



URBAN COLLEGE OF BOSTON

Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Urban College of Boston:

We have audited the accompanying statements of financial position of the Urban College of Boston (the College) as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. This standard requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the College will continue as a going concern. As discussed in note 11 to the financial statements, the College has suffered losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP

June 28, 2012

URBAN COLLEGE OF BOSTON

Statements of Financial Position

August 31, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 64,150	86,893
Prepaid expenses	1,356	6,459
Accounts receivable, net (note 7)	136,304	91,002
Grants receivable	—	208,379
Contributions receivable (note 8)	15,000	25,000
Furniture and equipment, net (note 4)	2,278	11,540
Total assets	<u>\$ 219,088</u>	<u>429,273</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 66,902	117,755
Deferred tuition	48,444	4,512
Accrued expenses	175,914	182,130
Note payable (note 9)	145,397	—
Total liabilities	<u>436,657</u>	<u>304,397</u>
Net assets:		
Unrestricted	(384,789)	(27,308)
Temporarily restricted (note 2)	167,220	152,184
Total net (deficit) assets	<u>(217,569)</u>	<u>124,876</u>
Total liabilities and net assets	<u>\$ 219,088</u>	<u>429,273</u>

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Statements of Activities

Years ended August 31, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and fees	\$ 1,306,866	1,419,861
Federal, state, and local grants	802,775	1,003,591
Contributions	135,169	76,724
Miscellaneous	730	12,151
Total revenues	2,245,540	2,512,327
Net assets released from restrictions (note 3)	13,964	69,593
Total revenues and net assets released from restrictions	2,259,504	2,581,920
Expenses:		
Instruction	1,123,280	1,117,753
Academic support	837,881	942,441
Institutional support	655,824	730,123
Total expenses	2,616,985	2,790,317
Decrease in unrestricted net assets from operations	(357,481)	(208,397)
Changes in temporarily restricted net assets:		
Contributions	29,000	33,062
Net assets released from restrictions (note 3)	(13,964)	(69,593)
Increase (decrease) in temporarily restricted net assets	15,036	(36,531)
Decrease in net assets	(342,445)	(244,928)
Net assets, beginning of year	124,876	369,804
Net (deficit) assets, end of year	\$ (217,569)	124,876

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Statements of Cash Flows

Years ended August 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Decrease in net assets	\$ (342,445)	(244,928)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,262	6,904
Change in assets/liabilities:		
Prepaid expenses	5,103	791
Grants and accounts receivable	163,077	352,042
Contributions receivable	10,000	—
Accounts payable	(50,853)	(98,903)
Deferred tuition revenue	43,932	(3,196)
Accrued expenses	(6,216)	55,205
Net cash provided by (used in) operating activities	(168,140)	67,915
Cash flows from financing activities:		
Receipt of loan proceeds	145,397	—
Net cash provided by financing activities	145,397	—
Net (decrease) increase cash	(22,743)	67,915
Cash and cash equivalents, beginning of year	86,893	18,978
Cash and cash equivalents, end of year	\$ 64,150	86,893

See accompanying notes to financial statements.

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2011 and 2010

(1) Background

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

(1) Summary of Significant Accounting Policies

(a) *Basis of Financial Statement Presentation*

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

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

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

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

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

(b) *Contributions*

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

(c) *Property, Plant, and Equipment*

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

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2011 and 2010

(a) Contract-Related Fees

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

(b) Income Taxes

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

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(d) Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to 2011 presentation.

(2) Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Purpose restrictions:		
Scholarships	\$ 162,227	147,191
Equipment and materials	4,993	4,993
Total	<u>\$ 167,220</u>	<u>152,184</u>

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

August 31, 2011 and 2010

(3) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time were as follows for the years ended August 31:

	2011	2010
Purpose restrictions:		
Scholarships	\$ 13,964	48,937
Bilingual Education Program	—	10,000
Equipment and materials	—	10,656
Total	\$ 13,964	69,593

(4) Furniture and Equipment

At August 31, 2011 and 2010, the College's furniture and equipment were comprised of:

	Estimated lives	2011	2010
Computer equipment	3 – 4 years	\$ 85,769	85,769
Furniture	10 years	41,517	41,517
Other equipment	5 years	4,636	4,636
		131,922	131,922
Less accumulated depreciation		(129,644)	(120,382)
Net furniture and equipment		\$ 2,278	11,540

Depreciation expense for the years ended August 31, 2011 and 2010 was \$9,262 and \$6,904, respectively.

(5) Leases

The College leased facilities at 178 Tremont Street from Action for Boston Community Development Real Estate Corp., a related party, which expired on August 31, 2011. In addition, the College leased facilities, currently located at 19 Temple Place, from Action for Boston Community Development, Inc., which also expired on August 31, 2011. Subsequent to the expiration of these leases, the College entered into a new lease for 178 Tremont Street and 19 Temple Place with each of the new leases expiring August 31, 2015. For the years ended August 31, 2011 and 2010, total rental expense was \$172,771 and \$157,951, respectively.

URBAN COLLEGE OF BOSTON

Notes to Financial Statements

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

Year ending August 31:		
2012	\$	172,771
2013		172,771
2014		172,771
2015		172,771
Total	\$	<u>691,084</u>

(6) Pension Plan

The College has a defined contribution money purchase plan (the Plan), which provides benefits for its employees through membership in the Association of Community Service Agencies, Inc. Group Pension Plan. Eligible employees contribute a minimum of 5% of their annual compensation to the College's tax-sheltered annuity plan, and the College contributes 9% of such earnings to the Plan.

For the years ended August 31, 2011 and 2010, the College's contributions and administrative expenses under the Plan amounted to \$45,005 and \$52,250, respectively.

(7) Accounts Receivable

Student accounts receivable are net of an allowance for uncollectible accounts of \$68,559 and \$40,646, respectively, at August 31, 2011 and 2010.

(8) Contributions Receivable

Contributions receivable consisted of the following at August 31, 2011 and 2010:

	2011	2010
Unconditional promises expected to be collected in:		
One year	\$ 15,000	25,000

(9) Debt

On August 11, 2011, the College signed a promissory note with Action for Boston Community Development, Inc (ABCD), a related party, in the amount of \$145,397 for expenses paid by ABCD on the College's behalf for the period January 1, 2011 through July 31, 2011. The note carries an interest rate of 3.25% per annum and interest begins accruing as of July 30, 2011. The unpaid principal and accrued interest is due in full on September 1, 2012.

In addition to the promissory note, ABCD extended a revolving line of credit to the College in the amount of \$300,000 beginning on August 12, 2011. Advances under the revolving line of credit accrue interest at a rate of 3.25%. Any advances and accrued interest owed on the balance are due in full on September 1, 2012. As of August 31, 2011, the College had not drawn on the line of credit. Subsequent to year-end, the College drew on the entire line of credit, and is due in full on September 1, 2012.

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Additionally, subsequent to year-end, the College borrowed an additional \$171,384 from ABCD that carries a rate of 3.25% and is due on September 1, 2012. The proceeds of this loan were posted as collateral for a letter of credit entered into between Citizens Bank and the College subsequent to year-end. The letter of credit was posted in response to heightened cash management procedures imposed by the U.S. Department of Education on the College. The letter of credit expires on March 30, 2013.

(10) Subsequent Events

Management of the College has evaluated events subsequent to August 31, 2011 and through June 28, 2012, the date on which the financial statements were issued and determined that no events other than the debt discussed in note 9 occurred that warrant disclosure.

(11) Going Concern

Due to the unexpected loss of a Congressional earmark that supported the College for many years, the College has suffered recent operating losses and a deficiency in net assets which now raises substantial doubt about the College's ability to continue as a going concern. In order to address this, the management of the College took immediate steps to reduce the operating costs of the College where they could and is actively looking for additional revenue sources.

Further, management is actively pursuing two options to secure the College's future. The first option is to seek a merger partner, especially one that will value the College's mission and core values and will work with the management of the College in achieving its growth objectives. The College has been in serious discussions with another area college that has expressed an interest in partnering and/or acquiring the College and has begun its due diligence.

The second option is to develop an interim management agreement with Action for Boston Community Development (ABCD) to ensure that the College has sufficient time to implement its plans for growth. The College has developed three new Institutes to expand the College's offerings and attract new students. The three planned Institutes have already been launched, attracting dozens of new corporate and community partners and raising the profile and value of the College throughout the community. Thanks to these institutes, the Early Childhood Institute, the Financial Services Institute and the Institute for New Americans, the Urban College of Boston is now positioned as a leader in building a new citywide collaborative platform for underrepresented populations.

These two options are not mutually exclusive and are being pursued simultaneously.

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

The actions taken by the US DOE are described in note 9.

On June 7, 2012 NEASC issued a "show cause" letter to the College expressing concerns about its compliance with the accrediting association's finance standard. A response is being drafted and will be considered by NEASC at its September meeting. An adverse ruling by NEASC could result in the loss of accreditation or placing the College on probation for a period of one to two years.