

	<i>May 31,</i>	
	<i>2017</i>	<i>2016</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,932,805	\$ 7,459,525
Accounts receivable, net of allowances for doubtful accounts of \$50,000 at May 31, 2017 and 2016	520,230	503,245
Contributions receivable, net	65,644	6,621
Prepaid expenses	316,161	351,895
Total current assets	9,834,840	8,321,286
Contributions receivable, net	157,109	20,000
Investments	2,101,341	1,772,255
Property and equipment, net	22,065,034	22,789,870
<b>Total assets</b>	<b>\$ 34,158,324</b>	<b>\$ 32,903,411</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,947,986	\$ 1,687,012
Deferred revenues	2,343,556	2,346,601
Bond payable, net - current	672,648	654,854
Total current liabilities	4,964,190	4,688,467
Bond payable, net - noncurrent	16,643,074	17,315,721
Deferred compensation	265,933	149,070
<b>Total liabilities</b>	<b>21,873,197</b>	<b>22,153,258</b>
Net assets:		
Unrestricted	10,843,701	9,687,664
Temporarily restricted	825,440	474,503
Permanently restricted	615,986	587,986
<b>Total net assets</b>	<b>12,285,127</b>	<b>10,750,153</b>
<b>Total liabilities and net assets</b>	<b>\$ 34,158,324</b>	<b>\$ 32,903,411</b>

*See accompanying notes to the consolidated financial statements.*

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Consolidated Statement of Activities*

*Year Ended May 31, 2017  
(with comparative totals for 2016)*

	2017			2016	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
<b>Revenues, gains and other support:</b>					
Tuition and fees	\$ 23,948,753	\$ -	\$ -	\$ 23,948,753	\$ 24,475,011
Less financial aid	(1,234,488)	-	-	(1,234,488)	(1,248,060)
Net tuition and fees	<u>22,714,265</u>	<u>-</u>	<u>-</u>	<u>22,714,265</u>	<u>23,226,951</u>
Contributions and grants	187,950	895,992	28,000	1,111,942	729,056
Investment income	89,903	18,750	-	108,653	90,871
Realized gains on investments	3,905	3,279	-	7,184	17,821
Unrealized gains (losses) on investments	121,981	78,176	-	200,157	(178,275)
Government contracts	982,177	-	-	982,177	824,795
Fees for service	1,441,224	-	-	1,441,224	1,305,173
Rental income	165,852	-	-	165,852	88,365
Net assets released from restrictions	<u>645,260</u>	<u>(645,260)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total revenues, gains and other support</b>	<b><u>26,352,517</u></b>	<b><u>350,937</u></b>	<b><u>28,000</u></b>	<b><u>26,731,454</u></b>	<b><u>26,104,757</u></b>
<b>Expenses:</b>					
Instruction	11,209,286	-	-	11,209,286	10,542,087
Academic support	7,059,203	-	-	7,059,203	6,677,959
Student services	3,469,762	-	-	3,469,762	3,412,480
Institutional support	2,985,981	-	-	2,985,981	2,945,002
Development and fundraising	<u>472,248</u>	<u>-</u>	<u>-</u>	<u>472,248</u>	<u>829,427</u>
<b>Total expenses</b>	<b><u>25,196,480</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>25,196,480</u></b>	<b><u>24,406,955</u></b>
<b>Total change in net assets</b>	<b><u>1,156,037</u></b>	<b><u>350,937</u></b>	<b><u>28,000</u></b>	<b><u>1,534,974</u></b>	<b><u>1,697,802</u></b>
Net assets, beginning of year	<u>9,687,664</u>	<u>474,503</u>	<u>587,986</u>	<u>10,750,153</u>	<u>9,052,351</u>
<b>Net assets, end of year</b>	<b><u>\$ 10,843,701</u></b>	<b><u>\$ 825,440</u></b>	<b><u>\$ 615,986</u></b>	<b><u>\$ 12,285,127</u></b>	<b><u>\$ 10,750,153</u></b>

See accompanying notes to the consolidated financial statements.

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Consolidated Statement of Activities*

*Year Ended May 31, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, gains and other support:</b>				
Tuition and fees	\$ 24,475,011	\$ -	\$ -	\$ 24,475,011
Less financial aid	<u>(1,248,060)</u>	<u>-</u>	<u>-</u>	<u>(1,248,060)</u>
Net tuition and fees	23,226,951	-	-	23,226,951
Contributions and grants	141,654	582,402	5,000	729,056
Investment income	68,795	22,076	-	90,871
Realized gains on investments	9,278	8,543	-	17,821
Unrealized losses on investments	(91,318)	(86,957)	-	(178,275)
Government contracts	824,795	-	-	824,795
Fees for service	1,305,173	-	-	1,305,173
Rental income	88,365	-	-	88,365
Net assets released from restrictions	<u>600,596</u>	<u>(600,596)</u>	<u>-</u>	<u>-</u>
<b>Total revenues, gains and other support</b>	<b><u>26,174,289</u></b>	<b><u>(74,532)</u></b>	<b><u>5,000</u></b>	<b><u>26,104,757</u></b>
<b>Expenses:</b>				
Instruction	10,542,087	-	-	10,542,087
Academic support	6,677,959	-	-	6,677,959
Student services	3,412,480	-	-	3,412,480
Institutional support	2,945,002	-	-	2,945,002
Development and fundraising	<u>829,427</u>	<u>-</u>	<u>-</u>	<u>829,427</u>
<b>Total expenses</b>	<b><u>24,406,955</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>24,406,955</u></b>
<b>Total change in net assets</b>	<b>1,767,334</b>	<b>(74,532)</b>	<b>5,000</b>	<b>1,697,802</b>
Net assets, beginning of year	<u>7,920,330</u>	<u>549,035</u>	<u>582,986</u>	<u>9,052,351</u>
<b>Net assets, end of year</b>	<b><u>\$ 9,687,664</u></b>	<b><u>\$ 474,503</u></b>	<b><u>\$ 587,986</u></b>	<b><u>\$ 10,750,153</u></b>

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Consolidated Statements of Cash Flows*

	<i>Years Ended May 31,</i>	
	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,534,974	\$ 1,697,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,279,678	1,180,159
Amortization of tenant allowance	-	(176,926)
Net realized and unrealized (gains) losses on investments	(207,341)	160,454
Bad debt expense	(19,224)	23,184
Gifts of marketable securities	(80,346)	(45,408)
Proceeds from contributions restricted for long-term investment	(5,000)	(5,000)
Proceeds from tenant allowance received	-	1,241,784
Changes in:		
Accounts receivable	2,240	(17,618)
Contributions receivable	(196,132)	41,753
Prepaid expenses	35,734	(14,109)
Accounts payable and accrued liabilities	265,085	798,413
Deferred rent liability	-	(727,667)
Deferred compensation	116,863	22,371
Deferred revenues	(3,045)	(217,232)
	<u>2,723,486</u>	<u>3,961,960</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	160,169	1,683,651
Purchases of investments	(201,568)	(1,707,259)
Purchases of property and equipment	(537,363)	(3,648,843)
	<u>(578,762)</u>	<u>(3,672,451)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment	5,000	5,000
Payments on bonds payable	(676,444)	(484,959)
Payments on lease payable	-	(118,896)
	<u>(671,444)</u>	<u>(598,855)</u>
<b>Net change in cash and cash equivalents</b>	<b>1,473,280</b>	<b>(309,346)</b>
Cash and cash equivalents, beginning of year	<u>7,459,525</u>	<u>7,768,871</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ <u>8,932,805</u></b>	<b>\$ <u>7,459,525</u></b>

See accompanying notes to the consolidated financial statements.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 1 - Organization*

#### *Nature of Activities*

The consolidated financial statements include the accounts of William James College, Inc. (“WJC”) and M. Gorman Psychological Associates, Inc. (“M. Gorman”). These corporations are under common management and control.

- WJC is a private, not-for-profit college founded in 1974 to provide a Doctor of Psychology. WJC strives to be a preeminent college of psychology that integrates rigorous academic instruction with extensive field education and close attention to professional development. WJC assumes an ongoing social responsibility to create programs to education specialists of many disciplines to meet the evolving mental health needs of society. WJC offers additional programs, including:
  - Doctor of Psychology in School Psychology
  - Doctor of Psychology in Leadership Psychology
  - Master of Arts in Clinical Mental Health Counseling
  - Master of Arts in Organizational Psychology
  - Master of Arts in Professional Psychology
  - Master of Arts in Applied Behavior Analysis
  - Bachelor of Science in Psychology and Human Services
  - Certificate of Advanced Graduate Studies in School Psychology
  - Certificate of Respecialization in Clinical Psychology
  - Graduate Certificate in Executive Coaching
  - Graduate Certificate in School Climate and Social Emotional Learning
  - Preparatory and Non-Matriculating Courses
  - Continuing Education Courses
- M. Gorman is a not-for-profit corporation formed on June 1, 2005 to provide comprehensive psychological assessment to address problems of learning and adjustment for children, adolescents, and adults.

#### *Basis of Consolidation*

The consolidated financial statements of William James College, Inc. and Affiliate (the “College”) have been prepared on the accrual basis. All significant intercompany account balances and transactions have been eliminated in the consolidated financial statements.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

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

#### *Financial Statement Presentation*

The College reports three classes of net assets and the changes in those net assets in the consolidated statements of financial position and consolidated statements of activities, respectively. The three classes of net assets – unrestricted, temporarily restricted and permanently restricted – are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The three classifications are defined as follows:

***Unrestricted net assets*** - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees. At May 31, 2017 and 2016, there were no assets designated by the Board.

***Temporarily restricted net assets*** - Net assets subject to donor-imposed restrictions or law that permit the College to use or expend the donated assets as specified and is satisfied by either the passage of time or by actions of the College.

***Permanently restricted net assets*** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit or require the College to use all or part of the related investment income and appreciation earned for general or specific purposes. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets.

#### *Cash and Cash Equivalents*

Cash and cash equivalents include all highly-liquid instruments purchased with an initial maturity of three months or less, excluding balances whose use is restricted.

The College maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts.

#### *Accounts Receivable*

Accounts receivable are carried at their net realizable value. The allowance for doubtful accounts is established via a provision for bad debts charged to the consolidated statement of activities. On a periodic basis, management evaluates the College's accounts receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts, the College's history of prior loss experience and on current economic conditions. Accounts are written off and charged against the allowance when management believes that the collectability of the specific account is unlikely.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Contributions Receivable*

Unconditional promises to give are recorded at fair value when initially pledged. The initially recorded fair value is considered a Level 2 approach. The fair value for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. While the risk adjusted rate is theoretically specific to each balance, management has determined that an overall discount rate of 5.00% and ranging from 5.00% to 4.49% for the years ended May 31, 2017 and 2016, respectively, reasonably accounts for this inherent risk. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from the plan on individual accounts. Contributions receivable is presented net of the established provision for bad debts and the discount in the consolidated statement of activities.

#### *Investments*

Investments are carried at fair value. Fair value is determined as per the fair value policies as described later in this section.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

Endowment and similar funds are pooled for investment purposes. Investment income is allocated ratably.

#### *Property and Equipment*

Property and equipment, including artwork, are reported at cost at the date of acquisition or fair value at the date of donation in the case of a gift. Maintenance and repair expenditures are charged to expense as incurred.

Depreciation is computed using the straight-line method based upon the following estimated useful lives:

Building	30 years
Building improvements	15 years
Furniture and equipment	5 - 7 years
Computer equipment	5 years

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Deferred Revenues*

Students' reservation deposits and tuition payments received for the fall semester programs are related to the forthcoming fiscal year, and therefore, have been deferred from recognition in the consolidated statement of activities. Similarly, a proportionate amount of tuition due or received for summer programs in session at the fiscal year end is deferred from recognition, as well as other programs whose revenue is recorded in the period in which it is received.

#### *Tuition and Fees*

Tuition and fees are recognized as revenue when earned.

#### *Financial Aid*

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students.

#### *Fees for Services*

Through its faculty, staff and students, WJC provides counseling and administrative support services to other organizations providing well-being and mental health services on a fee-for-service basis. In addition, continuing professional education courses are provided that are non-matriculating.

#### *Contributions and Donor Restrictions*

Contributions, including unconditional promises to give, are recognized as revenues in the period made. Contributions receivable that are, in effect, "unconditional promises to give" are recorded at the present value of future cash flows. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values using a Level 2 approach. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable may be provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fundraising activity.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Contributions and Donor Restrictions (Continued)*

Contributions of cash or other assets are recorded as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

#### *Income Tax Status*

The College is recognized as an organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal and state income taxes. Therefore, no provision for income taxes is included in the accompanying consolidated financial statements.

#### *Uncertain Tax Positions*

The College accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The College has identified its tax status as a tax exempt entity as a tax position; however, the College has determined that such tax position does not result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdiction. The College’s Federal and state income tax returns are generally open for examination for three years following the date filed.

#### *Advertising*

The College expenses advertising costs as incurred. Advertising expense was approximately \$835,000 and \$658,000 for the years ended May 31, 2017 and 2016, respectively.

#### *Functional Expense Allocation*

Costs have been allocated to functional classifications based on percentage of effort and other criteria.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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. The College's significant estimates include the reserve for doubtful accounts, the reserve for doubtful pledges, discount on long-term pledges, release from temporary net asset restrictions and the useful lives of depreciable assets. Actual results could differ from those estimates.

#### *Fair Value Measurements*

The College reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include the College's investment accounts. Nonrecurring measures include contributions receivable. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value.

Fair value standards also require the College to classify its financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique, as discussed below.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Fair Value Measurements (Continued)*

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments, with readily available active quoted prices or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in the fair values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidated financial statements. For more information on the fair value of the College's financial instruments, see Note 5 - Fair Value of Financial Instruments.

#### *Reclassifications*

Certain amounts in the financial statements for 2016 have been reclassified to conform with the 2017 presentation.

#### *Subsequent Events*

The College has evaluated subsequent events through September 13, 2017, the date the consolidated financial statements were available to be issued.

### *Note 3 - Contributions Receivable*

Contributions receivable consisted of the following at May 31:

	<i>2017</i>	<i>2016</i>
Unconditional promises expected to be collected in:		
Less than one year	\$ 65,644	\$ 6,621
One to five years	<u>207,109</u>	<u>25,000</u>
	272,753	31,621
Less: unamortized discount	(30,000)	(2,881)
Less: allowance for uncollectible pledges	<u>(20,000)</u>	<u>(2,119)</u>
<b>Contributions receivable, net</b>	<b><u>\$ 222,753</u></b>	<b><u>\$ 26,621</u></b>

All contributions receivable are due from Board members and management of the College.

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Notes to Consolidated Financial Statements*

**Note 4 - Investments**

Investment return consisted of the following for the year ended May 31:

	<i>2017</i>	<i>2016</i>
Interest and dividends	\$ 108,653	\$ 90,871
Realized gains	7,184	17,821
Unrealized gains (losses)	<u>200,157</u>	<u>(178,275)</u>
<b>Total investment return</b>	<b><u>\$ 315,994</u></b>	<b><u>\$ (69,583)</u></b>

**Note 5 - Fair Value of Financial Instruments**

The following table presents financial assets at May 31, 2017 that the College measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Exchange traded funds:				
Domestic	\$ 1,195,822	\$ -	\$ -	\$ 1,195,822
Foreign	639,586	-	-	639,586
Mutual funds:				
Domestic	<u>265,933</u>	<u>-</u>	<u>-</u>	<u>265,933</u>
<b>Total assets at fair value</b>	<b><u>\$ 2,101,341</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,101,341</u></b>

The following table presents financial assets at May 31, 2016 that the College measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Exchange traded funds:				
Domestic	\$ 1,049,181	\$ -	\$ -	\$ 1,049,181
Foreign	574,004	-	-	574,004
Mutual funds:				
Domestic	<u>149,070</u>	<u>-</u>	<u>-</u>	<u>149,070</u>
<b>Total assets at fair value</b>	<b><u>\$ 1,772,255</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,772,255</u></b>

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 6 - Property and Equipment*

Property and equipment consist of the following at May 31:

	<i>2017</i>	<i>2016</i>
Land	\$ 4,618,064	\$ 4,618,064
Building	13,433,766	13,433,766
Building and leasehold improvements	4,290,146	3,728,733
Furniture and equipment	1,614,042	1,614,042
Computer equipment	1,651,229	1,651,229
Construction in progress	-	28,162
	<u>25,607,247</u>	<u>25,073,996</u>
Less: accumulated depreciation	<u>(3,709,413)</u>	<u>(2,451,326)</u>
Sub-total depreciable assets	21,897,834	22,622,670
Artwork	<u>167,200</u>	<u>167,200</u>
<b>Total</b>	<b><u>\$ 22,065,034</u></b>	<b><u>\$ 22,789,870</u></b>

Depreciation expense totaled approximately \$1,258,000 and \$1,096,000 for the years ended May 31, 2017 and 2016, respectively.

### *Note 7 - Line of Credit*

In January 2016, the College entered into a \$3,000,000 demand line of credit agreement. Borrowings bear interest at a rate equal to the prime rate minus 0.50% (3.50% and 3.00% at May 31, 2017 and 2016, respectively). The agreement is collateralized by substantially all of the assets of the College and expires on November 30, 2017. There was no outstanding balance on the line of credit at May 31, 2017 and 2016.

The College had a \$1,200,000 demand line of credit agreement. Borrowings bore interest at the London Inter-Bank Offer Rate ("LIBOR") advantage rate plus 2.50% per annum (2.68% at May 31, 2016). The agreement was collateralized by substantially all of the assets of the College and automatically renewed each year. This line of credit was terminated in 2016.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 8 - Bond Payable, Net*

#### *Bonds Payable*

In April 2012, the College entered into a Loan and Security Agreement with the Massachusetts Development Finance Agency (“MDFA”) for \$3,500,000 MDFA Revenue Bonds, Massachusetts College of Professional Psychology, Series 2012 to finance capital improvements for classroom and office space in connection with a new leased facility in Newton, Massachusetts (“Wells Avenue”) (see Note 11). Principal is due in monthly installments commencing May 2012, including interest at a fixed rate of 3.28% through April 2017 at which point the interest rate changes to a fixed rate of 0.73% multiplied by the sum of the Federal Home Loan Bank Rate in effect as of the notice date plus 350 basis points through April 2022. The bond was collateralized by assignment of the lease on Wells Avenue and a first security interest in all business assets of the College and requires the College to comply with certain financial and nonfinancial covenants. The bond was paid in full when the purchase option was exercised on January 4, 2016.

In January 2016, the College entered into a Loan and Security Agreement with the Massachusetts Development Finance Agency (“MDFA”) for \$16,000,000 MDFA Revenue Bonds, William James College Issue, Series 2016A to finance the exercising of the purchase option on the facility in Newton, Massachusetts. Principal is due in monthly installments commencing February 2016, including interest at a fixed rate of 2.63% through January 2026 at which point the interest rate changes to a 10-year fixed rate of 0.70% multiplied by the Federal Home Loan Bank 10/10 amortizing rate plus 1.75% through January 2036. The bond is collateralized by a first mortgage of the facility as well as an assignment of leases and rents and first position lien on all business assets. The agreement requires the College to comply with certain financial and nonfinancial covenants.

In January 2016, the College entered into a Loan and Security Agreement with the MDFA for \$2,400,000 MDFA Revenue Bonds, William James College Issue, Series 2016B to finance the capital improvements and equipment in connection with the facility in Newton, Massachusetts. Principal is due in monthly installments commencing February 2016, including interest at a fixed rate of 2.49% through January 2023. The bond is collateralized by a first mortgage of the facility as well as an assignment of leases and rents and first position lien on all business assets. The agreement requires the College to comply with certain financial and nonfinancial covenants. Interest expense for the years ended May 31, 2017 and 2016 were \$472,007 and \$255,470, respectively.

#### *Deferred Financing Costs*

Costs incurred in conjunction with the issuance of the Series 2012 bond totaling \$201,213 were capitalized and were being amortized over five years. These costs were written off in 2016 in conjunction with the payoff of the Series 2012 bond. Amortization expense totaled \$75,132 for the year ended May 31, 2016.

Costs incurred in conjunction with the issuance of the Series 2016A and 2016B bonds totaling \$215,913 were capitalized and are being amortized over ten years. Amortization expense totaled \$21,591 and \$8,996 for the years ended May 31, 2017 and 2016, respectively.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### ***Note 8 - Bond Payable, Net (Continued)***

Maturities of bonds payable are as follows:

Year ending May 31:		
2018	\$	694,239
2019		712,502
2020		730,108
2021		750,452
2022		770,194
Thereafter		<u>13,843,552</u>
		17,501,047
Unamortized deferred financing costs		<u>(185,325)</u>
<b>Bonds payable, net</b>	<b>\$</b>	<b><u><u>17,315,722</u></u></b>

### ***Note 9 - Lease Payable and Other***

In April 2012, the College entered into a Master Lease Agreement with MDFA for a \$1,000,000 MDFA Equipment Lease, Massachusetts College of Professional Psychology, to finance furniture and equipment in connection with a new facility in Newton, Massachusetts (see Note 11). Principal was due in monthly installments commencing May 2012 through April 2017, including interest at a fixed rate of 2.45%. The lease is collateralized by equipment. The lease was paid in full when the purchase option was exercised on January 4, 2016.

In 2013, the landlord reimbursed the College \$2,047,280 for renovations to classroom and office space in connection with the lease agreement related to the facility in Newton, Massachusetts (see Note 11). The amount was being amortized against rent expense on a straight-line basis over the term of the lease that is representative of the time pattern in which use benefits is derived from the leased property. Amortization totaled approximately \$177,000 for the year ended May 31, 2016. The unamortized amount totaled \$1,086,828 and was reclassified to building improvements when the purchase option was exercised on January 4, 2016.

### ***Note 10 - Letter of Credit***

In April 2012, the College entered into a \$750,000 standby letter of credit with a bank to serve as collateral on its operating lease agreement related to the facility in Newton, Massachusetts (see Note 11) guaranteeing lease payments to the landlord. The letter of credit charged an annual fee of 1.00% and renewed automatically annually. The current letter of credit expired on March 1, 2016 and was not renewed due to the lease being terminated.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 11 - Lease Commitments*

#### *College Facilities*

On March 30, 2012, the College entered into an operating lease for office and classroom space in Newton, Massachusetts. The lease was to expire November 30, 2028 and included two five-year options to extend the term for an additional ten years. From April 1, 2012 to June 30, 2015, the College occupied approximately 51,000 square feet. The College occupied the entire building beginning July 1, 2015, consisting of approximately 84,000 square feet. The lease also provided the College with an option to purchase the space between January 1, 2016 and December 31, 2018. The College exercised the option to purchase on January 4, 2016 for a purchase price totaling approximately \$18,051,000.

For financial reporting purposes, lease expense is recognized on a straight-line basis over the term of the lease that is representative of the time pattern in which use benefits is derived from the leased property. Rent expense was approximately \$(422,000) in 2016. On January 4, 2016, the College exercised its option to purchase the building and reversed the amount accrued for deferred rent, \$727,667, as an offset to rent expense (which has been functionalized) in the consolidated statement of activities for the year ended May 31, 2016.

#### *Office and Classroom Equipment*

The College is also obligated under various operating leases for office and classroom equipment, whereby the payments are expensed as incurred. These agreements expire at various times through June 2018.

Future minimum payments under these operating leases are summarized as follows:

Year ending May 31:	
2018	\$ 110,000
2019	<u>9,000</u>
	<u><b>\$ 119,000</b></u>

Office and classroom equipment lease expense was approximately \$112,000 and \$117,000 for the years ended May 31, 2017 and 2016, respectively.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 12 - Deferred Revenues*

Deferred revenues consist of the following at May 31:

	<i>2017</i>	<i>2016</i>
Fall enrollment deposits and advanced tuition	\$ 76,081	\$ 152,006
Summer semester tuition prorated	2,220,808	2,158,595
Program service revenue	<u>46,667</u>	<u>36,000</u>
<b>Total</b>	<b>\$ <u>2,343,556</u></b>	<b>\$ <u>2,346,601</u></b>

### *Note 13 - Net Assets and Endowment Matters*

#### *Unrestricted Net Assets*

Unrestricted net assets are comprised of the following:

*Net investment in property and equipment* - The net value of property and equipment used in the College's operations.

*Operating* - Discretionary funds available for carrying on the operating activities of the College.

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are comprised of the following:

*Unrealized and realized gains on permanently restricted investments* - In accordance with accounting principles generally accepted in the United States of America and Massachusetts state law, these amounts represent unappropriated gains on permanently restricted endowment investments.

*Purpose restricted* - Amounts received with donor restrictions, which have not yet been expended for their designated purposes.

*Time restricted* - Amounts received with a time restriction as to the use of the funds.

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Notes to Consolidated Financial Statements*

*Note 13 - Net Assets and Endowment Matters (Continued)*

*Temporarily Restricted Net Assets (Continued)*

Temporarily restricted net assets consist of the following at May 31:

	<i>2017</i>	<i>2016</i>
Instruction and student activities	\$ 310,000	\$ 295,070
Scholarships	79,792	-
Time restricted	<u>222,753</u>	<u>26,621</u>
Total purpose and time restricted	<u>612,545</u>	<u>321,691</u>
Accumulated realized and unrealized gains on endowment funds:		
Faculty chair	101,545	75,516
Scholarships	<u>111,350</u>	<u>77,296</u>
Total accumulated realized and unrealized gains	<u>212,895</u>	<u>152,812</u>
 <b>Total temporarily restricted net assets</b>	 <b>\$ <u>825,440</u></b>	 <b>\$ <u>474,503</u></b>

*Permanently Restricted Net Assets*

Permanently restricted net assets are comprised of amounts limited by donors against any expenditure of principal. All of the income earned on principal is to be used for faculty chair and scholarships and is recorded in temporarily restricted net assets until appropriated for expenditure.

Permanently restricted net assets consist of the following at May 31:

	<i>2017</i>	<i>2016</i>
Faculty chair	\$ 247,000	\$ 247,000
Scholarships	<u>368,986</u>	<u>340,986</u>
 <b>Total</b>	 <b>\$ <u>615,986</u></b>	 <b>\$ <u>587,986</u></b>

**WILLIAM JAMES COLLEGE, INC. AND AFFILIATE**

*Notes to Consolidated Financial Statements*

*Note 13 - Net Assets and Endowment Matters (Continued)*

Temporarily restricted net assets were released for the following purposes for the year ended May 31:

	<i>2017</i>	<i>2016</i>
Instruction and student activities	\$ 394,208	\$ 260,546
Research	45,000	175,000
Plant	1,887	43,487
Scholarships	113,222	51,949
Faculty chair	17,597	17,921
Time	<u>73,346</u>	<u>51,693</u>
<b>Total</b>	<b><u>\$ 645,260</u></b>	<b><u>\$ 600,596</u></b>

The following represents required disclosures relative to the composition of endowment assets and those functioning as endowment assets for the years ended May 31:

<i>2017</i>	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets, beginning of year	\$ -	\$ 152,812	\$ 587,986	\$ 740,798
Contributions and additions	<u>-</u>	<u>-</u>	<u>28,000</u>	<u>28,000</u>
Investments return:				
Interest and dividends, net of investment expenses	-	18,750	-	18,750
Realized gains (losses)	-	3,279	-	3,279
Unrealized gains (losses)	<u>-</u>	<u>78,176</u>	<u>-</u>	<u>78,176</u>
Total investments return	<u>-</u>	<u>100,205</u>	<u>-</u>	<u>100,205</u>
Expenditures:				
Amounts appropriated for expenditure	<u>-</u>	<u>(40,122)</u>	<u>-</u>	<u>(40,122)</u>
Change in investments	<u>-</u>	<u>60,083</u>	<u>28,000</u>	<u>88,083</u>
<b>Endowment assets, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ 212,895</u></b>	<b><u>\$ 615,986</u></b>	<b><u>\$ 828,881</u></b>

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 13 - Net Assets and Endowment Matters (Continued)*

<i>2016</i>	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets, beginning of year	\$ -	\$ 249,661	\$ 582,986	\$ 832,647
Contributions and additions	-	-	5,000	5,000
Investments return:				
Interest and dividends, net of investment expenses	-	22,076	-	22,076
Realized gains (losses)	-	8,543	-	8,543
Unrealized gains (losses)	-	(86,957)	-	(86,957)
Total investments return	-	(56,338)	-	(56,338)
Expenditures:				
Amounts appropriated for expenditure	-	(40,511)	-	(40,511)
Change in investments	-	(96,849)	5,000	(91,849)
<b>Endowment assets, end of year</b>	<b>\$ -</b>	<b>\$ 152,812</b>	<b>\$ 587,986</b>	<b>\$ 740,798</b>

### *Endowment*

The College's endowment consists of several individual funds established for scholarships and a faculty chair. Its endowment includes donor-restricted endowment funds and funds functioning as endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law and Spending Policy*

The College classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by state law.

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. The College has a policy of appropriating for distribution each year up to five percent of its endowment fund's average fair value at the end of the previous three fiscal years in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 13 - Net Assets and Endowment Matters (Continued)*

#### *Funds with Deficiencies*

From time-to-time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of May 31, 2017 and 2016.

#### *Return Objectives and Risk Parameters*

The College's investment portfolio is managed to provide for the long-term support of the College. The goal of the aggregate long-term investments is to generate an average total annual return that exceeds the spending/payout rate plus inflation on a risk adjusted basis.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate of return objectives, the College employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) on a risk adjusted basis.

### *Note 14 - Other Commitments and Contingencies*

#### *Federal Financial Aid Program*

The Federally funded financial aid program is routinely subject to a special audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements, are required to be submitted to the U.S. Department of Education. The U.S. Department of Education has the authority to determine liabilities as well as to limit, suspend, or terminate the student aid program.

#### *Unemployment Compensation Insurance*

The "Unemployment Compensation Amendments of 1976" (Public Law 94-566) extend unemployment compensation coverage to the employees of the College. The College was given the option of financing the benefits by either paying the contributory payroll tax or by reimbursing the state for unemployment compensation paid. The latter option was exercised and the College has elected to reimburse the state for unemployment compensation paid. The College paid out approximately \$4,000 and \$35,000 of unemployment compensation during the years ended May 31, 2017 and 2016, respectively.

The College is not presently aware of any claims materially in excess of provisions now in place, and based on historical experience, would not anticipate that potential future claims would have a material impact on its financial position.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 14 - Other Commitments and Contingencies (Continued)*

#### *Deferred Compensation*

The College has three deferred compensation plans for the President. One plan was effective June 1, 2010, and two new plans were effective January 1, 2016. All three plans require an annual contribution by the College. Plan funds remain property of the College until they are distributed. The employer contribution totaled \$88,000 and \$19,244 for the years ended May 31, 2017 and 2016, respectively. Deferred compensation obligation totaled \$265,933 and \$149,070 as of May 31, 2017 and 2016, respectively, and is included as a noncurrent asset in investments and a noncurrent liability on the consolidated statements of financial position.

#### *Employment Agreement*

The College has an employment agreement with its President through May 31, 2021. The agreement calls for an annual base salary and contains performance based additional compensation.

#### *Legal Matters*

From time to time, the College is involved in claims and grievances arising in the normal course of business. In management's opinion, the ultimate resolution of such claims would not have a material effect on the financial position of the College.

### *Note 15 - Retirement Plans*

All full-time and part-time faculty and staff of the College are eligible immediately upon hire to participate in a defined contribution retirement plan under Internal Revenue Service Section 403(b). There are no employer contributions made to this plan. In addition to the 403(b) plan, the College also has The WJC Supplemental Retirement Plan (the "Plan") available to eligible employees, as defined by the Plan. This is a non-contributory plan where only the College may contribute to the Plan. Under the Plan, the College has the discretion annually to make an employer-funded supplemental retirement contribution on behalf of eligible participants. At May 31, 2017, the College accrued for the 2017 contribution of \$404,000, which was paid during 2018. Contributions to the Plan, including those accrued for at May 31, 2017, totaled approximately \$404,000 and \$665,000 for the years ended May 31, 2017 and 2016, respectively.

### *Note 16 - Related Party Transactions*

A member of the Board of Trustees is the president of a company that provides property and management services to the company that the College leased its facilities from. Total expenditures under the lease agreement were approximately \$1,313,000 for the year ended May 31, 2016.

# WILLIAM JAMES COLLEGE, INC. AND AFFILIATE

## *Notes to Consolidated Financial Statements*

### *Note 17 - Lessor Arrangements*

Beginning in 2016, certain College owned property is rented to outside parties through various leasing arrangements that expire through September 2028. Rental income totaled approximately \$166,000 and \$88,000 for the years ended May 31, 2017 and 2016, respectively.

At May 31, 2017, future minimum lease commitments under these leases total:

2018	\$	145,000
2019		157,000
2020		159,000
2021		110,000
2022		46,000
Thereafter		285,000

### *Note 18 - Cash Flows Information*

Cash paid for interest totaled \$473,501 and \$219,500 for the years ended May 31, 2017 and 2016, respectively.

During the year ended May 31, 2016, non-cash financing and investing activities include financing from the Series 2016A and Series 2016B totaling \$18,400,000 that was used to acquire \$15,667,360 of property and equipment, repay the outstanding balance on the Series 2012 bond totaling \$2,237,762, repay the outstanding balance on the capital lease totaling \$278,965 and pay for bond closing costs totaling \$215,913.

In connection with the College exercising the option to purchase the building in 2016, the College reversed the remaining unamortized tenant allowance, thereby reducing building improvements, furniture and fixtures and computer development by \$2,047,280 and related accumulated depreciation by \$1,137,378.

Non-cash investing activities include \$4,111 related to the purchase of property and equipment that is included in accounts payable and accrued liabilities at May 31, 2016.