

Financial Statements and Report of
Independent Certified Public Accountants

CAMBRIDGE COLLEGE

August 31, 2020 and 2019

CAMBRIDGE COLLEGE

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 25

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Cambridge College

We have audited the accompanying financial statements of Cambridge College (the "College"), which comprise the statements of financial position as of August 31, 2020 and 2019, 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 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 Cambridge College as of August 31, 2020 and 2019, 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
February 2, 2021

CAMBRIDGE COLLEGE
Statements of Financial Position
As of August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,614,346	\$ 2,171,732
Accounts receivable, net	3,374,360	2,128,957
Contributions receivable - current portion	74,763	223,959
Prepaid expenses and other current assets	806,292	1,040,050
Total current assets	<u>5,869,761</u>	<u>5,564,698</u>
NON-CURRENT ASSETS		
Investments	62,716,673	63,911,099
Restricted cash	6,249,041	6,220,476
Other	327,726	210,102
Property and equipment, net	9,099,159	10,232,021
Goodwill, net	528,276	-
Intangible assets, net	1,066,076	-
Total assets	<u>\$ 85,856,712</u>	<u>\$ 86,138,396</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 777,159	\$ 670,047
Accrued expenses	1,498,828	1,960,030
Tuition deposits and deferred tuition revenue	1,036,711	980,531
Deferred rent	289,062	282,802
Line of credit	10,300,000	9,300,000
Paycheck protection program loan	3,337,800	-
Notes payable, current portion	554,248	534,030
Capital lease obligations, current portion	618,373	687,713
Total current liabilities	<u>18,412,181</u>	<u>14,415,153</u>
NON-CURRENT LIABILITIES		
Capital lease obligations, net of current portion	1,059,649	1,678,022
Notes payable, net of current portion	6,390,002	6,944,182
Non-current accrued expenses	162,070	171,100
Non-current deferred rent	2,385,004	2,102,738
Perkins loan refundable advances	55,460	55,460
Total liabilities	<u>28,464,366</u>	<u>25,366,655</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions	44,362,177	47,992,566
With donor restrictions	13,030,169	12,779,175
Total net assets	<u>57,392,346</u>	<u>60,771,741</u>
Total liabilities and net assets	<u>\$ 85,856,712</u>	<u>\$ 86,138,396</u>

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

CAMBRIDGE COLLEGE
Statement of Activities
For the year ended August 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees, net	\$ 23,965,795	\$ -	\$ 23,965,795
Contributions	1,194,373	367,740	1,562,113
Rental income	117,999	-	117,999
Investment income and gains	4,581,890	727,842	5,309,732
Other income	199,963	-	199,963
Gain on sale of property and equipment	114,396	-	114,396
Net assets released from restrictions	822,249	(822,249)	-
Appropriation of Board-designated endowment funds for operations	4,986,040	-	4,986,040
Total revenues, gains and other support	<u>35,982,705</u>	<u>273,333</u>	<u>36,256,038</u>
EXPENSES			
Educational			
Instruction	10,596,973	-	10,596,973
Academic support	7,054,859	-	7,054,859
Student services	10,206,679	-	10,206,679
Management and general	7,520,190	-	7,520,190
Fundraising	604,004	-	604,004
Total expenses	<u>35,982,705</u>	<u>-</u>	<u>35,982,705</u>
Change in net assets from operations	<u>-</u>	<u>273,333</u>	<u>273,333</u>
NON-OPERATING ACTIVITIES			
Contributions for long-term investment	-	-	-
Contributed net assets (Acquisition of New England College of Business and Finance, LLC)	1,355,651	-	1,355,651
Change in value of split-interest agreements	-	(22,339)	(22,339)
Appropriation of Board-designated endowment funds for operations	(4,986,040)	-	(4,986,040)
Total non-operating activities	<u>(3,630,389)</u>	<u>(22,339)</u>	<u>(3,652,728)</u>
Changes in net assets	<u>(3,630,389)</u>	<u>250,994</u>	<u>(3,379,395)</u>
Net assets, beginning of year	<u>47,992,566</u>	<u>12,779,175</u>	<u>60,771,741</u>
Net assets, end of year	<u>\$ 44,362,177</u>	<u>\$ 13,030,169</u>	<u>\$ 57,392,346</u>

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

CAMBRIDGE COLLEGE
Statement of Activities
For the year ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees, net	\$ 21,759,111	\$ -	\$ 21,759,111
Contributions	478,540	705,464	1,184,004
Investment income and gains	2,921,138	343,824	3,264,962
Other income	129,066	-	129,066
Net assets released from restrictions	992,592	(992,592)	-
Appropriation of Board-designated endowment funds for operations	6,541,871	-	6,541,871
Total revenues, gains and other support	<u>32,933,781</u>	<u>56,696</u>	<u>32,990,477</u>
EXPENSES			
Educational			
Instruction	9,988,490	-	9,988,490
Academic support	6,869,740	-	6,869,740
Student services	8,278,433	-	8,278,433
Management and general	7,210,984	-	7,210,984
Fundraising	586,134	-	586,134
Total expenses	<u>32,933,781</u>	<u>-</u>	<u>32,933,781</u>
Change in net assets from operations	<u>-</u>	<u>56,696</u>	<u>56,696</u>
NON-OPERATING ACTIVITIES			
Contributions for long-term investment	-	124,033	124,033
Change in value of split-interest agreements	-	(22,201)	(22,201)
Appropriation of Board-designated endowment funds for operations	(6,541,871)	-	(6,541,871)
Total non-operating activities	<u>(6,541,871)</u>	<u>101,832</u>	<u>(6,440,039)</u>
Changes in net assets	<u>(6,541,871)</u>	<u>158,528</u>	<u>(6,383,343)</u>
Net assets, beginning of year	<u>54,534,437</u>	<u>12,620,647</u>	<u>67,155,084</u>
Net assets, end of year	<u>\$ 47,992,566</u>	<u>\$ 12,779,175</u>	<u>\$ 60,771,741</u>

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

CAMBRIDGE COLLEGE
Statements of Cash Flows
For the years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,379,395)	\$ (6,383,343)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,322,312	1,247,442
Provision for doubtful accounts	505,878	583,723
Contributed net assets	(1,355,651)	-
Contributions restricted for long-term investment purposes	-	(124,033)
Net realized and unrealized gains on investments	(4,257,699)	(1,584,139)
Gain on sale of property and equipment	(114,396)	-
Change in operating assets and liabilities		
Accounts receivable	(922,298)	(745,012)
Other receivables	(3,983)	(25,011)
Contributions receivable	149,196	(206,982)
Prepaid expenses and other current assets	246,340	4,599
Other assets	(10,857)	13,000
Accounts payable	107,112	117,544
Accrued expenses	(470,232)	610,149
Deferred rent	288,526	153,314
Deferred tuition revenue	39,682	-
Tuition deposits	16,498	290,374
Net cash used in operating activities	<u>(7,838,967)</u>	<u>(6,048,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(54,630)	(41,171)
Net proceeds from sale of property and equipment	136,427	-
Acquisition of New England College of Business and Finance, LLC	(1,339,901)	-
Purchases of investments	(39,758,392)	(60,611,469)
Sales and maturities of investments	45,210,517	68,366,783
Net cash provided by investing activities	<u>4,194,021</u>	<u>7,714,143</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances on line of credit	1,000,000	-
Proceeds from Paycheck Protection Plan loan	3,337,800	-
Payments on note payable	(533,962)	(516,005)
Payments on capital lease obligations	(687,713)	(762,147)
Contributions restricted for long-term investment purposes	-	124,033
Net cash provided by (used in) financing activities	<u>3,116,125</u>	<u>(1,154,119)</u>
Net (decrease) increase in cash and cash equivalents	<u>(528,821)</u>	<u>511,649</u>
Cash, cash equivalents, and restricted cash, beginning of year	<u>8,392,208</u>	<u>7,880,559</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 7,863,387</u>	<u>\$ 8,392,208</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 748,976</u>	<u>\$ 886,220</u>
Computer and office equipment purchased through capital leases	<u>\$ -</u>	<u>\$ 144,810</u>
Contributed net assets	<u>\$ 1,355,651</u>	<u>\$ -</u>

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

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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.

In March 2020, the College entered into an asset purchase agreement to acquire certain assets and assume certain liabilities of New England College of Business and Finance, LLC. The acquisition enabled the College to expand its online program offerings (see Note 3).

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 (“U.S. 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 \$48,975,719 and \$52,054,058 at August 31, 2020 and 2019, 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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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
- 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, 2020 and 2019, the allowance related to accounts receivable was approximately \$3,276,000 and \$2,000,000, respectively.

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 9).

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 \$561,000 and \$560,000 at August 31, 2020 and 2019, respectively. Accrued expenses include approximately \$194,000 and \$203,000 as of August 31, 2020 and 2019, 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, 2020 and 2019

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

Goodwill

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeds the fair value of the identifiable net assets on the date of purchase or valuation.

The College has elected to amortize goodwill on a straight-line basis over 10 years and to test goodwill for impairment, when necessary. Impairment testing is performed upon the occurrence of a triggering event indicating that the fair value of goodwill might be less than its carrying amount. When a triggering event occurs, the college has the option to perform a qualitative assessment to determine whether a quantitative test is needed. If the assessment demonstrates it is more likely than not that an impairment exists, then further testing is required that compares the fair value of the entity with its carrying amount. The amount by which the carrying amount exceeds fair value represents the impairment loss to be recognized, up to the carrying amount of goodwill.

No triggering events were identified during 2020.

Intangible Assets

Intangible assets consist of developed courseware and student referral relationships with finite useful lives, which are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds its fair value. To date, no impairments have occurred.

The College's developed courseware and student referral relationship intangible assets have finite useful lives which are amortized using the straight-line method over their estimated useful lives over 10 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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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 \$2,590,527 and \$832,818 for the years ended August 31, 2020 and 2019, respectively.

Contributions

In 2020, the College adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional. As required by ASU 2018-08, the College applied the requirements to agreements that either were not completed as of August 31, 2019 or entered into after September 1, 2019.

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.

Advertising

The College expenses the cost of advertising the first time an advertisement occurs. Advertising expense was approximately \$889,000 and \$869,000 for the years ended August 31, 2020 and 2019, 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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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.

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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Recent Accounting Pronouncements

Statement of Cash Flows (Topic 230): Restricted Cash

In 2020, the College adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. As a result, the 2019 statement of cash flows has been restated to conform to this presentation.

Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The objective of the new guidance is to establish the principles to report useful information to users of financial statements about the nature, timing and uncertainty of revenue from contracts with customers. In June 2020, the FASB issued ASU 2020-05 which included a deferral by one year the effective date of ASU 2014-09, to the year ending August 31, 2021 for the College. The College does not believe the adoption of this guidance will have a material impact on its financial statements.

Leases (Topic 842)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, or Accounting Standards Codification 842 (“ASC 842”). ASC 842 establishes a comprehensive new lease accounting model. The new standard clarifies the definitions of a lease, requires a dual approach to lease classification similar to current lease classifications, and causes lessees to recognize leases on the statement of financial position as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. In June 2020, the FASB issued ASU 2020-05 which included a deferral by one year the effective date of ASC 842, to the year ending August 31, 2023 for the College. The College has not yet determined the effect of the adoption of this guidance will have on the financial statements.

Subsequent Events

The College has evaluated all subsequent events that occurred after August 31, 2020 through February 2, 2021, 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, 2020.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

3. ACQUISITION OF NEW ENGLAND COLLEGE OF BUSINESS AND FINANCE

On March 13, 2020, the College acquired specified assets, liabilities, and the operations of the New England College of Business and Finance, LLC (“NECB”), a Massachusetts limited liability company operating as an institution of higher education accredited by the New England Commission of Higher Education (“NECHE”). NECB was headquartered in Boston, Massachusetts and provided associate, baccalaureate and graduate degree programs as well as professional development courses to students within the business community. NECB’s programs were delivered fully online, allowing for the provision of services to students outside of the New England financial services community.

The total purchase consideration was \$2,300,000, \$944,349 which was paid to the sellers at closing, and \$1,355,651 of inherent contribution received (excess of fair value of net assets acquired over consideration paid). The acquisition resulted in an inherent contribution to the College due to the seller’s desire to exit the industry, maximize tax benefits in a sale, and to eliminate the need to provide additional capital to the business.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the acquisition date:

Accounts receivable, net	\$ 825,000
Deposits and other assets	106,767
Prepaid rent	12,582
	<hr/>
Total assets acquired in cash	944,349
	<hr/>
Fixed assets	75,112
Developed courseware	800,000
Student referral relationships	320,000
Accounts payable	(42,925)
Accrued paid time off	(42,404)
Student deposits	(235,692)
Deferred revenue	(74,531)
	<hr/>
Other identifiable net assets assumed	799,560
	<hr/>
Total identifiable net assets assumed	1,743,909
	<hr/>
Goodwill	556,091
	<hr/>
Total	\$ 2,300,000
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CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

4. INVESTMENTS

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

<u>2020</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	\$ 1,566,703	\$ -	\$ 1,566,703
U.S. government obligations	-	9,825,300	9,825,300
Marketable equity securities	19,899,972	-	19,899,972
Marketable debt securities	-	6,039,820	6,039,820
Municipal obligations	-	2,707,403	2,707,403
Mutual funds	<u>22,677,475</u>	<u>-</u>	<u>22,677,475</u>
	<u>\$ 44,144,150</u>	<u>\$ 18,572,523</u>	<u>\$ 62,716,673</u>

<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>\$ 43,375,875</u>	<u>\$ 20,535,224</u>	<u>\$ 63,911,099</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>2020</u>	<u>2019</u>
Interest and dividends, net	\$ 1,064,636	\$ 1,680,823
Net realized and unrealized gains	<u>4,245,096</u>	<u>1,584,139</u>
Total investment return	<u>\$ 5,309,732</u>	<u>\$ 3,264,962</u>

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

Investment management expenses of \$305,356 and \$317,786 are netted against interest and dividends for the years ended August 31, 2020 and 2019, respectively.

5. 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.

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, 2020 or 2019.

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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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.

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund	\$ -	\$ 12,047,764	\$ 12,047,764
Board-designated funds	48,975,719	-	48,975,719
Total endowment net assets	<u>\$ 48,975,719</u>	<u>\$ 12,047,764</u>	<u>\$ 61,023,483</u>

Included in Board-designated endowment funds at August 31, 2020 is \$6,138,580 of restricted cash, as reported on the statement of financial position.

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

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

Included in Board-designated endowment funds at August 31, 2019 are \$6,220,476 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, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 52,054,058	\$ 11,803,962	\$ 63,858,020
Investment return			
Investment income	754,108	181,385	935,493
Net appreciation	3,409,873	513,422	3,923,295
Total investment return	4,163,981	694,807	4,858,788
Appropriation of endowment assets			
For operations	(4,986,040)	(451,005)	(5,437,045)
For other than operations	(2,256,280)	-	(2,256,280)
Net assets, end of year	<u>\$ 48,975,719</u>	<u>\$ 12,047,764</u>	<u>\$ 61,023,483</u>

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	1,446,481	81,386	1,527,867
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	(1,893,251)	-	(1,893,251)
Net assets, end of year	<u>\$ 52,054,058</u>	<u>\$ 11,803,962</u>	<u>\$ 63,858,020</u>

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

6. PROPERTY AND EQUIPMENT, NET

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

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 75,325	\$ 120,522
Leasehold improvements	9,574,683	9,502,391
Furniture and equipment	2,720,627	2,669,250
Telephone, computer equipment and integrated system	<u>1,848,204</u>	<u>1,842,132</u>
Subtotal	14,218,839	14,134,295
Accumulated depreciation	<u>(5,119,680)</u>	<u>(3,902,274)</u>
Net property and equipment	<u>\$ 9,099,159</u>	<u>\$ 10,232,021</u>

Depreciation expense was \$1,240,570 and \$1,247,442 for the years ended August 31, 2020 and 2019, respectively.

Total assets capitalized under lease arrangements amounted to \$4,154,942 and \$4,154,942 at August 31, 2020 and 2019, respectively. The related accumulated depreciation associated with the assets capitalized under lease arrangements was \$2,403,429 and \$1,687,650, at August 31, 2020 and 2019, respectively.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

7. GOODWILL AND OTHER INTANGIBLE ASSETS

At August 31, 2020, the College's goodwill carrying value was \$528,276 net of accumulated amortization of \$27,815. For the year ended August 31, 2020, goodwill amortization expense was \$27,815. For the year ended August 31, 2020, developed courseware amortization expense was \$39,962. For the year ended August 31, 2020, student referral relationships amortization expense was \$13,962.

	<u>Life of Asset</u>	
Developed courseware	10 years	\$ 800,000
Student referral relationships	10 years	320,000
		<u>1,120,000</u>
Less: Accumulated amortization		<u>(53,924)</u>
		<u>\$ 1,066,076</u>

Estimated amortization expense to be incurred in future periods is as follows:

Year Ending December 31,	<u>Intangible Assets</u>	<u>Goodwill</u>
2021	\$ 112,000	\$ 55,609
2022	112,000	55,609
2023	112,000	55,609
2024	112,000	55,609
2025	112,000	55,609
Thereafter	506,076	250,231
	<u>\$ 1,066,076</u>	<u>\$ 528,276</u>

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

8. 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 3.25% and 5.25% at August 31, 2020 and 2019, 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 \$10,300,000 and \$9,300,000 at August 31, 2020 and 2019, respectively. The line of credit is subject to annual renewal and was most recently renewed in December 2020.

Notes Payable

Notes payable consists of the following at August 31:

	<u>2020</u>	<u>2019</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.	\$ 247,125	\$ 334,434
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.	4,573,567	4,889,872
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>2,123,558</u>	<u>2,253,906</u>
	6,944,250	7,478,212
Less:		
Current portion	<u>554,248</u>	<u>534,030</u>
Notes payable, net of current portion	<u>\$ 6,390,002</u>	<u>\$ 6,944,182</u>

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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

2021	\$ 554,248
2022	574,578
2023	552,205
2024	509,970
2025	527,620
Thereafter	4,225,629
Total principal payments	<u>\$ 6,944,250</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 agreements as of August 31, 2020 and 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 as of August 31, 2020:

2021	\$ 678,343
2022	612,713
2023	286,520
2024	99,229
2025	91,624
Thereafter	<u>36,109</u>
Total minimum lease payments	1,804,538
Less amount representing interest	<u>(126,516)</u>
Present value of minimum lease payments	1,678,022
Current portion	<u>618,373</u>
Non current portion	<u>\$ 1,059,649</u>

Interest expense on the line of credit, note payables and capital leases was approximately \$742,000 and \$888,000 for the years ended August 31, 2020 and 2019, respectively.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

Paycheck Projection Program Loan

In April 2020, the College was granted a loan in the aggregate amount of \$3,337,800, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.”.

The Loan, which was in the form of a Note dated April 17, 2020, matures on April 17, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on March 17, 2021. The Note may be prepaid by the College at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for certain costs, such as payroll costs and occupancy expenses. The College intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

9. NET ASSETS

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

	<u>2020</u>	<u>2019</u>
<u>With purpose restrictions</u>		
Scholarships	\$ 456,830	\$ 424,042
Program support	150,018	177,631
	606,848	601,673
<u>With time restrictions</u>		
Annual fund pledges	7,726	16,405
Charitable gift annuities	367,827	357,133
Accumulated unspent gains on donor restricted endowment funds	4,277,500	4,033,696
Restricted in perpetuity for endowment	7,770,268	7,770,268
Total	<u>\$ 13,030,169</u>	<u>\$ 12,779,175</u>

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

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 584,026	\$ 568,036
Program support	197,816	383,565
Annual fund pledges	15,125	14,897
General purposes	25,282	26,094
Total	<u>\$ 822,249</u>	<u>\$ 992,592</u>

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

10. 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 \$954,000 and \$866,000 for the years ended August 31, 2020 and 2019, 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, 2020 and 2019, the 457 Plan assets and corresponding liabilities totaled \$153,000 and \$101,000, respectively, and are included in investments and accrued expenses in the accompanying statements of financial position.

11. 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 May 2037. The College also leases certain copiers and postage machines. The leases for copiers and postage machines expire at various dates through January 2023. Minimum future lease payments for leases for the next five years are as follows:

2021	\$	4,378,059
2022		4,366,899
2023		4,476,347
2024		4,455,975
2025		4,286,200
Thereafter		47,758,611

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 \$5,016,000 and \$4,808,000 for the years ended August 31, 2020 and 2019, 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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

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 expired on August 31, 2019. The agreements with the unions are being negotiated. Management anticipates that the agreement will be finalized during the year ending August 31, 2021.

Pandemic Implications

The outbreak of COVID-19 has caused domestic and global disruption in operations of higher education institutions. Consequently, the College closed its campus beginning in mid-March 2020 and has taught classes remotely since that time. In order to mitigate the virus’ impact, the College has incorporated enhanced social distancing, use of personal protection equipment, and a combination of remote and face-to-face instruction. However, due to the uncertainty of the continued spread of the virus and economic outlook, there may be short-term and long-term implications for instruction, student experience, and operations.

12. 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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,614,346	\$ 2,171,732
Short-term investments available within one year	5,740,901	4,473,453
Accounts receivable to be collected during the year	3,449,123	2,352,916
Other investments available within one year	<u>4,186,037</u>	<u>9,248,206</u>
Total financial assets available within one year	<u>\$ 14,990,407</u>	<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 (\$700,000 available at August 31, 2020), 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.

13. 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.

CAMBRIDGE COLLEGE
Notes to Financial Statements
August 31, 2020 and 2019

The following table presents the College's expenses by functional and natural category for the year ended August 31, 2020.

	<u>Instruction</u>	<u>Academic Support and Student Services</u>	<u>Institutional Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 6,980,173	\$ 10,401,926	\$ 3,403,855	\$ 481,333	\$ 21,267,287
Supplies and services	3,097,570	6,064,973	3,322,808	122,103	12,607,454
Travel and entertainment	59	40,045	2,972	568	43,644
Depreciation	414,909	592,683	314,719	-	1,322,311
Interest	104,262	161,911	475,836	-	742,009
	<u>\$ 10,596,973</u>	<u>\$ 17,261,538</u>	<u>\$ 7,520,190</u>	<u>\$ 604,004</u>	<u>\$ 35,982,705</u>

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

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