



Consolidated Financial Statements
William James College, Inc. and Affiliates
May 31, 2019 and 2018



WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Consolidated Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of William James College, Inc. and Affiliates (the “College”), which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, 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 Affiliates as of May 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2019, the College adopted Accounting Standards Update ("ASU") No. 2016-14 *Not-for-Profit Entities, Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Maye Heyman McCann P.C.

September 12, 2019
Boston, Massachusetts

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Consolidated Statements of Financial Position

	<i>May 31,</i>	
	<i>2019</i>	<i>2018</i>
Assets		
Cash and cash equivalents	\$ 9,974,048	\$ 5,563,386
Accounts receivable, net of allowances for doubtful accounts of \$50,000 and \$55,366 at May 31, 2019 and 2018, respectively	1,174,216	1,589,957
Contributions receivable, net	65,467	62,006
Prepaid expenses	304,613	403,660
Total current assets	<u>11,518,344</u>	<u>7,619,009</u>
Contributions receivable, net	65,526	89,763
Investments	4,990,059	7,555,444
Property and equipment, net	<u>20,799,778</u>	<u>21,359,679</u>
Total assets	<u>\$ 37,373,707</u>	<u>\$ 36,623,895</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,109,448	\$ 2,109,718
Deferred revenues	3,338,317	3,016,921
Bond payable, net - current	708,517	690,911
Total current liabilities	<u>6,156,282</u>	<u>5,817,550</u>
Bond payable, net - noncurrent	15,243,646	15,952,163
Deferred compensation	<u>312,770</u>	<u>208,627</u>
Total liabilities	<u>21,712,698</u>	<u>21,978,340</u>
Net assets:		
Without donor restrictions	14,253,910	13,304,699
With donor restrictions	<u>1,407,099</u>	<u>1,340,856</u>
Total net assets	<u>15,661,009</u>	<u>14,645,555</u>
Total liabilities and net assets	<u>\$ 37,373,707</u>	<u>\$ 36,623,895</u>

See accompanying notes to the consolidated financial statements.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Consolidated Statement of Activities

Year Ended May 31, 2019
(with comparative totals for 2018)

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, gains and other support:				
Tuition and fees	\$ 27,086,593	\$ -	\$ 27,086,593	\$ 25,773,468
Less financial aid	(1,942,010)	-	(1,942,010)	(1,560,069)
Net tuition and fees	<u>25,144,583</u>	<u>-</u>	<u>25,144,583</u>	<u>24,213,399</u>
Contributions and grants	120,203	702,871	823,074	560,558
Net investment return	141,255	(4,337)	136,918	388,694
Government contracts	2,150,157	-	2,150,157	1,847,184
Fees for service	3,088,871	-	3,088,871	1,961,210
Rental income	67,492	-	67,492	161,754
Net assets released from restrictions	<u>632,291</u>	<u>(632,291)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>31,344,852</u>	<u>66,243</u>	<u>31,411,095</u>	<u>29,132,799</u>
Expenses:				
Instruction	12,990,183	-	12,990,183	12,549,470
Academic support	10,290,436	-	10,290,436	8,286,867
Student services	3,377,440	-	3,377,440	3,266,405
Institutional support	3,257,284	-	3,257,284	3,145,724
Development and fundraising	<u>480,298</u>	<u>-</u>	<u>480,298</u>	<u>440,103</u>
Total expenses	<u>30,395,641</u>	<u>-</u>	<u>30,395,641</u>	<u>27,688,569</u>
Total change in net assets	949,211	66,243	1,015,454	1,444,230
Net assets, beginning of year	13,304,699	1,340,856	14,645,555	12,285,127
Transfer in of Teachers21, Inc.	<u>-</u>	<u>-</u>	<u>-</u>	<u>916,198</u>
Net assets, end of year	<u>\$ 14,253,910</u>	<u>\$ 1,407,099</u>	<u>\$ 15,661,009</u>	<u>\$ 14,645,555</u>

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Consolidated Statement of Activities

Year Ended May 31, 2018

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Revenues, gains and other support:			
Tuition and fees	\$ 25,773,468	\$ -	\$ 25,773,468
Less financial aid	<u>(1,560,069)</u>	<u>-</u>	<u>(1,560,069)</u>
Net tuition and fees	24,213,399	-	24,213,399
Contributions and grants	116,506	444,052	560,558
Net investment return	239,854	148,840	388,694
Government contracts	1,847,184	-	1,847,184
Fees for service	1,961,210	-	1,961,210
Rental income	161,754	-	161,754
Net assets released from restrictions	<u>693,462</u>	<u>(693,462)</u>	<u>-</u>
Total revenues, gains and other support	<u>29,233,369</u>	<u>(100,570)</u>	<u>29,132,799</u>
Expenses:			
Instruction	12,549,470	-	12,549,470
Academic support	8,286,867	-	8,286,867
Student services	3,266,405	-	3,266,405
Institutional support	3,145,724	-	3,145,724
Development and fundraising	<u>440,103</u>	<u>-</u>	<u>440,103</u>
Total expenses	<u>27,688,569</u>	<u>-</u>	<u>27,688,569</u>
Total change in net assets	1,544,800	(100,570)	1,444,230
Net assets, beginning of year	10,843,701	1,441,426	12,285,127
Transfer in of Teachers21, Inc.	<u>916,198</u>	<u>-</u>	<u>916,198</u>
Net assets, end of year	\$ <u>13,304,699</u>	\$ <u>1,340,856</u>	\$ <u>14,645,555</u>

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

	<i>Years Ended May 31,</i>	
	<i>2019</i>	<i>2018</i>
Cash flows from operating activities:		
Change in net assets	\$ 1,015,454	\$ 1,444,230
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,109,315	1,230,407
Net realized and unrealized (gains) losses on investments	125,273	(256,134)
Bad debt expense (recovery)	(496)	1,617
Gifts of marketable securities	(11,776)	(105,068)
Proceeds from contributions restricted for long-term investment	(12,500)	(12,500)
Changes in:		
Accounts receivable	416,237	(946,657)
Contributions receivable	20,776	70,984
Prepaid expenses	99,047	(54,496)
Accounts payable and accrued liabilities	(87,969)	(23,180)
Deferred compensation	104,143	(57,306)
Deferred revenues	321,396	531,280
Net cash provided by operating activities	<u>3,098,900</u>	<u>1,823,177</u>
Cash flows from investing activities:		
Proceeds from sales of investments	3,821,745	1,499,393
Purchases of investments	(1,369,857)	(5,842,862)
Purchases of property and equipment	(440,124)	(503,461)
Net cash provided by (used in) investing activities	<u>2,011,764</u>	<u>(4,846,930)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	12,500	12,500
Cash transfer in from Teachers21, Inc. acquisition	-	336,073
Payments on bonds payable	(712,502)	(694,239)
Net cash used in financing activities	<u>(700,002)</u>	<u>(345,666)</u>
Net change in cash and cash equivalents	4,410,662	(3,369,419)
Cash and cash equivalents, beginning of year	<u>5,563,386</u>	<u>8,932,805</u>
Cash and cash equivalents, end of year	\$ <u><u>9,974,048</u></u>	\$ <u><u>5,563,386</u></u>

See accompanying notes to the consolidated financial statements.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 1 - Organization

Nature of Activities

The consolidated financial statements include the accounts of William James College, Inc. ("WJC"), M. Gorman Psychological Associates, Inc. ("M. Gorman") and Teachers21, Inc. (T21). 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 founded in 2005 to provide comprehensive psychological assessment to address problems of learning and adjustment for children, adolescents, and adults.
- T21 is a not-for-profit corporation founded in 1993 to improve the professional practice of Pre-K through grade 12 educators and to create supportive schools where students and adults are able to learn, grow and achieve. Effective April 30, 2018, William James College and T21 entered into a Designation of Member agreement in which William James College became the sole member of T21. As part of the Designation of Member agreement, William James College assumed all the assets and liabilities of T21, and became the sole member of T21. William James College paid no consideration as part of this Designation of Member agreement.

Basis of Consolidation

The consolidated financial statements of William James College, Inc. and Affiliates (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 AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies

Financial Statement Presentation

The College reports two 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 two classes of net assets – net assets without donor restrictions and net assets with donor restrictions – are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The two classifications are defined as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by the Board of Trustees. At May 31, 2019 and 2018, there were no net assets designated by the Board.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

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

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions Receivable (Continued)

theoretically specific to each balance, management has determined that an overall discount rate of 5.00% for the years ended May 31, 2019 and 2018 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.

Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. 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

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 earned.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by 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 stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as net assets released from restrictions between the classes of net assets.

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.

Contributions of cash or other assets are recorded as revenues with donor restrictions, thereby increasing net assets with donor restrictions, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

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 Service

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. Such fees are recognized when the related services are provided.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$734,000 and \$771,000 for the years ended May 31, 2019 and 2018, respectively.

Functional Expense Allocation

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the consolidated statements of activities. Note 15 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets, operation and maintenance of plant expenses and interest expense have been allocated to functional classifications based on percentage of effort and other criteria.

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 receivable, the reserve for doubtful contributions receivable, discount on long-term contributions receivable, release from net assets with donor restrictions and the useful lives of depreciable assets. Actual results could differ from those estimates.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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.

New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Subsequent Events

The College has evaluated subsequent events through September 12, 2019, the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and Availability

The College regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents, and equity securities and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of teaching, research and public services as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows which identifies the sources and uses of the College's cash and shows positive cash generated by operations for the years ended May 31, 2019 and 2018.

Although not expected to be needed, the spendable yet restricted portion of the College's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. See Notes 5 and 11 for further information about the College's investment portfolio, net assets and endowment funds.

As of May 31, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 9,974,048
Accounts receivable, net	1,174,215
Investments not encumbered by donor restrictions	<u>3,776,183</u>
Total	\$ <u>14,924,446</u>

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 4 - Contributions Receivable

Contributions receivable consisted of the following at May 31:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 65,467	\$ 62,006
One to five years	<u>85,526</u>	<u>114,763</u>
	150,993	176,769
Less: unamortized discount	(11,325)	(10,000)
Less: allowance for uncollectible pledges	<u>(8,675)</u>	<u>(15,000)</u>
Contributions receivable, net	<u>\$ 130,993</u>	<u>\$ 151,769</u>

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

Note 5 - Fair Value of Financial Instruments

The following table presents financial assets at May 31, 2019 that the College measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Exchange traded funds:				
Domestic	\$ 3,277,772	\$ -	\$ -	\$ 3,277,772
Foreign	1,399,517	-	-	1,399,517
Mutual funds:				
Domestic	<u>312,770</u>	<u>-</u>	<u>-</u>	<u>312,770</u>
Total assets at fair value	<u>\$ 4,990,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,990,059</u>

The following table presents financial assets at May 31, 2018 that the College measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Exchange traded funds:				
Domestic	\$ 5,606,843	\$ -	\$ -	\$ 5,606,843
Foreign	1,739,975	-	-	1,739,975
Mutual funds:				
Domestic	<u>208,626</u>	<u>-</u>	<u>-</u>	<u>208,626</u>
Total assets at fair value	<u>\$ 7,555,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,555,444</u>

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 6 - Property and Equipment

Property and equipment consist of the following at May 31:

	2019	2018
Land	\$ 4,618,064	\$ 4,618,064
Building	13,433,766	13,433,766
Building and leasehold improvements	4,721,773	4,721,773
Furniture and equipment	1,510,858	1,510,858
Computer equipment	1,651,229	1,651,229
Construction in progress	<u>559,356</u>	<u>31,532</u>
	26,495,046	25,967,222
Less: accumulated depreciation	<u>(5,862,468)</u>	<u>(4,774,743)</u>
Sub-total depreciable assets	20,632,578	21,192,479
Artwork	<u>167,200</u>	<u>167,200</u>
Total	<u>\$ 20,799,778</u>	<u>\$ 21,359,679</u>

Depreciation expense totaled approximately \$1,088,000 and \$1,209,000 for the years ended May 31, 2019 and 2018, respectively.

Note 7 - Line of Credit

The College maintains a \$3,000,000 demand line of credit agreement. Borrowings bear interest at a rate equal to the prime rate minus 0.50% (5.00% and 4.25% at May 31, 2019 and 2018, respectively). The agreement is collateralized by substantially all of the assets of the College and expires on November 30, 2019. There was no outstanding balance on the line of credit at May 31, 2019 and 2018.

Note 8 - Bond Payable, Net

Bonds Payable

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. The bonds are privately placed with a bank.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 8 - Bond Payable, Net (Continued)

Bonds Payable (Continued)

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, 2019 and 2018 was approximately \$436,000 and \$454,000, respectively.

Deferred Financing Costs

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 for the years ended May 31, 2019 and 2018.

Maturities of bonds payable are as follows:

Year ending May 31:	
2020	\$ 730,108
2021	750,452
2022	770,194
2023	665,262
2024	428,353
Thereafter	<u>12,749,937</u>
	16,094,306
Unamortized deferred financing costs	<u>(142,143)</u>
Bonds payable, net	\$ <u>15,952,163</u>

Note 9 - Lease Commitments

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 May 2023.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 9 - Lease Commitments (Continued)

Office and Classroom Equipment (Continued)

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

Year ending May 31:	
2020	\$ 68,000
2021	68,000
2022	68,000
2023	<u>67,000</u>
	<u>\$ 271,000</u>

Office and classroom equipment lease expense was approximately \$72,000 and \$120,000 for the years ended May 31, 2019 and 2018, respectively.

Note 10 - Deferred Revenues

Deferred revenues consist of the following at May 31:

	2019	2018
Fall enrollment deposits and advanced tuition	\$ 94,878	\$ 89,755
Summer semester tuition prorated	2,828,539	2,714,350
Program service revenue	<u>414,900</u>	<u>212,816</u>
Total	<u>\$ 3,338,317</u>	<u>\$ 3,016,921</u>

Note 11 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following:

Net investment in property and equipment - The net value of property and equipment used in the College's operations. Net investment in plant at May 31, 2019 totaled \$4,847,615.

Operating - Discretionary funds available for carrying on the operating activities of the College. Operating funds net of related liabilities totaled \$9,406,295 at May 31, 2019.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of the following:

Unrealized and realized gains on restricted endowment funds - In accordance with accounting principles generally accepted in the United States of America and Massachusetts state law, these amounts represent unappropriated gains on restricted endowment investments that are to be held in perpetuity.

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.

Donor-restricted endowment funds - Amounts received restricted by donors against an expenditure of principal.

Net assets with donor restrictions consist of the following at May 31:

	2019	2018
Purpose and time restricted		
Instruction and student activities	\$ 355,000	\$ 200,000
Scholarships	20,000	44,904
Conferences	-	9,500
Time restricted	130,993	151,769
Total purpose and time restricted	<u>505,993</u>	<u>406,173</u>
Donor-restricted endowment funds		
Faculty chair	247,000	247,000
Scholarships	378,486	365,986
Total donor-restricted endowment funds	<u>625,486</u>	<u>612,986</u>
Accumulated realized and unrealized gains on restricted endowment funds:		
Faculty chair	127,285	146,862
Scholarships	148,335	174,835
Total accumulated realized and unrealized gains	<u>275,620</u>	<u>321,697</u>
Total donor-restricted endowment funds	<u>901,106</u>	<u>934,683</u>
Total net assets with donor restrictions	\$ <u>1,407,099</u>	\$ <u>1,340,856</u>

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Net assets with donor restrictions were released for the following purposes for the years ended May 31:

	2019	2018
Instruction and student activities	\$ 284,621	\$ 297,058
Research	3,750	55,000
Plant	700	10,089
Scholarships	249,695	218,061
Faculty chair	17,749	17,270
Time	75,776	95,984
	<u> </u>	<u> </u>
Total	\$ <u>632,291</u>	\$ <u>693,462</u>

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets, June 1, 2017	\$ -	\$ 828,881	\$ 828,881
Contributions and additions	-	12,500	12,500
Net investment loss	-	148,840	148,840
Reclassification of net assets	-	(15,500)	(15,500)
Amounts appropriated for expenditure	<u>-</u>	<u>(40,038)</u>	<u>(40,038)</u>
Change in endowment assets	-	105,802	105,802
Endowment assets, May 31, 2018	-	934,683	934,683
Contributions and additions	-	12,500	12,500
Net investment loss	-	(4,337)	(4,337)
Amounts appropriated for expenditure	<u>-</u>	<u>(41,740)</u>	<u>(41,740)</u>
Change in endowment assets	<u>-</u>	<u>(33,577)</u>	<u>(33,577)</u>
Endowment assets, May 31, 2019	\$ <u>-</u>	\$ <u>901,106</u>	\$ <u>901,106</u>

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.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 11 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contract. As a result of this interpretation, the College retains in perpetuity: (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the College in a manner consistent with standard of prudence prescribed by UPMIFA.

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.

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 net assets with donor restrictions. There were no such deficiencies as of May 31, 2019 and 2018.

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.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 12 - 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 \$39,000 and \$4,000 of unemployment compensation during the years ended May 31, 2019 and 2018, 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.

Deferred Compensation

The College has three deferred compensation plans for its President. One plan was effective June 1, 2010 and two new plans were effective January 1, 2017. One plan was closed and \$177,045 was distributed during 2018. The remaining two plans require an annual contribution by the College. Plan funds remain property of the College until they are distributed. The employer contribution totaled \$103,500 and \$103,000 for the years ended May 31, 2019 and 2018, respectively. Deferred compensation obligation totaled \$312,770 and \$208,627 as of May 31, 2019 and 2018, 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.

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 13 - 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. Contributions to the Plan, including those accrued for at May 31, 2019 and 2018, totaled approximately \$448,000 and \$424,000 for the years ended May 31, 2019 and 2018, respectively.

T21 maintains a 401(k) retirement savings plan covering all eligible employees. The plan allows eligible employees to defer a percentage of their earnings from current taxation and also allows for after tax contributions. The Board may vote to make discretionary contributions to employees from time to time. Contributions to the Plan, including those accrued for at May 31, 2019 totaled approximately \$16,000 for the year ended May 31, 2019. There were no employer contributions for the year ended May 31, 2018.

Note 14 - 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 \$67,000 and \$162,000 for the years ended May 31, 2019 and 2018, respectively.

At May 31, 2019, future minimum lease commitments under these leases total:

2020	\$	56,000
2021		50,000
2022		46,000
2023		13,000
2024		13,000
Thereafter		197,000

WILLIAM JAMES COLLEGE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Note 15 - Natural Classification of Operating Expenses

Operating expenses presented by natural classification and function are as follows for the year ended May 31, 2019 with comparative totals for the year ended May 31, 2018:

	2019						2018
	Instruction	Academic Support	Student Services	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 9,363,369	\$ 6,300,684	\$ 1,491,003	\$ 1,356,406	\$ 302,193	\$ 18,813,655	\$ 17,233,643
Employee benefits	1,220,882	655,556	201,186	233,693	34,174	2,345,491	2,159,255
Payroll taxes	653,528	381,753	107,694	69,347	18,293	1,230,615	1,127,394
Fees for services	27,829	1,003,260	82,374	340,384	25,550	1,479,397	856,087
Advertising and promotion	-	-	733,690	-	-	733,690	770,869
Office expenses	227,820	166,566	242,476	390,539	12,214	1,039,615	940,055
Information technology	23,294	480,720	101,705	304,699	33,744	944,162	827,295
Occupancy	504,671	262,947	82,204	74,915	26,148	950,885	1,016,431
Travel	38,934	25,201	167,891	2,688	-	234,714	164,816
Conferences, conventions and meetings	101,696	88,350	32,320	60,820	281	283,467	238,471
Interest	233,610	121,717	38,052	34,678	7,814	435,871	454,174
Depreciation and amortization Insurance	594,550	309,776	96,845	88,257	19,887	1,109,315	1,230,407
Library	-	-	-	300,858	-	300,858	293,247
	-	493,906	-	-	-	493,906	376,425
Total operating expenses	\$ 12,990,183	\$ 10,290,436	\$ 3,377,440	\$ 3,257,284	\$ 480,298	\$ 30,395,641	\$ 27,688,569