Financial Statements

Benjamin Franklin Institute of Technology

June 30, 2020 and 2019

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Financial Statements

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Financial Statements:

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

The Board of Trustees
Benjamin Franklin Institute of Technology
Boston, Massachusetts

We have audited the accompanying financial statements of Benjamin Franklin Institute of Technology (the "Institute"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Benjamin Franklin Institute of Technology as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

We draw your attention to Note 3, which describes factors relating to operating results and liquidity of the Institute. The financial statements do not contain any adjustments relating to these matters. Our opinion is not modified with respect to these matters.

As discussed in Note 2 to the financial statements, in 2020, the Institute adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-08*, Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to these matters.

Mayer Hoffman McCann P.C.

December 16, 2020
Boston, Massachusetts

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statements of Financial Position

June 30,

	2020	*2019*
Assets		
Cash	$ 1,757,983	$ 1,342,779
Investments	274,503	131,328
Tuition and fees receivable, net of allowance for doubtful accounts of $388,000 and $160,000 at June 30, 2020 and 2019, respectively	477,101	330,621
Other receivables	226,707	147,716
Pledges receivable, net	1,448,352	2,001,961
Prepaid expenses and other assets	90,919	140,974
Property and equipment, net	9,982,171	2,351,503
Total assets	**$ 14,257,736**	**$ 6,446,882**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,534,236	$ 1,139,089
Deferred revenue	1,543,745	221,432
Federal payroll protection loan payable	455,380	-
Note payable	4,779,850	4,270,109
Capital lease	-	13,301
Total liabilities	**8,313,211**	**5,643,931**
Net assets:		
Without donor restrictions	295,115	(5,403,258)
With donor restrictions	5,649,410	6,206,209
Net assets	**5,944,525**	**802,951**
Total liabilities and net assets	**$ 14,257,736**	**$ 6,446,882**

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Activities

Year Ended June 30, 2020
(with comparative totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues:				
Tuition and fees revenue (net of scholarships of $2,679,167 and $2,839,086 in 2020 and 2019, respectively)	$ 6,605,086	$ -	$ 6,605,086	$ 7,049,046
Auxiliary enterprises	741,968	-	741,968	430,302
Student provisions	606,519	-	606,519	799,785
Contributions and grants	1,235,663	1,073,134	2,308,797	2,659,327
In-kind contributions	304,026	-	304,026	-
Releases from restrictions	1,629,933	(1,629,933)	-	-
Investment return	(9,735)	-	(9,735)	41,371
Total revenue	**11,113,460**	**(556,799)**	**10,556,661**	**10,979,831**
Expenses:				
Program service	9,883,910	-	9,883,910	9,888,757
Management and general	5,865,103	-	5,865,103	4,052,031
Fundraising	466,074	-	466,074	274,272
Total expenses	**16,215,087**	**-**	**16,215,087**	**14,215,060**
Change in net assets from operations	**(5,101,627)**	**(556,799)**	**(5,658,426)**	**(3,235,229)**
Other income:				
Grant income	1,300,000	-	1,300,000	-
Gain associated with pending sale of building	9,500,000	-	9,500,000	-
Total other income	**10,800,000**	**-**	**10,800,000**	**-**
Total change in net assets	**5,698,373**	**(556,799)**	**5,141,574**	**(3,235,229)**
Net assets, beginning of year	(5,403,258)	6,206,209	802,951	4,038,180
Net assets, end of year	**$ 295,115**	**$ 5,649,410**	**$ 5,944,525**	**$ 802,951**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Activities

Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Tuition and fees revenue (net of scholarships of $2,839,086 in 2019)	$ 7,049,046	$ -	$ 7,049,046
Auxiliary enterprises	430,302	-	430,302
Student provisions	799,785	-	799,785
Contributions	1,200,280	1,459,047	2,659,327
Releases from restrictions	2,109,825	(2,109,825)	-
Investment return	41,371	-	41,371
Total revenue	**11,630,609**	**(650,778)**	**10,979,831**
Expenses:			
Program service	9,888,757	-	9,888,757
Management and general	4,052,031	-	4,052,031
Fundraising	274,272	-	274,272
Total expenses	**14,215,060**	**-**	**14,215,060**
Total change in net assets	**(2,584,451)**	**(650,778)**	**(3,235,229)**
Net assets, beginning of year	(2,818,807)	6,856,987	4,038,180
Net assets, end of year	**$ (5,403,258)**	**$ 6,206,209**	**$ 802,951**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Functional Expenses

Year Ended June 30, 2020
(with comparative totals for 2019)

	2020				2019
	Program Services	Management and General	Fundraising	Total	Total
Salaries and wages	$ 6,077,327	$ 1,684,402	$ 140,011	$ 7,901,740	$ 7,233,195
Employee benefits	931,803	359,987	24,821	1,316,611	1,166,879
Payroll taxes	429,192	122,230	9,921	561,343	517,612
Fees for services	366,167	1,140,576	10,641	1,517,384	1,286,774
Advertising and promotion	47,554	574,458	9,842	631,854	473,519
Information technology	266,311	1,040	3,492	270,843	295,942
Travel	10,122	6,358	417	16,897	33,114
Conferences, conventions and meetings	16,078	19,041	245	35,364	56,913
Interest	1,218	35,727	-	36,945	170,278
Depreciation and amortization	-	205,328	-	205,328	281,831
Insurance	-	359,691	-	359,691	191,547
Student provisions	595,916	604	-	596,520	696,528
Other	568,862	1,057,175	266,320	1,892,357	1,133,118
Utilities	30,924	225,594	364	256,882	325,660
Equipment rental and maintenance	542,436	72,892	-	615,328	352,150
Total functional expenses	**$ 9,883,910**	**$ 5,865,103**	**$ 466,074**	**$ 16,215,087**	**$ 14,215,060**

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Functional Expenses

Year Ended June 30, 2019

	2019			
	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and wages	$ 5,599,853	$ 1,493,795	$ 139,547	$ 7,233,195
Employee benefits	818,701	332,153	16,025	1,166,879
Payroll taxes	406,373	101,272	9,967	517,612
Fees for services	387,731	848,218	50,825	1,286,774
Advertising and promotion	76,163	389,258	8,098	473,519
Information technology	291,993	1,045	2,904	295,942
Travel	30,220	2,857	37	33,114
Conferences, conventions and meetings	39,307	16,316	1,290	56,913
Interest	2,436	167,842	-	170,278
Depreciation and amortization	218,190	58,204	5,437	281,831
Insurance	148,294	39,558	3,695	191,547
Student provisions	696,340	188	-	696,528
Other	693,023	409,931	30,164	1,133,118
Utilities	252,122	67,255	6,283	325,660
Equipment rental and maintenance	228,011	124,139	-	352,150
Total functional expenses	**$ 9,888,757**	**$ 4,052,031**	**$ 274,272**	**$ 14,215,060**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statements of Cash Flows

Years Ended June 30,

	2020	*2019*
Cash flows from operating activities:		
Change in net assets	$ 5,141,574	$ (3,235,229)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	245,068	281,831
Net realized and unrealized (gains) losses on investments	9,735	(54,754)
Gain associated with pending sale of building	(9,500,000)	-
Change in reserve for uncollectible tuition receivables	228,000	60,000
Change in reserve for uncollectible pledge receivables	(392,460)	(13,684)
Change in pledges receivable discounts	(9,950)	(23,616)
(Increase) decrease in certain assets and liabilities:		
Tuition and fees receivable	(374,480)	27,473
Other receivables	(78,991)	79,550
Pledges receivable	956,019	447,200
Prepaid expenses and other assets	50,055	74,451
Accounts payable and accrued expenses	123,341	145,881
Deferred revenue	822,313	(103,645)
Net cash used in operating activities	**(2,779,776)**	**(2,314,542)**
Cash flows from investing activities:		
Purchase of investments	(152,910)	(83,396)
Proceeds from sale of investments	-	2,350,000
Purchase of property and equipment	(7,564,189)	(154,155)
Net cash provided by (used in) investing activities	**(7,717,099)**	**2,112,449**
Cash flows from financing activities:		
Payments for financing fees	-	(119,223)
Net change in note payable	470,000	-
Proceeds from pending sale of building	10,000,000	-
Proceeds from note payable	-	1,611,223
Proceeds from federal payroll protection loan payable	455,380	-
Payments made on note payable and capital lease	(13,301)	(103,529)
Net cash provided by financing activities	**10,912,079**	**1,388,471**
Net increase in cash	**415,204**	**1,186,378**
Cash, beginning of year	1,342,779	156,401
Cash, end of year	**$ 1,757,983**	**$ 1,342,779**
Supplemental disclosures:		
Cash paid during the year for interest expense	$ 221,669	$ 170,287
Purchases of property and equipment in accounts payable	$ 271,806	$ -
Non cash component of the gain on pending sale of building	$ 500,000	$ -
Non cash transaction in connection with debt refinancing	$ -	$ (2,778,109)

See accompanying notes to financial statements.

Note 1 - Nature of Organization

Benjamin Franklin Institute of Technology (the "Institute") is a non-profit college serving students primarily from the Greater Boston area. It has a unique history in how the Institute was formed which was via a trust established by Benjamin Franklin in collaboration with the City of Boston. To this day, the Mayor of the City of Boston or his designee is a member of the Board of Trustees.

The Institute is committed to student success and career preparation leading to the Associate in Science degree, the Bachelor of Science, a certificate and non-credit programs in engineering technology, industrial technology, and related fields. Most of whom receive grants or loans via various student financial aid programs sponsored by the United States Department of Education ("DOE") which facilitates the payment of a very substantial portion of the costs students incur at the Institute. The Institute also receives important annual contributed support. The Institute strives to empower and inspire every student to reach his or her full potential, through industry-informed curricula, hands-on learning, and personalized support, producing graduates fully prepared for work, life-long learning and citizenship.

The Institute is accredited by the New England Commission of Higher Education, Inc. The Institute's accreditation status is subject to certain operating and reporting requirements and such accreditation is required to participate in DOE financial aid programs. In addition, the Institute is subject to various participation requirements as well as oversight by the DOE. See Note 11 for further information on DOE matters.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include investment in property and equipment, net of accumulated depreciation and amortization and related debt obligations.

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, the events specified by the donor or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash

The Institute considers as cash any highly liquid debt instruments with maturities at date of purchase of three months or less. Cash is reported at cost plus accrued interest. Cash held by investment managers are considered part of investment given the expectation of near term reinvestment. The Institute maintains cash balances at financial institutions which, at times, may exceed federally insured limits. The Institute monitors its exposure associated with cash and has not experienced any losses in such accounts. Cash includes approximately $338,000 restricted for payments to be made directly to students.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value policies described later in this section. Net investment return (loss) is reported in the statements of activities and consists of interest, dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Fair Value Measurements

The Institute reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy for the particular item. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Recurring fair value measures include the Institute's investments. The 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 Institute to classify recurring fair values of financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique as follows:

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 an 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.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. 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 values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Tuition and Fees Receivable

Students are billed based on dates outlined in the academic catalog as agreed in advance of the delivery of the related academic or auxiliary activity. Payments for tuition, fees and auxiliary enterprises charges are generally due by the start of the academic period with the recognition that on behalf payments being made by the DOE or others are subject to specific requirements within those programs as to when those funds can be availed. Certain DOE funding can be availed prior to the commencement of the academic period, while other amounts are paid at specified intervals based on the rules as promulgated by the DOE. Thus cash flows on accounts receivable balances and the measurement of deferred revenues do not directly depend on meeting specified performance obligations of the Institute. Student accounts are not collateralized. Student accounts and notes receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is established based on historical experience which is reviewed and assessed periodically.

Pledges Receivable

Pledges receivable are reported at fair value on the date the promise is verifiably committed. Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected beyond one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using an interest rate commensurate with the risks involved and the time duration at the time the pledge is received. This is considered a Level 2 fair value method as described elsewhere in these polices.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or at fair market value at the date of the donation when the item has a useful life in excess of one year. Donated property and equipment uses Level 3 fair value methods as described elsewhere in these policies. Management applies a capitalization threshold of $5,000 with depreciation expensed on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term when applicable.

Note 2 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Student deposits represent reservation deposits and other advance payments by students on account. Deferred revenue represents the amount of unearned related services that are in progress as of year end related to net tuition and fees. Such amounts are reflected as revenue ratably over time with such amounts generally being recognized on a current basis given the nature and duration of the underlying services being provided. Also included in 2020 deferred revenue are unexpended amounts associated with the funds received and not expended under the Higher Education Emergency Relief Funds awarded under the CARES Act as well as amounts associated with a proportional share of the property and equipment sale that was deferred associated with the receipt of the non-refundable deposit on the sale of the existing campus.

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions as follows:

The Institute derives revenues primarily through tuition and fees of which are under arrangements that are aligned to an academic semester which is less than one year in length.

Under accounting standards, revenue measurement is driven via principles-based process that requires the entities: 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied.

Tuition and fees revenue are recorded at established rates, net of institutional financial aid and scholarships provided directly to students. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the Institute's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund before the start of classes declining to no refund shortly after the start of classes. Given the normal timing of the Institute's programs, the exposure to withdrawal rights is limited at year end.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Operations (Continued)

Payments made by third parties, such as the DOE, relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the Institute. Cash flows are also impacted by DOE rules which differ for newly enrolled versus continuing students with respect to financial aid. Generally, funds made available by the DOE for new students are available later than for continuing students. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

Contributions, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied.

Gifts of property, plant and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long lived assets are reported as net assets with donor restrictions. The Institute reports expirations of donor restrictions when the donated or acquired long lived asset is placed into service.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. Contributions received pending designation by the donor are considered with donor restrictions until known at which time such are reclassified if required.

Expenses are reported as decreases in net assets without donor restrictions. Investment returns 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 “releases from restrictions” between the classes of net assets.

Advertising and Promotion

Costs for advertising and promotion are expensed as incurred. Such expense totaled $631,852 and $473,519 for the years ended June 30, 2020 and 2019, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and the administration of the Institute have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Costs that are identified with a specific functional area are coded directly to expenses by function. Other costs that cannot be identified directly are allocated between functional areas based on full-time equivalents. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Institute is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from both Federal and state income taxes.

Uncertain Tax Positions

The Institute 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 Institute has identified its tax status as a tax exempt entity and its determinations of which income items are related or unrelated as its only significant tax positions; however, the Institute has determined that such tax positions do not result in an uncertainty requiring recognition. The Institute is not currently under examination by any taxing jurisdictions and considers further tax disclosures as not significant. The Institute's Federal and state tax returns are generally open for examination for three years following the date filed.

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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

Management is currently unable to accurately forecast the future impact on attendance patterns resulting from the Coronavirus (COVID-19) pandemic which could impact the quantity of students, the course loads taken by students, the mode of delivery and price levels trends of the Institute on a forward basis. The effects of these matters could impact the future results of operations. Based on information available through the date of this report, there are fewer students enrolled compared to the prior year.

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

On July 1, 2019, the Institute adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, associated with revenue recognition using the modified retrospective method. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard addresses inconsistency in revenue recognition by outlining a principles-based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract.

Associated with the adoption of this standard, consideration was given the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts and, accordingly, no change was made to this accounting.

Effective July 1, 2019, the Institute also adopted ASU No. 2018-08*, Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using the modified retrospective method. The contribution standard addresses inconsistency in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would by accounted for using the revenue recognition standards above. It also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable.

These standards were applied to transactions that were not complete or had otherwise already been recognized as of the beginning of fiscal year 2020. The impact of the adoption of these new standards did not impact the 2020 results. As such, no disclosures have been provided on the effect on the June 30, 2020 financial statements.

In addition, certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

Note 2 - Summary of Significant Accounting Policies (Continued)

Reclassification

Certain amounts in the June 30, 2019 financial statements have been reclassified to conform to the June 30, 2020 presentation. The reclassifications had no impact on the reported change in net assets as of June 30, 2019.

Subsequent Events

The Institute has evaluated subsequent events from the date of the financial statements through December 16, 2020, the date at which the financial statements were authorized to be issued. See Note 13 relative to the letter of credit posted in favor of the DOE after year end as well as information on the result of a DOE program review received after year end.

Note 3 - Liquidity and Availability

Operating Results and Liquidity

In recent years, the Institute has incurred substantial operating losses as well as negative cash flow from operations with those losses increasing in 2020 compared to 2019. In addition, the Institute has negative a deficit in net assets without donor restrictions. These long existing operating challenges along with challenges associated with COVID-19 have had a negative impact on operations. Negative results are expected to continue in the short and intermediate term.

In response to these events, the Institute has, among other things, taken significant strategic action to position it for the future which includes action to sell and replace its existing campus, to reduce forward operating costs and other actions to ensure sufficient liquidity to conduct operations going forward. Integral to this is the pending sale of its existing premises in the amount of approximately $66,000,000 subject to certain adjustments as more fully described in Note 14 of which a non-refundable deposit of $10,000,000 has already been received. Management expects to close on this sale on a timely enough basis to provide the needed liquidity to support operations as well as to allow it to fund its replacement campus while it continues to occupy its existing premises under the sale agreement for a limited period of time. The closing date is subject to change depending on outside factors, zoning and other matters. Should the sale be delayed, management will seek additional financial support from its bank and management believes that it would be able to obtain additional credit given the compelling loan to value ratio in the property. The bank currently has a mortgage on such premises in the amount of $10,000,000 of which approximately half of that amount has been drawn under the revolving arrangement. In addition, there is no debt associated with the property acquired for the future campus. Management believes that between the sale and additional credit that it would otherwise seek that it will have sufficient liquidity to meet its obligations to allow for it to continue as a going concern. The financial statements do not contain any adjustments as a result of this uncertainty.

The Institute regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Institute has various sources of liquidity at its disposal, including cash and its existing bank arrangement which include a revolving credit agreement.

Note 3 - Liquidity and Availability (Continued)

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

The following table shows financial assets available within one year of the balance sheet date to meet general expenditures:

	2020	***2019***
Financial assets available to meet general expenditures over the next 12 months:		
Cash	$ 1,262,983	$ 1,042,779
Tuition and fees receivable	477,101	330,621
Other receivables	226,707	147,716
Pledges due in one year	930,600	856,100
Investments available	155,460	12,285
Total financial assets available to meet general expenditures over the next 12 months	**$ 3,052,851**	**$ 2,389,501**

In addition, the Institute has $5,140,668 of additional borrowings available under its revolving credit agreement with its bank.

Note 4 - Pledges Receivable

Pledges receivable are summarized as follows as of June 30:

	2020	***2019***
Unconditional promises expected to be collected in:		
Less than one year	$ 930,600	$ 856,100
One year to five years	939,700	1,185,300
	1,870,300	2,041,400
Less: Unamortized discounts and reserve for uncollectibles	(421,948)	(39,439)
Pledges receivable, net	**$ 1,448,352**	**$ 2,001,961**

Two donors accounted for approximately 74% and 71% of total gross pledges receivable at June 30, 2020 and 2019, respectively.

Note 5 - Investments

The portfolio of investments was valued using Level 1 methods and was comprised of money market funds as of June 30, 2020 and 2019.

Investment return was ($9,375) and $41,371 for the years ended June 30, 2020 and 2019, respectively.

On October 6, 2017, the Institute gained approval from the Supreme Judicial Court of the Commonwealth of Massachusetts in order to borrow from its endowment ("Endowment Loan"). The terms of this approval allowed the Institute to borrow up to $3,100,000 from the endowment while providing a mortgage security interest in all structures which comprise its current premises, along with any related furniture, equipment and other goods to secure repayment. Interest is to accrue at 10% per annum. Interest only payments commenced in September 2018 and semi-annual payments of principal and interest will commence on September 30, 2021 (see Note 8). As of June 30, 2020 and 2019, $3,100,000 was drawn down under this arrangement which had the effect of reducing investments.

Note 6 - Property and Equipment

Property and equipment were as follows at June 30:

	2020	***2019***
Land, buildings and improvements	$ 6,647,524	$ 6,600,317
Computers and other equipment	3,935,743	3,259,796
Construction in process	7,188,183	75,342
	17,771,450	9,935,455
Less: Accumulated depreciation and amortization	7,789,279	7,583,952
Property and equipment, net	**$ 9,982,171**	**$ 2,351,503**

The Institute is in the process of selling its existing facility with plans to replace those premises with a new campus that will be constructed on recently acquired property. Given the sale will be subject to a leaseback as the new facility is constructed, such assets continue to be included as land, buildings and improvements rather than assets held for sale given that it continues to be used in operations. Construction in process costs relates to engineering and design costs related to the planned construction of the new campus along with the cost of the property acquired for this purpose.

Included in the amount of construction in process is approximately $185,000 of capitalized interest at June 30, 2020.

Note 7 - Note Payable and Capital Lease

The Institute maintains a loan agreement ("Agreement") with a financial institution that provides up to a total of $10,000,000 in revolving credit. The Agreement is secured by a mortgage, security agreement and assignment in certain property owned by the Institute and bears interest at the greater of the thirty-day London Interbank Offered Rate ("LIBOR") plus a margin of 2.75% (4.40% at June 30, 2020) with a maturity date of June 27, 2022. Borrowings under this agreement amounted to $4,859,332 and $4,389,332 which is presented net of loan issuance costs of $79,482 and $119,223 as reported on the accompanying statement of financial position at June 30, 2020 and 2019, respectively. Amortization expense related to the loan issuance costs totaled $39,741 for the year ended June 30, 2020.

The Institute was obligated under a capital lease for certain equipment which was paid in full as of June 30, 2020.

Interest expense was $36,945 (net of capitalized interest) and $170,278 for the years ended June 30, 2020 and 2019, respectively.

In addition, as more fully described in Note 5, the Institute maintains an internal loan from its endowment which has been used to fund past operations. The borrowing under this arrangement amounted to $3,100,000 at June 30, 2020 and 2019. It is expected that upon sale of the building that this obligation will be paid off by redepositing this amount plus accrued interest into the investment accounts of the Institute. The obligation to the endowment fund is eliminated in consolidation so the assets of the investments and obligations to the endowment type funds is not presented within the statement of financial position of the Institute. Future principal payments are as follows at June 30, 2020:

	Note Payable and Capital Lease	*Endowment*	*Total*
2021	$ -	$ -	$ -
2022	-	-	-
2023	4,859,332	310,000	5,169,332
2024	-	310,000	310,000
2025	-	310,000	310,000
Thereafter	-	2,170,000	2,170,000
Total	**$ 4,859,332**	**$ 3,100,000**	**$ 7,959,332**

Note 8 - Federal Payroll Protection Loan Payable

The Institute applied for and received on April 28, 2020 a forgivable Payroll Paycheck Protection Loan of approximately $1,750,000 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the 24 week period through October 5, 2020 and that certain employment levels are maintained. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount is due in April 2022, and carries an interest rate of 1%. The Institute incurred qualifying costs of $1,300,000 through June 30, 2020 and such amount has been reported as grant revenue with an offsetting reduction to the federal payroll protection program loan payable on the statement of financial position. The Institute anticipates incurring enough additional costs during the allowable period such that all amounts will ultimately be forgiven. A formal request for forgiveness will be submitted during the required timelines under the program.

Note 9 - Net Assets and Endowments

The Institute has a number of donor-restricted endowment funds established to further its educational mission. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as enacted in Massachusetts as requiring the tracking of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute tracks the original value of gifts donated to the permanent endowment, subsequent gifts to the permanent endowment and any required additions to these funds per the donor agreement. Any amounts in excess of these levels which is generally accumulated unspent gains on such funds are subject to appropriation for expenditure by the Institute via the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Institute also considers the following factors in making a determination to appropriate endowment funds:

1) The duration and preservation of the fund;
2) The purposes of the Institute and the donor-restricted endowment fund;
3) General economic conditions;
4) The possible effect of inflation and deflation;
5) The expected total return from income and the appreciation of investments;
6) Other resources of the Institute; and
7) The investment policies of the Institute.

Note 9 - Net Assets and Endowments (Continued)

Interpretation of Relevant Law (Continued)

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be dipped into on a temporary basis.

The Institute tracks the original value of gifts donated to the endowment, subsequent gifts to the endowment, and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment Investment Policy

As more fully described in Note 5, the Institute has borrowed a total of $3,100,000 in funds from its endowment, in addition to spending down all available investment returns to fund cash flows. Accordingly, only a modest amount of invested funds remain pending replenishment.

Endowment net assets were as follows at June 30:

	2020	***2019***
Without donor restrictions	$ 155,460	$ 12,285
With donor restrictions	3,219,043	3,219,043
	$ 3,374,503	**$ 3,231,328**

Note 9 - Net Assets and Endowments (Continued)

Endowment Investment Policy (Continued)

Endowment activity was as follows for the years ended June 30:

	2020		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Beginning balance	$ 12,285	$ 3,219,043	$ 3,231,328
Additions	152,550	-	152,550
Investment return	(9,375)	-	(9,375)
Ending balance in net assets	155,460	3,219,043	3,374,503
Less: Cumulative amounts borrowed	-	(3,100,000)	(3,100,000)
Invested balance remaining	**$ 155,460**	**$ 119,043**	**$ 274,503**

	2019		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Beginning balance	$ 317,285	$ 3,525,893	$ 3,843,178
Additions	86,779	10,000	96,779
Investment return	41,371	-	41,371
Appropriation for expenditure	(433,150)	(316,850)	(750,000)
Ending balance in net assets	12,285	3,219,043	3,231,328
Less: Cumulative amounts borrowed	-	(3,100,000)	(3,100,000)
Invested balance remaining	**$ 12,285**	**$ 119,043**	**$ 131,328**

Note 9 - Net Assets and Endowments (Continued)

Endowment Investment Policy (Continued)

Net assets without donor restrictions were as follows at June 30:

	2020	***2019***
Net investment in plant, net of related debt	$ 5,202,321	$ (1,931,907)
Net deficit	(4,907,206)	(3,471,351)
Total	**$ 295,115**	**$ (5,403,258)**

Net assets with donor restrictions were as follows at June 30:

	2020	***2019***
Endowment corpus:		
Franklin Trust	$ 1,197,419	$ 1,197,419
Other scholarship funds	2,021,624	2,021,624
Total endowment	3,219,043	3,219,043
Pledges receivable	1,641,373	2,001,961
Scholarships and other restricted	788,994	985,205
Total	**$ 5,649,410**	**$ 6,206,209**

Net assets released from donor restrictions by the occurrence of events specified by the donors or by the passage of time were as follows for the years ended June 30:

	2020	***2019***
Time restriction met	$ 960,588	$ 1,014,900
Operations and scholarships	669,345	1,094,925
Net assets released from restrictions	**$ 1,629,933**	**$ 2,109,825**

Note 10 - In-kind Contributions

During the year ended June 30, 2020, the Institute received $304,026 of in-kind contributions consisting of equipment and materials for students to use of which approximately $255,000 has been capitalized as property and equipment, net on the accompanying statements of financial position at their estimated fair value using Level 3 methods.

Note 11 - Retirement Plan

The Institute has a qualified defined contribution plan under Section 403(b) of the Internal Revenue Code. The Institute's annual contribution to the Plan equals 5% of compensation as defined subject to eligibility requirements such as two years of service and attaining the age of 21 subject to legal limits. Expenses relating to this plan amounted to $479,124 and $415,507 for the years ended June 30, 2020 and 2019, respectively. Employees may make additional voluntary contributions to the Plan through payroll deductions subject to legal limits.

The Institute intends, but does not promise, to pay those who were employed prior to participation in the above mentioned plan a monthly pension in recognition of prior service. The monthly pension is equal to 1% of regular monthly compensation multiplied by prior service years, as defined. No liability has been recorded in the statements of financial position, as there is no contractual or legal obligation to these employees. Payments to this group of retired employees amounted to $23,657 and $23,857 for the years ended June 30, 2020 and 2019, respectively, pursuant to a vote of the Board of Trustees.

Note 12 - Affiliated Organization

The Institute has an affiliated organization called The Franklin Institute, Inc. which was established under Internal Revenue Code Section 501(c)(3) as a nonprofit organization to raise funds to support the ongoing educational programs of the Institute. The board of this entity is made up of select members of the Institute's board. During the years ended June 30, 2020 and 2019, The Franklin Institute, Inc. did not expend any funds on behalf of the Institute. An immaterial amount of funds are held by this entity.

Note 13 - DOE Matters

The DOE requires the computation of a financial strength indicator each year based on the information in the annual financial statements. The Institute did not meet this score in 2019. In connection with the 2019 results, the DOE required that the letter of credit be posted in its favor which was put into effect on September 21, 2020 in the amount of $480,760. Management believes that this will meet the provisional certification requirements of the DOE, however the DOE can take other actions as it deems appropriate. Intuitions not meeting the composite score requirements for more than three years will not be allowed to continue to participate in DOE student financial aid programs. Additionally, the Institute is subject to local accreditation oversite and such accreditation is required to continue to participate in DOE programs. Management believes it will be able to continue to meet these requirements.

The DOE conducted a follow up program review in November 2019 which enumerated a number of areas of concern relative to the administration of financial aid. Management received the results of this review in September 2020. The Institute is assessing the report which includes the potential for return of certain funds and will respond to the DOE accordingly. Management believes that it is in reasonable compliance with the programs of the DOE and is working cooperatively with the DOE to ensure that it materially complies with the requirements set forth in these programs, however no amounts have been accrued in connection with this review given its preliminary nature.

Note 14 - Commitments and Other Contingencies

The Institute has entered into various operating lease agreements for equipment as well as leases certain facilities from time to time under short-term rental arrangements for student housing, which were not renewed in 2019. Rent expense was approximately $30,500 and $330,000 for the years ended June 30, 2020 and 2019, respectively.

Future minimum payments under the equipment leases are approximately:

2021	$	16,600
2022		20,200
2023		20,200
2024		14,700
2025		13,300
Thereafter		2,300

In 2019, the Institute entered into a purchase and sale agreement to sell its premises in the amount of approximately $66,000,000 subject to certain adjustments. In connection with this agreement, the Institute received a $10,000,000 that is nonrefundable except in limited circumstances dealing with matters such as environmental or other concerns in connection with the due diligence prior to closing. Management believes that it has met all of its significant obligations to the seller with respect to these circumstances and that as such the amount received has been recognized as earned with a proportional amount of this being deferred relating to the net book value of the property and equipment associated with the eventual sale. Should the buyer not close on the sale, such deferred amount would be recognized as the time that becomes known as a gain on the sale in addition to what had been recorded in 2020. The closing date is subject to various factors, however management believes the ultimate closing will occur within approximately one year of the date of issuance of these financial statements.