

**BAY PATH UNIVERSITY**

# Financial Statements

**JUNE 30, 2019 & 2018**

with Independent Auditors' Report thereon



**BAY PATH UNIVERSITY**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report)

# BAY PATH UNIVERSITY

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Bay Path University  
Longmeadow, Massachusetts

### **Report on Financial Statements**

We have audited the accompanying financial statements of Bay Path University (the "University"), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses, 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.

### **Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider 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 the University as of June 30, 2019 and 2018, 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.

**Emphasis of Matter**

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

A handwritten signature in cursive script that reads "O'Connor + Drew, P.C.".

**Certified Public Accountants  
Braintree, Massachusetts**

October 25, 2019

**BAY PATH UNIVERSITY**  
**Statements of Financial Position**  
June 30,

	2019	2018
<b><u>Assets</u></b>		
<b>Assets:</b>		
Cash and cash equivalents	\$ 10,559,123	\$ 8,239,837
Accounts and notes receivable, net (note 3)	4,760,879	8,460,401
Pledges receivable, net (note 4)	212,342	968,932
Other assets	1,329,117	977,169
Investments (note 5)	63,303,847	59,609,688
Land, buildings and equipment, net of accumulated depreciation (note 7)	36,361,734	38,148,738
<b>Total Assets</b>	<b>\$ 116,527,042</b>	<b>\$ 116,404,765</b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 4,384,126	\$ 3,860,874
Deposits, deferred tuition and fees	5,707,804	8,066,242
Annuity obligations (note 5)	172,139	182,715
Other long-term liabilities (note 7)	1,831,725	1,744,502
Bonds payable, net (note 10)	16,501,809	17,097,519
Grants refundable	752,904	752,904
<b>Total liabilities</b>	29,350,507	31,704,756
<b>Net assets:</b>		
Without donor restrictions	71,142,905	69,246,709
With donor restrictions (note 13)	16,033,630	15,453,300
<b>Total net assets</b>	87,176,535	84,700,009
<b>Total liabilities and net assets</b>	<b>\$ 116,527,042</b>	<b>\$ 116,404,765</b>

*The accompanying notes are an integral part of the financial statements.*

**BAY PATH UNIVERSITY**  
Statement of Activities and Changes in Net Assets  
June 30, 2019

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Operating revenues:			
Tuition and fees	\$ 61,280,252	\$ -	\$ 61,280,252
Residence halls and dining services	3,712,907	-	3,712,907
Less scholarships and aid to students	(12,113,714)	-	(12,113,714)
Net student fees	52,879,445	-	52,879,445
Federal and state grants	1,475,629	-	1,475,629
Other auxiliary income	328,418	-	328,418
Interest income	159,083	-	159,083
Investment income used in operations (note 5)	1,727,146	200,290	1,927,436
Contributions and private grants	196,631	1,601,202	1,797,833
Other income	780,971	77,935	858,906
Net assets released from restrictions (note 14)	1,546,626	(1,546,626)	-
Total operating revenues	59,093,949	332,801	59,426,750
Operating expenses:			
Academic instruction	22,313,595	-	22,313,595
Academic support	8,345,732	-	8,345,732
Student services	13,118,744	-	13,118,744
Auxiliary	2,577,023	-	2,577,023
Other expenses	413,984	-	413,984
Management and general and fundraising	10,359,552	-	10,359,552
Total operating expenses	57,128,630	-	57,128,630
Change in net assets from operations	1,965,319	332,801	2,298,120
Nonoperating additions and deductions:			
Net return on long-term investments, net of amounts used in operations (note 5)	(17,528)	248,129	230,601
Net loss on disposition of land, buildings and equipment	(52,195)	-	(52,195)
Reclassifications and changes in donor intent	600	(600)	-
Change in net assets	1,896,196	580,330	2,476,526
Net assets, beginning of year	69,246,709	15,453,300	84,700,009
Net assets, end of year	\$ 71,142,905	\$ 16,033,630	\$ 87,176,535

*The accompanying notes are an integral part of the financial statements.*

**BAY PATH UNIVERSITY**  
Statement of Activities and Changes in Net Assets  
June 30, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Operating revenues:			
Tuition and fees	\$ 60,218,030	\$ -	\$ 60,218,030
Residence halls and dining services	3,690,300	-	3,690,300
Less scholarships and aid to students	(12,045,878)	-	(12,045,878)
Net student fees	51,862,452	-	51,862,452
Federal and state grants	2,505,466	-	2,505,466
Other auxiliary income	330,007	-	330,007
Interest income	93,942	-	93,942
Investment income used in operations (note 5)	1,523,557	183,818	1,707,375
Contributions and private grants	452,243	1,957,528	2,409,771
Other income	642,765	96,701	739,466
Net assets released from restrictions (note 14)	1,077,419	(1,077,419)	-
Total operating revenues	58,487,851	1,160,628	59,648,479
Operating expenses:			
Academic instruction	22,922,484	-	22,922,484
Academic support	8,099,085	-	8,099,085
Student services	13,499,010	-	13,499,010
Auxiliary	2,485,534	-	2,485,534
Other expenses	389,884	-	389,884
Management and general and fundraising	10,430,874	-	10,430,874
Total operating expenses	57,826,871	-	57,826,871
Change in net assets from operations	660,980	1,160,628	1,821,608
Nonoperating additions and deductions:			
Net return on long-term investments, net of amounts used in operations (note 5)	1,121,226	470,879	1,592,105
Net loss on disposition of land, buildings and equipment	(239,128)	-	(239,128)
Change in net assets	1,543,078	1,631,507	3,174,585
Net assets, beginning of year	67,703,631	13,821,793	81,525,424
Net assets, end of year	\$ 69,246,709	\$ 15,453,300	\$ 84,700,009

*The accompanying notes are an integral part of the financial statements.*



**BAY PATH UNIVERSITY**

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program services							
	Academic Instruction	Academic Support	Student Services	Auxiliary and Other	Total Program Services	Management and General	Fundraising	Total
Advertising and promotion	\$ -	\$ 11,018	\$ 4,088,947	\$ 10,374	\$ 4,110,339	\$ 55,522	\$ -	\$ 4,165,861
Bad debts	-	-	-	-	-	518,028	-	518,028
Buildings and grounds	955,526	279,846	314,000	456,301	2,005,673	328,333	-	2,334,006
Conferences/meetings/travel	256,043	87,329	199,112	9,356	551,840	36,868	16,189	604,897
Depreciation, accretion and amortization	1,724,885	361,631	438,000	434,743	2,959,259	343,809	-	3,303,068
Employee benefits	2,879,218	1,033,738	1,035,343	55,850	5,004,149	1,034,136	127,961	6,166,246
Entertainment	5,401	11,085	78,925	79	95,490	11,869	37,197	144,556
Food service	85,156	30,349	145,073	62,288	322,866	42,489	11,507	376,862
Grants expense	705,585	190,445	142,704	-	1,038,734	211,898	88,444	1,339,076
Information technology	13,244	860,848	7,802	-	881,894	1,701	-	883,595
Insurance	-	-	-	-	-	290,615	-	290,615
Interest	439,450	-	-	-	439,450	109,862	-	549,312
Legal and accounting	-	-	-	-	-	131,945	-	131,945
Memberships	60,329	34,826	37,514	223	132,892	47,807	3,346	184,045
Miscellaneous	30,305	3,096	34,671	150,087	218,159	591,597	277	810,033
Office expenses	261,202	56,465	433,574	9,189	760,430	13,730	19,716	793,876
Purchase services	652,472	945,380	1,444,074	186,905	3,228,831	1,021,117	44,210	4,294,158
Salaries and wages	14,177,780	4,317,822	4,383,571	331,305	23,210,478	4,512,875	537,742	28,261,095
Student board	-	-	-	1,279,252	1,279,252	-	-	1,279,252
Supplies	66,999	121,854	335,434	5,055	529,342	153,024	15,738	698,104
	<u>\$ 22,313,595</u>	<u>\$ 8,345,732</u>	<u>\$ 13,118,744</u>	<u>\$ 2,991,007</u>	<u>\$ 46,769,078</u>	<u>\$ 9,457,225</u>	<u>\$ 902,327</u>	<u>\$ 57,128,630</u>

**BAY PATH UNIVERSITY**

Statement of Functional Expenses

For the Year Ended June 30, 2018

	Program services				Total Program Services	Management and General	Fundraising	Total
	Academic Instruction	Academic Support	Student Services	Auxiliary and Other				
Advertising and promotion	\$ 1,110	\$ 15,664	\$ 4,693,769	\$ 13,294	\$ 4,723,837	\$ 105,171	\$ -	\$ 4,829,008
Bad debts	-	-	-	-	-	916,411	-	916,411
Buildings and grounds	855,718	245,645	291,678	394,507	1,787,548	299,368	-	2,086,916
Conferences/meetings/travel	214,725	107,749	201,318	6,329	530,121	50,655	8,439	589,215
Depreciation, accretion and amortization	1,872,725	373,118	467,642	400,295	3,113,780	403,908	-	3,517,688
Employee benefits	2,815,603	1,050,355	1,102,356	62,619	5,030,933	886,653	136,567	6,054,153
Entertainment	5,584	2,954	83,490	136	92,164	14,563	35,261	141,988
Food service	64,293	28,763	123,794	61,239	278,089	45,115	17,398	340,602
Grants expense	1,778,766	160,808	81,360	-	2,020,934	143,986	84,325	2,249,245
Information technology	12,000	789,638	8,228	-	809,866	1,777	-	811,643
Insurance	-	-	-	-	-	264,731	-	264,731
Interest	454,999	-	-	-	454,999	113,750	-	568,749
Legal and accounting	-	-	-	-	-	224,655	-	224,655
Memberships	54,589	32,385	26,031	1,331	114,336	52,602	3,738	170,676
Miscellaneous	29,736	9,620	58,171	135,879	233,406	872,168	142	1,105,716
Office expenses	270,472	79,149	601,296	11,731	962,648	19,513	11,718	993,879
Purchase services	574,795	791,942	820,461	164,323	2,351,521	819,827	38,579	3,209,927
Salaries and wages	13,889,923	4,287,185	4,527,488	359,765	23,064,361	4,092,745	565,580	27,722,686
Student board	-	-	-	1,258,969	1,258,969	-	-	1,258,969
Supplies	27,446	124,110	411,928	5,001	568,485	193,292	8,237	770,014
	<u>\$ 22,922,484</u>	<u>\$ 8,099,085</u>	<u>\$ 13,499,010</u>	<u>\$ 2,875,418</u>	<u>\$ 47,395,997</u>	<u>\$ 9,520,890</u>	<u>\$ 909,984</u>	<u>\$ 57,826,871</u>

**BAY PATH UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,476,526	\$ 3,174,585
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, accretion and amortization	3,303,068	3,517,688
Bad debts	518,028	916,411
Net loss on disposition of land, building and equipment	52,195	239,128
Net gain on investments	(2,132,727)	(2,260,064)
Contributions restricted for long-term investment	(692,445)	(613,773)
Changes in operating assets and liabilities:		
Receivables and other assets, net	3,586,136	(2,247,938)
Accounts payable and accrued liabilities	878,563	209,295
Deposits, deferred tuition and fees, and annuity obligations	(2,369,014)	1,677,154
Net cash provided by operating activities	<u>5,620,330</u>	<u>4,612,486</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(1,830,590)	(1,449,018)
Purchases of investments	(35,766,635)	(23,882,517)
Proceeds from sale of investments	34,205,203	25,240,509
Net cash used in investing activities	<u>(3,392,022)</u>	<u>(91,026)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	692,445	613,773
Principal payments on outstanding bonds	(601,467)	(582,046)
Net cash provided by financing activities	<u>90,978</u>	<u>31,727</u>
Increase in cash and cash equivalents	2,319,286	4,553,187
Cash and cash equivalents at beginning of year	<u>8,239,837</u>	<u>3,686,650</u>
Cash and cash equivalents at end of year	<u>\$ 10,559,123</u>	<u>\$ 8,239,837</u>
Supplemental data:		
Cash paid for interest	<u>\$ 549,686</u>	<u>\$ 569,108</u>
Change in land, buildings and equipment included in accounts payable at year-end	<u>\$ 355,312</u>	<u>\$ (207,517)</u>

*The accompanying notes are an integral part of the financial statements.*

# BAY PATH UNIVERSITY

## Notes to Financial Statements

June 30, 2019 and 2018

### (1) Organization

Bay Path University (the University) is a distinctive, progressive, professionally focused, four-year and graduate university for undergraduate women and co-educational graduate students.

A pioneer in innovative undergraduate programs for women and professional graduate degrees for men and women, Bay Path University, through its focus on leadership, communication, and technology, educates students to become confident and resourceful contributors to our increasingly interdependent world.

Students are challenged to accept the responsibilities and experience the rewards of leadership through their education at Bay Path University. Opportunities to build and strengthen technological, analytical, and oral and written communication skills are thoroughly integrated into the curriculum. Students apply and expand their knowledge through internships, field placements, or focused projects in a wide variety of settings.

The University, which values and promotes diversity, respects the needs, views, and rights of others. A dedicated community of faculty and staff fosters the social and personal as well as the intellectual development of all students.

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations. 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.

*Net assets without donor restrictions* – Net assets available for general use and not subject to donor restrictions. The Board of Trustees has designated the use of net assets without donor restrictions, net assets for endowment. The University's policy is to designate unrestricted donor gifts at the discretion of the Board of Trustees. Net assets without donor restrictions also include the investment in plant, net of accumulated depreciation, funds for facilities and student loans, and undesignated funds.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

#### (b) Operations

The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the University's undergraduate and graduate programs. Earned income on the University's investments is reported as operating revenue. Contributions from bequests without donor restrictions or for the acquisition of capital assets are reported as operating revenue. The investment returns that are in excess of the University's spending policy are reported as

## BAY PATH UNIVERSITY

### Notes to Financial Statements

June 30, 2019 and 2018

nonoperating additions. Net gains or losses from the disposition of land, buildings and equipment are reported as nonoperating additions.

#### **(c) Revenue Recognition**

Contributions are recognized as revenues in the period the pledge is received. Contributions with donor-imposed restrictions, including unconditional pledges, are reported as donations with restrictions. Pledges with donor restrictions are reported in endowment funds as the pledge is collected. All expendable donor-restricted contributions are initially recognized as revenues with donor restrictions in the statement of activities and changes in net assets and are released to unrestricted funds when the donor restrictions, or time restrictions, are met. Unconditional pledges that are scheduled to be received in subsequent fiscal years are reflected in the statements of financial position at their estimated net present values, net of an allowance for uncollectible amounts.

Tuition revenue is recorded at the University's established rates, net of financial aid and endowment scholarships provided directly by the University to students.

#### **(d) Cash and Cash Equivalents**

The University considers cash and cash equivalents as investments with maturities at date of purchase of three months or less, unless such investments are part of the University's long-term investment strategy. The University may maintain cash and cash equivalent deposits in excess of federally insured limits at certain financial institutions. The University has not experienced any losses in such accounts and does not believe it is exposed to significant credit risks.

#### **(e) Investments and Fair Value Hierarchy**

Investments are recorded at fair value. Net appreciation or depreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the statements of activities. Realized gains and losses on the sale of investments are generally determined on the specific identification method on the trade date.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments are measured and reported at fair value. Investments are then classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 inputs are quoted prices for markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs that are used when little or no market data is available.

The University's interest in alternative investment funds are generally reported at the net asset value or its equivalent (NAV) reported by each of the investment managers as a practical expedient for determining the fair value of the investment. In cases where NAV is used as a practical expedient, these

## **BAY PATH UNIVERSITY**

### Notes to Financial Statements

June 30, 2019 and 2018

investments are redeemable either at NAV under the original terms of the subscription agreements and operations of the underlying funds, or at the discretion of the investment manager when the underlying investments are sold. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements.

Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the value of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Additionally, although certain investments may be sold in a secondary market transaction, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell a fund in the secondary market, the sale could occur at an amount different than the reported value, and the difference could be material. As of June 30, 2019, the University had no specific plans or intentions to sell investments at amounts different than NAV.

The values of publicly traded fixed-income and equity securities are based on quoted market prices. The estimated fair values of investments in limited partnerships and similar interests are generally based on net asset values provided by the general partners as a proxy for fair values. Fair values for certain private equity investments held through limited partnerships and alternative investments are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the University. Because the investments in private equity investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a market for such investments existed. Real estate acquired for investment is carried at estimated fair value as periodically appraised.

#### **(f) Land, Buildings and Equipment**

Land, buildings, and equipment are stated at cost less accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statements of activities and changes in net assets.

#### **(g) Deferred Revenues**

Student deposits, along with advance payments for tuition and room and board related to the next fiscal year have been deferred and will be reported as revenue over the related term.

## **BAY PATH UNIVERSITY**

### Notes to Financial Statements

June 30, 2019 and 2018

#### **(h) *Income Taxes***

Accounting principles generally accepted in the United States of America require an entity to assess the probability that a tax position has a more likely than not sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances that statute of limitations may remain open indefinitely.

The University has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code. As a not-for-profit entity exempt from income taxes, the University may, however, be subject to tax on unrelated business income.

#### **(i) *Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

Fundraising expense for the years ended June 30, 2019 and 2018 totaled \$902,327 and \$909,984, respectively. The majority of these fundraising expenses are classified as management and general expenses in the statements of activities and changes in net assets.

Expenses associated with the operation and maintenance of University plant assets, including interest and depreciation, are allocated to the functional categories based on percentage of use.

#### **(j) *Advertising Costs***

Advertising costs are expensed as incurred.

#### **(k) *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 about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts and pledge receivables, asset retirement obligations, useful lives and depreciation, amortization, and the recoverability of long-lived assets and gift annuities.

#### **(l) *Risks and Uncertainties***

The University invests in investment securities which may be exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities and the level

## BAY PATH UNIVERSITY

### Notes to Financial Statements

June 30, 2019 and 2018

of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk factors in the near term could materially affect the amounts reported in the statements of financial position and activities.

#### **(m) Reclassifications**

Certain reclassifications have been made to 2018 information to conform to the 2019 presentation.

#### **(n) Adoption of New Accounting Standard**

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities - *Presentation of Financial Statements for not-for-profit Entities*. The adoption of this pronouncement had a material effect on the presentation of the financial statements but did not necessitate an adjustment to total net assets or prior period or operations of the current period. The pronouncement changes the net asset classification and investment return and enhances the disclosure for information about liquidity and availability of resources and expenses. The ASU has been applied retrospectively to all periods presented.

#### **(o) New Accounting Pronouncements**

ASU 2016-02, *Leases*, was issued by FASB in February 2018. The update is effective for non-public and most not-for-profit entities for fiscal years beginning after December 15, 2020, recently delayed one year. Implementation of this standard will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded from this standard. Management has evaluated this standard and has determined its impact on the financial statements and debt covenants.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an amendment to Topic 958 - Not-for-Profit Entities was issued by FASB in June 2018. The purpose of this amendment is to provide guidance in determining whether resource providers and resource recipients are participating in an exchange transaction, or if the transfer of funds is a contribution, by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The amendments in this update should be applied on a modified prospective basis, however, retrospective application is permitted. For resource recipients involved in public markets, including over-the-counter exchanges, the amendments are effective for periods beginning after June 15, 2018. For all other resource recipient entities, it is effective for annual periods beginning after December 15, 2018. The effective date for resource providers involved in public markets is periods beginning after December 15, 2018. All other resource providers should apply the amendment to periods beginning after December 15, 2019. Early adoption is permitted. Although management has not concluded its review of this standards update, based on the nature of the University’s activities, it does not believe implementation will have a material effect on the financial statements.



## BAY PATH UNIVERSITY

### Notes to Financial Statements

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#### (3) Accounts and Notes Receivable, net

The University's accounts and notes receivable, net at June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Student accounts receivable	\$ 4,956,733	\$ 8,364,695
Perkins loan program notes receivable	2,622,934	2,893,105
Other accounts receivable	205,017	210,477
Less allowance for doubtful accounts	<u>(3,023,805)</u>	<u>(3,007,876)</u>
Net accounts and notes receivable	<u>\$ 4,760,879</u>	<u>\$ 8,460,401</u>

#### (4) Pledges Receivable, net

The University's net pledges receivable at June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 143,648	\$ 786,599
One to five years	111,768	228,438
	<u>255,416</u>	<u>1,015,037</u>
Less:		
Present value discount	(2,558)	(5,589)
Allowance on uncollectible pledges	<u>(40,516)</u>	<u>(40,516)</u>
Net pledges receivable	<u>\$ 212,342</u>	<u>\$ 968,932</u>

Discount rates ranged from 0.58% to 2.63% at June 30, 2019 and 0.58% to 2.68% at June 30, 2018.

#### (5) Investments and Fair Value

The majority of the University's investments are maintained in a pooled endowment fund (the fund) consisting of both donor-restricted (true) and board-designated (quasi) endowment funds. The goals of the fund are to generate a total return that preserves the long-term real purchasing power of the endowment funds and provides a relatively predictable and increasing revenue stream to be used for donor-specified and board-designated purposes that support the mission of the University. A unitized method is used to account for the individual funds within the investment pool. Written investment policies provide the framework for the management of the investment assets according to industry best practices and applicable laws in order to achieve the goals of the fund. These policies are reviewed at least annually by the Investment Committee of the University's Board of Trustees.

One goal of the investment policy is to control risk through diversified asset allocation. Investment vehicles including mutual funds, common trust funds, index funds, and funds of funds are used to provide access to

## **BAY PATH UNIVERSITY**

### Notes to Financial Statements

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certain asset classes with the potential benefits of liquidity, lower fees, and reduced benchmark risk. The University also maintains a portfolio of short-term investments, primarily fixed-income securities and certificates of deposit, in support of operating capital needs and a separate investment portfolio related to split-interest agreements.

Certain donors have established charitable gift annuities with the University, whereby the donated assets are invested, and payments are made to the donor and/or other beneficiaries in accordance with the agreement for a specified period of time, at which time the remaining assets and future investment return are retained by the University. The assets, which are included with investment funds held or administered by others, had a fair value at June 30, 2019 and 2018 of \$261,431 and \$286,580, respectively. The present value of estimated future payments, which are recorded as a liability, was \$172,139 at June 30, 2019 and \$182,715 at June 30, 2018. Income from the annuities has been measured at the present value of the remainder interests.

## BAY PATH UNIVERSITY

### Notes to Financial Statements

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The following table presents the University's fair value hierarchy as described in note 2 for those assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	June 30, 2019				Total	Redemption or liquidation
	Level 1	Level 2	Level 3	Measured at NAV		
Endowment investments:						
Cash	\$ 6,815	\$ -	\$ -	\$ -	\$ 6,815	Daily
Short-term investments	95,000	-	-	-	95,000	Daily
Total return assets:						
U.S. equities	13,745,381	-	-	-	13,745,381	Daily
International equities	9,803,316	-	-	-	9,803,316	Daily
Emerging market equities	3,991,981	-	-	-	3,991,981	Daily
Global equities	2,889,717	-	-	-	2,889,717	Daily
Inflation hedges:						
Commodities	1,127,723	-	-	-	1,127,723	Daily
Real estate investment trusts	2,690,359	-	-	-	2,690,359	Daily
Fixed income/deflation hedges	12,971,685	-	-	-	12,971,685	Daily
Direct real estate	-	-	823,599	-	823,599	Illiquid
Private equity <sup>1</sup>	-	-	-	339,589	339,589	Illiquid
Hedge funds <sup>2</sup>	-	-	-	5,104,590	5,104,590	Subject to lock-up
Endowment investments at fair value	47,321,977	-	823,599	5,444,179	53,589,755	
Other investments:						
Short-term investments	9,009,356	-	-	-	9,009,356	Daily
Funds held or administered by others	-	-	704,736	-	704,736	N/A
Total other investments	9,009,356	-	704,736	-	9,714,092	
Total investments	\$ 56,331,333	\$ -	\$ 1,528,335	\$ 5,444,179	\$ 63,303,847	

1. The private equity funds have initial terms of 10 years. The funds are expected to liquidate in 1-2.5 years.

2. The University's hedge fund investments are restricted from redemption based on rolling lock up periods.

## BAY PATH UNIVERSITY

### Notes to Financial Statements

June 30, 2019 and 2018

	June 30, 2018					Redemption or liquidation
	Level 1	Level 2	Level 3	Measured at NAV	Total	
Endowment investments:						
Cash	\$ 18,609	\$ -	\$ -	\$ -	\$ 18,609	Daily
Total return assets:						
U.S. equities	9,487,384	-	-	-	9,487,384	Daily
International equities	6,372,849	-	-	-	6,372,849	Daily
Emerging market equities	2,777,893	-	-	-	2,777,893	Daily
Global equities	2,777,440	-	-	-	2,777,440	Daily
Inflation hedges:						
Commodities	1,001,825	-	-	-	1,001,825	Daily
Real estate investment trusts	2,070,981	-	-	-	2,070,981	Daily
Resource related equities	1,013,688	-	-	-	1,013,688	Daily
Fixed income/deflation hedges	9,136,904	-	-	-	9,136,904	Daily
Multi-asset funds	5,447,988	-	-	-	5,447,988	Daily
Direct real estate	-	-	786,738	-	786,738	Illiquid
Private equity <sup>1</sup>	-	-	-	420,615	420,615	Illiquid
Hedge funds <sup>2</sup>	-	-	-	9,266,425	9,266,425	Subject to lock-up
Endowment investments at fair value	<u>40,105,561</u>	<u>-</u>	<u>786,738</u>	<u>9,687,040</u>	<u>50,579,339</u>	
Other investments:						
Short-term investments	8,340,627	-	-	-	8,340,627	Daily
Funds held or administered by others	<u>-</u>	<u>-</u>	<u>689,722</u>	<u>-</u>	<u>689,722</u>	N/A
Total other investments	<u>8,340,627</u>	<u>-</u>	<u>689,722</u>	<u>-</u>	<u>9,030,349</u>	
Total investments	<u>\$ 48,446,188</u>	<u>\$ -</u>	<u>\$ 1,476,460</u>	<u>\$ 9,687,040</u>	<u>\$ 59,609,688</u>	

1. The private equity funds have initial terms of 10 years. The funds are expected to liquidate in 2-3.5 years.

2. The University's hedge fund investments are restricted from redemption based on rolling lock up periods.

The University recognizes transfers between levels at the end of the reporting period as if the transfer occurred on the last day of the reporting period. There were no transfers during the years ended June 30, 2019 and 2018.

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June 30, 2019 and 2018

The activity for the fiscal years ended June 30, 2019 and 2018 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is presented in the following tables:

	2019			2018		
	Direct real estate	Funds held or administered by others	Total	Direct real estate	Funds held or administered by others	Total
Beginning value	\$ 786,738	\$ 689,722	\$ 1,476,460	\$ 804,870	\$ 643,823	\$ 1,448,693
Acquisitions	-	111,293	111,293	-	79,185	79,185
Dispositions	-	(100,370)	(100,370)	-	(28,879)	(28,879)
Investment income (losses)	-	(247)	(247)	-	863	863
Unrealized (losses) gains	36,861	4,338	41,199	(18,132)	(5,270)	(23,402)
Ending value	\$ 823,599	\$ 704,736	\$ 1,528,335	\$ 786,738	\$ 689,722	\$ 1,476,460

At June 30, 2019, the University had outstanding investment commitments to alternative investments of \$29,500, which will be paid in one or more installments and in amounts and on the dates specified by the general partner extending through the year ending June 30, 2020.

#### (6) Endowment Funds

The University's Endowment Fund (the fund) is an investment portfolio comprised of donor-restricted funds and funds designated by the University to function as endowments (quasi-endowments). The goals of the fund are to generate a total return that preserves the long-term real purchasing power of the endowment funds and provides a relatively predictable and increasing revenue stream to be used for donor-specified or board-designated purposes that support the mission of the University.

The University employs a spending policy which, absent any explicit donor designations to the contrary, allows for spending 3%-6% of a twelve-quarter moving average market value of the endowment. The spending policy complies with the Massachusetts version of the Uniform Prudent Management of Institutional Funds Act (Mass UPMIFA). Those donor-restricted funds which explicitly designate spending yield only do not participate in the spending policy.

Mass UPMIFA allows, subject to the intent of a donor expressed in the gift instrument, an institution to appropriate for expenditure or accumulate as much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The University has chosen to require the preservation of the original gift of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. Accordingly, the University classifies as net assets with donor restrictions (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. These net assets are with donor restrictions until appropriated for expenditure by the University. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (commonly known as underwater endowments). These deficits result from unfavorable market fluctuations that generally occur shortly after the investment of newly established endowments, and authorized distribution that are deemed prudent. The University has interpreted Mass UPMIFA to permit spending from underwater endowments in accordance with prudent measures

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Notes to Financial Statements

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required under law. Net assets with donor restrictions include donor-restricted endowments with fair values less than original fair values by \$6,308 at June 30, 2019 and \$9,353 at June 30, 2018.

Endowment funds consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted	\$ -	\$ 12,827,153	\$ 12,827,153
Quasi (board designated)	40,762,602	-	40,762,602
Total	<u>\$ 40,762,602</u>	<u>\$ 12,827,153</u>	<u>\$ 53,589,755</u>

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted	\$ -	\$ 11,729,701	\$ 11,729,701
Quasi (board designated)	38,849,638	-	38,849,638
Total	<u>\$ 38,849,638</u>	<u>\$ 11,729,701</u>	<u>\$ 50,579,339</u>

Changes in endowment funds for the fiscal years ended June 30, 2019 and 2018 were as follows:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
June 30, 2018	\$ 38,849,638	\$ 11,729,701	\$ 50,579,339
Investment return, net	1,530,285	449,506	1,979,791
Contributions	77,404	953,221	1,030,625
Distributions	302,230	(302,230)	-
Transfers	3,045	(3,045)	-
June 30, 2019	<u>\$ 40,762,602</u>	<u>\$ 12,827,153</u>	<u>\$ 53,589,755</u>

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June 30, 2019 and 2018

	<b>2018</b>		<b>Total</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	
June 30, 2017	\$ 35,892,080	\$ 10,428,366	\$ 46,320,446
Investment return, net	2,614,466	658,969	3,273,435
Contributions	62,813	922,645	985,458
Distributions	276,007	(276,007)	-
Transfers	4,272	(4,272)	-
June 30, 2018	<u>\$ 38,849,638</u>	<u>\$ 11,729,701</u>	<u>\$ 50,579,339</u>

**(7) Land, Buildings and Equipment**

Land, buildings and equipment consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>	<b>Estimated useful lives</b>
Land and improvements	\$ 6,096,815	\$ 6,095,795	-
Building and building improvements	51,635,991	51,059,777	10 to 50 years
Leasehold improvements	1,577,708	1,577,708	10 years
Furniture and equipment	13,566,686	13,378,562	5 to 10 years
Computer equipment and software	11,849,476	13,023,501	3 years
Motor vehicles	292,682	292,682	3 years
Construction in progress	376,745	100,000	-
	<u>85,396,103</u>	<u>85,528,025</u>	
Less accumulated depreciation	<u>(49,034,369)</u>	<u>(47,379,287)</u>	
	<u>\$ 36,361,734</u>	<u>\$ 38,148,738</u>	

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$3,210,087 and \$3,432,002, respectively.

The University's conditional asset retirement obligations as of June 30, 2019 and 2018 totaled \$2,231,540 and \$2,125,278, respectively. A portion of these obligations, \$399,815 at June 30, 2019 and \$380,776 at June 30, 2018, was reflected as a reduction in the fair value of investments since the University holds certain parcels of real estate in its long-term investment pool. Accretion expenses for the years ended June 30, 2019 and 2018 totaled \$87,224 and \$79,928, respectively. There were no additional asset retirement obligations incurred or settled and no revisions in estimated cash flows during the years ended June 30, 2019 and 2018.

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### Notes to Financial Statements

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#### (8) Leases

The University has noncancelable leases for office space, equipment and vehicles expiring through November 2026 which are accounted for as operating leases. Rent expense under these leases was \$589,997 and \$579,210 for fiscal years 2019 and 2018, respectively. The approximate future minimum annual rental commitments under these agreements are as follows:

	<u>Amount</u>
Years ending June 30:	
2020	\$ 542,230
2021	301,604
2022	210,083
2023	196,645
2024	185,720
Thereafter	466,601
	<u>\$ 1,902,883</u>

#### (9) Line of Credit

The University has available a \$750,000 revolving line of credit from a bank at an interest rate calculated at 0.25% points less than the highest prime rate as published in the *Wall Street Journal* (5.25% and 4.75% at June 30, 2019 and 2018, respectively). At June 30, 2019 and 2018, there were no outstanding advances against the line of credit.

#### (10) Bonds Payable, net

On December 1, 2013, the Massachusetts Development Finance Agency (the Agency), Bay Path University (the Borrower), and Peoples Bank (the Trustee) entered into a Loan and Trust Agreement, pursuant to which the Agency issued Revenue Bonds (Bay Path University Project, Series 2013) in the aggregate principal amount of \$19,500,000. Bond issuance costs are amortized over the term of the bonds. Unamortized bond issuance costs related to the bond payable were \$112,271 and \$118,028 as of June 30, 2019 and 2018, respectively.

The loan, which is secured by a mortgage, has a term of 25 years with a maturity date of December 23, 2038. The interest rate is fixed at 3.2% per annum for the first 10 years, after which the interest rate will be converted to a revised rate equal to the greater of 3.2% or the then applicable Federal Home Loan Bank of Boston Amortizing Rate for obligations with a ten-year term and a fifteen-year maturity plus 1.68% per annum.

The University's loan payable contains certain covenants, which the University is in compliance with, as of June 30, 2019 and 2018.



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### Notes to Financial Statements

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Principal payments on the loan for the succeeding fiscal years ending June 30 are:

	<u>Amount</u>
Years ending June 30:	
2020	619,822
2021	641,686
2022	662,817
2023	684,645
2024	705,977
Thereafter	<u>13,299,133</u>
	<u>\$ 16,614,080</u>

#### (11) Pension Plan

The University maintains a defined contribution retirement plan. The plan's investments were held and administered by the Teachers Insurance and Annuity Association (TIAA). The plan provides benefits for most faculty, staff, and administrators. Eligible employees may contribute a percentage of their annual compensation, pretax, subject to various restrictions within the Internal Revenue Code. University contributions in 2019 and 2018 consisted of 6% of each plan participant's annual salary and matches from 1% up to a maximum of 3% based upon the employee's contribution. Pension expense totaled \$1,925,947 and \$1,939,743 for fiscal years 2019 and 2018, respectively.

#### (12) Deferred Compensation

The University offers a deferred compensation plan under which eligible employees may elect to defer a portion of their annual compensation for payment in future periods. Under the plan, deferred wages are payable at the participant's election at a certain date or at termination of the participant's employment with the University. Participation in the plan is limited to the Executive Staff of the University. Assets of the plan are held in a separate account, and for reporting purposes, are included at fair market value with investment funds held or administered by others. The fair value of the assets at June 30, 2019 and 2018 totaled \$443,305 and \$403,142, respectively.

On July 1, 2017, the University entered into an additional agreement with a key employee to provide deferred compensation. The liability related to this benefit is being accrued at equal amounts over four years. The liability amounted to \$450,000 and \$225,000 at June 30, 2019 and 2018, respectively, and is included in accounts payable and accrued liabilities on the statements of financial position. Compensation costs incurred and charged to operations related to this agreement amounted to \$225,000 and \$225,000 for the years ended June 30, 2019 and 2018, respectively.

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Notes to Financial Statements

June 30, 2019 and 2018

**(13) Net Assets with Donor Restrictions**

The University's net assets with donor restrictions were as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Time restricted	\$ 280,446	\$ 337,185
Use restricted:		
Program expenses	2,162,295	2,311,503
Scholarships	12,404,172	11,671,645
General University support	1,186,717	1,132,967
Total net assets with donor restrictions	<u>\$ 16,033,630</u>	<u>\$ 15,453,300</u>

**(14) Net Assets Released from Restrictions**

Net assets with donor restrictions were released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donor. The net assets released from restriction related to the following:

	<u>2019</u>	<u>2018</u>
Time restriction met and purpose restrictions accomplished:		
Student aid	\$ 584,655	\$ 515,906
Other activities	961,971	561,513
	<u>\$ 1,546,626</u>	<u>\$ 1,077,419</u>

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### Notes to Financial Statements

June 30, 2019 and 2018

#### **(15) Commitments and Contingencies**

The University participates in the Massachusetts University Savings Prepaid Tuition Program. This program allows participants to pay in advance (against a bond) for future tuition at the cost of tuition at the time of the bond purchase increased by CPI plus 2%. The potential cost associated with this program cannot be determined as it is contingent on future tuition increases and the bond purchasers who attend the University.

The University participates in a number of federal programs, which are subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

#### **(16) Liquidity and Availability**

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

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching, research and public service 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 University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the University's cash and shows positive cash generated by operations for the years ended June 30, 2019 and 2018.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. The University's board-designated endowment is subject to an annual spending rate of 4%. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated per the Board's annual spending rate approval), these amounts could be made available if necessary (\$40,762,602 at June 30, 2019).

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As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and equivalents	\$ 10,559,123
Accounts receivable	4,760,879
Pledges receivable, due within one year	<u>143,648</u>
	<u>\$ 15,463,650</u>

**(17) Cash Flow Information**

Noncash investing activities for the year ended June 30, 2019 includes the write-off of land, property, and equipment with a cost of \$1,607,200 and accumulated depreciation of \$1,555,005, resulting in a net loss on disposition of \$52,195.

**(18) Subsequent Events**

The University evaluated subsequent events for potential recognition or disclosure through October 25, 2019, the date on which the financial statements were issued, and did not identify any events subsequent to June 30, 2019 requiring disclosure in these financial statements.