Financial Statements

Benjamin Franklin Institute of Technology

June 30, 2021 and 2020

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BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Financial Statements

Table of Contents

Financial Statements:

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Mayer Hoffman McCann P.C.

January 27, 2022
Boston, Massachusetts

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statements of Financial Position

June 30,

	2021	***2020***
Assets		
Cash	$ 1,693,554	$ 1,757,983
Investments	439,923	274,503
Tuition and fees receivable, net of allowance for doubtful accounts of $577,000 and $388,000 at June 30, 2021 and 2020, respectively	710,908	477,101
Other receivables	90,538	226,707
Pledges receivable, net	1,308,939	1,448,352
Prepaid expenses and other assets	20,000	90,919
Property and equipment, net	10,806,346	9,982,171
Total assets	**$ 15,070,208**	**$ 14,257,736**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,085,820	$ 1,534,236
Deferred revenue	869,178	1,543,745
Federal paycheck protection program loan payable	-	455,380
Note payable	6,819,591	4,779,850
Total liabilities	**8,774,589**	**8,313,211**
Net assets:		
Without donor restrictions	1,099,037	295,115
With donor restrictions	5,196,582	5,649,410
Net assets	**6,295,619**	**5,944,525**
Total liabilities and net assets	**$ 15,070,208**	**$ 14,257,736**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Activities

Year Ended June 30, 2021
(with comparative totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues:				
Tuition and fees revenue (net of scholarships of $1,915,378 and $2,679,167 in 2021 and 2020, respectively)	$ 5,412,252	$ -	$ 5,412,252	$ 6,605,086
Auxiliary enterprises	1,334,226	-	1,334,226	741,968
Student provisions	520,673	-	520,673	606,519
Contributions and grants	3,921,633	2,333,561	6,255,194	2,308,797
In-kind contributions	46,250	-	46,250	304,026
Releases from restrictions	2,786,389	(2,786,389)	-	-
Investment return	8,267	-	8,267	(9,735)
Total revenue	**14,029,690**	**(452,828)**	**13,576,862**	**10,556,661**
Expenses:				
Program service	10,318,847	-	10,318,847	9,883,910
Management and general	3,663,554	-	3,663,554	5,865,103
Fundraising	844,007	-	844,007	466,074
Total expenses	**14,826,408**	**-**	**14,826,408**	**16,215,087**
Change in net assets from operations	**(796,718)**	**(452,828)**	**(1,249,546)**	**(5,658,426)**
Other income:				
Federal paycheck protection program grant income	1,600,640	-	1,600,640	1,300,000
Gain associated with pending sale of building	-	-	-	9,500,000
Total other income	**1,600,640**	**-**	**1,600,640**	**10,800,000**
Total change in net assets	**803,922**	**(452,828)**	**351,094**	**5,141,574**
Net assets, beginning of year	295,115	5,649,410	5,944,525	802,951
Net assets, end of year	**$ 1,099,037**	**$ 5,196,582**	**$ 6,295,619**	**$ 5,944,525**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Activities

Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Revenues:			
Tuition and fees revenue (net of scholarships of $2,679,167 in 2020)	$ 6,605,086	$ -	$ 6,605,086
Auxiliary enterprises	741,968	-	741,968
Student provisions	606,519	-	606,519
Contributions and grants	1,235,663	1,073,134	2,308,797
In-kind contributions	304,026	-	304,026
Releases from restrictions	1,629,933	(1,629,933)	-
Investment return	(9,735)	-	(9,735)
Total revenue	**11,113,460**	**(556,799)**	**10,556,661**
Expenses:			
Program service	9,883,910	-	9,883,910
Management and general	5,865,103	-	5,865,103
Fundraising	466,074	-	466,074
Total expenses	**16,215,087**	**-**	**16,215,087**
Change in net assets from operations	**(5,101,627)**	**(556,799)**	**(5,658,426)**
Other income:			
Federal paycheck protection program 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**
Net assets, beginning of year	(5,403,258)	6,206,209	802,951
Net assets, end of year	**$ 295,115**	**$ 5,649,410**	**$ 5,944,525**

See accompanying notes to financial statements.

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Functional Expenses

Year Ended June 30, 2021
(with comparative totals for 2020)

	2021				2020
	Program Services	*Management and General*	*Fundraising*	*Total*	*Total*
Salaries and wages	$ 5,064,903	$ 1,133,840	$ 141,410	$ 6,340,153	$ 7,901,740
Employee benefits	542,129	296,505	18,799	857,433	1,316,611
Payroll taxes	370,863	94,059	10,525	475,447	561,343
Fees for services	723,606	717,412	-	1,441,018	1,517,384
Advertising and promotion	598,982	5,223	-	604,205	631,854
Information technology	358,128	22,019	3,854	384,001	270,843
Conferences, conventions and meetings	3,334	1,505	44	4,883	69,158
Interest	-	-	-	-	36,945
Depreciation and amortization	-	292,324	-	292,324	205,328
Insurance	-	116,819	-	116,819	359,691
Student provisions	1,749,865	-	-	1,749,865	596,520
Other	543,725	553,982	17,595	1,115,302	881,746
Bad debt expense	94,262	190,401	651,500	936,163	1,010,611
Utilities	40,471	194,218	-	234,689	256,882
Equipment rental and maintenance	228,579	45,247	280	274,106	615,328
Total functional expenses	**$ 10,318,847**	**$ 3,663,554**	**$ 844,007**	**$ 14,826,408**	**$ 16,231,984**

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statement of Functional Expenses

Year Ended June 30, 2020

	2020			
	Program Services	***Management and General***	***Fundraising***	***Total***
Salaries and wages	$ 6,077,327	$ 1,684,402	$ 140,011	$ 7,901,740
Employee benefits	931,803	359,987	24,821	1,316,611
Payroll taxes	429,192	122,230	9,921	561,343
Fees for services	366,167	1,140,576	10,641	1,517,384
Advertising and promotion	47,554	574,458	9,842	631,854
Information technology	266,311	1,040	3,492	270,843
Conferences, conventions and meetings	26,200	25,399	662	52,261
Interest	1,218	35,727	-	36,945
Depreciation and amortization	-	205,328	-	205,328
Insurance	-	359,691	-	359,691
Student provisions	595,916	604	-	596,520
Other	181,690	633,736	66,320	881,746
Bad debt expense	387,172	423,439	200,000	1,010,611
Utilities	30,924	225,594	364	256,882
Equipment rental and maintenance	542,436	72,892	-	615,328
Total functional expenses	**$ 9,883,910**	**$ 5,865,103**	**$ 466,074**	**$ 16,215,087**

BENJAMIN FRANKLIN INSTITUTE OF TECHNOLOGY

Statements of Cash Flows

Years Ended June 30,

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 351,094	$ 5,141,574
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	292,324	205,327
Amortization of deferred financing costs	39,741	39,741
Net realized and unrealized (gains) losses on investments	(8,267)	9,735
Gain associated with pending sale of building	-	(9,500,000)
(Increase) decrease in certain assets and liabilities:		
Federal paycheck protection program grant income	(455,380)	-
Tuition and fees receivable	(233,807)	(146,480)
Other receivables	136,169	(78,991)
Pledges receivable, net	139,413	553,609
Prepaid expenses and other assets	70,919	50,055
Accounts payable and accrued expenses	(360,610)	123,341
Deferred revenue	(674,567)	822,313
Net cash used in operating activities	**(702,971)**	**(2,779,776)**
Cash flows from investing activities:		
Purchase of investments	(157,153)	(152,910)
Purchase of property and equipment	(1,204,305)	(7,564,189)
Net cash used in investing activities	**(1,361,458)**	**(7,717,099)**
Cash flows from financing activities:		
Net change in note payable	2,000,000	470,000
Proceeds from pending sale of building	-	10,000,000
Proceeds from federal payroll protection loan payable	-	455,380
Payments made on note payable and capital lease	-	(13,301)
Net cash provided by financing activities	**2,000,000**	**10,912,079**
Net increase (decrease) in cash	**(64,429)**	**415,204**
Cash, beginning of year	1,757,983	1,342,779
Cash, end of year	**$ 1,693,554**	**$ 1,757,983**
Supplemental disclosures:		
Cash paid during the year for interest expense	$ 271,000	$ 221,669
Purchases of property and equipment in accounts payable	$ 184,000	$ 271,806
Non cash component of the gain on pending sale of building	$ -	$ 500,000

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.

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 students 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. ("NECHE"). 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 12 for further information on DOE matters.

At its September 25, 2020 meeting, NECHE voted to issue a notation with respect to the Institute because it found that the Institute's accreditation may be in jeopardy if current conditions continue or worsen with respect to NECHE's standard on Institutional Resources. The Institute's ten year accreditation visit from NECHE was conducted in November 2021. The visit included a heavy emphasis on institutional resources. The visiting committee has recommended to the Commission that our accreditation be extended. The Commission will consider the visiting committee's recommendations and issue a determination at their meeting in March 2022.

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.

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. Deferred revenue also includes 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 certain amounts deferred associated with the payment in connection with the campus sale pending.

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:

Earned Revenues

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. Auxiliary revenues are likewise recognized. 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. Student provisions revenue is recorded at point of sale. 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)

Earned Revenues (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 and Grant Support

Contributions and grant support, 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.

In-Kind Revenue

The Institute reflects certain donated goods consisting of equipment and materials for students to use as revenue in the financial statements. Such amounts are recognized using Level 3 fair value methods as per the fair value polices contained earlier in this section.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Operations (Continued)

Federal Paycheck Protection Program Grant Income

The Institute has recorded Paycheck Protection Program funds as non-operating income under the grant accounting model which allows for recording of revenue as eligible costs are incurred under the program. Such amounts are included in the accompanying statements of activities as federal payroll protection grant income (see Note 14).

Expenses

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 $604,205 and $631,854 for the years ended June 30, 2021 and 2020, respectively.

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 statements of functional expenses present 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. The Institute’s Federal and state tax returns are generally open for examination for three years following the date filed.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Pending Accounting Pronouncements

A number of new accounting standards are pending effective dates in future years. Management is currently evaluating the effect of future standards.

Reclassifications

Certain amounts have been reclassified in the 2020 financial statements to conform to the 2021 presentation, including the presentation of the Statement of Functional Expenses.

Subsequent Events

The Institute has evaluated subsequent events from the date of the financial statements through January 27, 2022, the date at which the financial statements were authorized to be issued. See Notes 3 and 7 regarding the extension of the Institute's revolving credit loan agreement.

Note 3 - Liquidity and Availability

Operating Results and Liquidity

The Institute has incurred a loss from operations in recent years and in 2021 and 2020 relied on non-recurring funding from federal sources together with additional debt financing to fund operations while it works to effect the closing on the sale of its existing campus under purchase and sale agreement executed in a prior year. The Institute continues to navigate the complex and multi-step process associated with the ultimate sale of this parcel as further discussed in Note 6 which management expects will provide the required liquidity for forward operations. The closing date is subject to change depending on outside factors, zoning and other matters, however management expects the closing to occur sometime in the middle of 2022. In the event the sale is delayed, management plans to use the existing credit facility which was extended after year end to mature on February 28, 2023 to fund operations. Management believes that its credit facilities are sufficient for its needs; however, if required, management also believes that it would be able to obtain additional credit given the compelling loan to value ratio in the property. The Institute has a purchase and sales agreement which calls for gross proceeds of approximately $65,000,000 less $10,000,000 that has already been advanced. The lender currently has a mortgage on such premises in the amount of $15,000,000 of which approximately half of that amount has been drawn under the arrangement as of June 30, 2021. Management believes that between the sale and/or use of the existing credit facility that it will have sufficient liquidity to meet its obligations to allow for it to continue as a going concern for 12 months from the issuance date of these financial statements. The financial statements do not contain any adjustments as a result of these matters.

Note 3 - Liquidity and Availability (Continued)

Operating Results and Liquidity (Continued)

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 loan agreement.

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:

	2021	*2020*
Financial assets available to meet general expenditures over the next 12 months:		
Cash	$ 1,418,169	$ 1,262,983
Tuition and fees receivable	710,908	477,101
Other receivables	58,114	226,707
Pledges due in one year	702,100	930,600
Investments available	320,880	155,460
Total financial assets available to meet general expenditures over the next 12 months	**$ 3,210,171**	**$ 3,052,851**

Note 4 - Pledges Receivable

Pledges receivable are summarized as follows as of June 30:

	2021	*2020*
Unconditional promises expected to be collected in:		
Less than one year	$ 702,100	$ 930,600
One year to five years	614,600	939,700
	1,316,700	1,870,300
Less: Unamortized discounts and reserve for uncollectibles	(7,761)	(421,948)
Pledges receivable, net	**$ 1,308,939**	**$ 1,448,352**

Note 5 - Investments

The portfolio of investments was valued using Level 1 methods and was comprised of money market and bond funds as of June 30, 2021 and 2020.

Investment return was $8,267 and ($9,735) for the years ended June 30, 2021 and 2020, 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 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 7). A total $3,100,000 at June 30, 2021 and 2020 was drawn down under this arrangement which had the effect of reducing investments. As of June 30, 2021 and 2020, total interest accrued on the note totaled approximately $316,000 and $470,000 with approximately $80,000 and $78,000 unpaid, respectively. In addition, at June 30, 2021 and 2020 additional in kind interest accruing at 5% per annum of approximately $465,000 and $310,000, respectively is owed back to the endowment that is not accrued for on the accompanying statements of financial position.

Note 6 - Property and Equipment

Property and equipment were as follows at June 30:

	2021	*2020*
Land, buildings and improvements	$ 6,675,681	$ 6,647,524
Computers and other equipment	4,043,009	3,935,743
Construction in process	8,169,259	7,188,183
	18,887,949	17,771,450
Less: Accumulated depreciation and amortization	8,081,603	7,789,279
Property and equipment, net	**$10,806,346**	**$ 9,982,171**

The sale of the Institute's campus is pending under a purchase and sale agreement for an approximate amount of $66,000,000 subject to certain adjustments. Under the terms of the arrangement, a $10,000,000 advance payment was made that management considered realized given the remote conditions under which such funds would need to be returned and, accordingly, a gain on sale was recognized in 2020 reduced by the basis attributable to that shared of the net investment plant. Net proceeds from the sale are expected in mid-2022. 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 cumulative capitalized interest of approximately $455,000 and $185,000 at June 30, 2021 and 2020, respectively.

Note 7 - Note Payable

The Institute maintains a revolving credit loan agreement (“Agreement”) with a financial institution with a limit of $15,000,000 with a maturity date that was extended after year end to February 28, 2023. 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”) or 4.40% (this resulted in an actual rate of 4.40% at June 30, 2021 and 2020). Amortization expense related to the loan issuance costs totaled $39,741 for the years ended June 30, 2021 and 2020.

The Institute capitalized $271,719 and $184,724 of interest for the years ended June 30, 2021 and 2020, 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 along with accrued interest of approximately $80,000 at June 30, 2021. 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 for the years ended June 30:

	Note Payable	*Endowment*	*Total*
2022	$ 6,859,332	$ 310,000	$ 7,169,332
2023	-	310,000	310,000
2024	-	310,000	310,000
2025	-	310,000	310,000
2026	-	310,000	310,000
Thereafter	-	1,550,000	1,550,000
Total	**6,859,332**	**3,100,000**	**9,959,332**
Less: Deferred financing costs	(39,741)	-	(39,741)
	$ 6,819,591	**$ 3,100,000**	**$ 9,919,591**

Note 8 - 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.

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.

Note 8 - Net Assets and Endowments (Continued)

Endowment Investment Policy (Continued)

Endowment net assets were as follows at June 30:

	2021	*2020*
Without donor restrictions	$ 320,880	$ 155,460
With donor restrictions	3,219,043	3,219,043
	$ 3,539,923	**$ 3,374,503**

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

	2021		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Beginning balance	$ 155,460	$ 3,219,043	$ 3,374,503
Additions	157,153	-	157,153
Investment return	8,267	-	8,267
Ending balance in net assets	320,880	3,219,043	3,539,923
Less: Cumulative amounts borrowed	-	(3,100,000)	(3,100,000)
Invested balance remaining	**$ 320,880**	**$ 119,043**	**$ 439,923**

	2020		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Beginning balance	$ 12,285	$ 3,219,043	$ 3,231,328
Additions	152,910	-	152,910
Investment loss	(9,735)	-	(9,735)
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**

Note 8 - Net Assets and Endowments (Continued)

Endowment Investment Policy (Continued)

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

	2021	*2020*
Net investment in plant, net of related debt	$ 3,986,755	$ 5,202,321
Net deficit	(2,887,718)	(4,907,206)
Total	**$ 1,099,037**	**$ 295,115**

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

	2021	*2020*
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	1,308,939	1,641,373
Scholarships and other restricted	668,600	788,994
Total	**$ 5,196,582**	**$ 5,649,410**

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:

	2021	*2020*
Time restriction met	$ 1,637,433	$ 960,588
Operations and scholarships	1,148,956	669,345
Net assets released from restrictions	**$ 2,786,389**	**$ 1,629,933**

Note 9 - In-Kind Contributions

The Institute received $46,250 and $304,026 of in-kind contributions in 2021 and 2020, respectively consisting of equipment and materials for students to use of which approximately $46,250 and $255,000 and was capitalized as property and equipment, net in 2021 and 2020, respectively on the accompanying statements of financial position at their estimated fair value using Level 3 methods.

Note 10 - 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 of July 1, 2020 (10% as of June 30, 2020) 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 $199,227 and $479,124 for the years ended June 30, 2021 and 2020, 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 for the years ended June 30, 2021 and 2020 pursuant to a vote of the Board of Trustees.

Note 11 - 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, 2021 and 2020, 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 12 - DOE Matters

The DOE requires the computation of a financial strength indicator each year based on the information in the annual financial statements that results in a pass, in the zone or a fail based on the computed values. The Institute was considered in the zone in 2021 and achieved a pass in 2020. Institutions with a failing score for more than three years will not be allowed to continue to participate in DOE student financial aid programs. The Institute has a letter of credit posted in favor of the DOE in the amount of $480,760 at June 30, 2021 resulting from a requirement from the strength indicator computed in 2019.

The Institute is also 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 13 - Commitments

The Institute has entered into various operating lease agreements for equipment as well as leases certain facilities from time to time. Rent expense was approximately $38,600 and $30,500 for the years ended June 30, 2021 and 2020, respectively.

Future minimum payments under the equipment leases are approximately:

2022	$	25,700
2023		25,700
2024		18,900
2025		13,300
2026		2,300

Note 14 - Federal Support Associated with Covid

Given the effects of Covid, the Institute was eligible for certain funding in 2021 and 2020. Some of this funding will be expended and thus recognized as revenue later. These programs provided substantial support as follows:

Paycheck Protection Program Loans

In 2021 and 2020, the Institute applied for and received forgivable Paycheck Protection Program Loans of $1,145,260 (“PPP 2”) and $1,755,380 (“PPP 1”) funded on February 12, 2021 and April 28, 2020, respectively. The Institute recorded grant revenue of $1,600,640 and $1,300,000 for the years ended June 30, 2021 and 2020, respectively, given eligible costs being incurred associated with this funding following the so called grant accounting method. Under the grant accounting method, revenue is recorded as related costs are incurred. Formal forgiveness for PPP 1 was granted on June 14, 2021. Management is in the process of filing its application for forgiveness of PPP 2 and expects the loan to be fully forgiven in 2022.

Higher Education Emergency Relief Funds

The Institute was granted three awards to assist students and the Institute with the impact of Covid which totaled $4,278,128. The Institute recorded grant revenue of $2,828,787 and $69,646 for the years ended June 30, 2021 and 2020, respectively. Unexpended amounts pending at June 30, 2021 were $1,379,695 which are expected to be reported as revenue is fiscal 2022 as costs are incurred.

Forward Impact

The Institute expects continued impact from Covid associated with revenues and costs, however the level of impact is uncertain and will be driven by the trends of the pandemic, consumer behavior, regulatory requirements, along with other factors. The remaining funding as noted above will be available to mitigate such impact, however the impacts may be greater than the funding available.