AMERICAN INTERNATIONAL COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2019

AMERICAN INTERNATIONAL COLLEGE

Financial Statements

June 30, 2019

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
American International College
Springfield, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of American International College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statement of financial position as of June 30, 2019, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

25 Braintree Hill Office Park ● Suite 102 ● Braintree, MA 02184 ● P:617.471.1120 ● F:617.472.7560
27 Church Street ● Winchester, MA 01890 ● P:781.729.4949 ● F:781.729.5247
www.ocd.com

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

Emphasis of Matter
As discussed in Note 2 to the financial statements, the College adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information
We have previously audited the College's 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 17, 2018. In our opinion, the summarized comparative information presented herein as of, and for the year ended, June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 17, 2019

AMERICAN INTERNATIONAL COLLEGE

Statements of Financial Position

June 30,

Assets

	2019	2018
Assets:		
Cash and equivalents	**$ 8,201,662**	$ 3,107,864
Accounts receivable, net	**1,669,131**	1,094,866
Pledges receivable, net	**305,886**	179,456
Prepaid expenses and other assets	**682,569**	756,791
Investments	**19,877,772**	18,697,526
Investments held in trust by others	**795,800**	802,887
Property and equipment, net	**51,368,912**	51,560,767
Total Assets	**$ 82,901,732**	$ 76,200,157

Liabilities and Net Assets

	2019	2018
Liabilities:		
Accounts payable	**$ 2,163,609**	4,702,798
Accrued expenses	**2,534,548**	2,170,807
Deferred revenues and student deposits	**1,500,050**	1,129,316
Line of credit	**4,000,000**	3,700,000
Capital lease obligations	**-**	198,972
Debt, net	**22,090,329**	13,684,101
Accrued pension obligation	**1,921,477**	1,488,823
Asset retirement obligations	**1,810,663**	1,810,663
Total Liabilities	**36,020,676**	28,885,480
Net Assets:		
Without donor restrictions	**31,890,944**	33,255,661
With donor restrictions	**14,990,112**	14,059,016
Total Net Assets	**46,881,056**	47,314,677
Total Liabilities and Net Assets	**$ 82,901,732**	$ 76,200,157

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

AMERICAN INTERNATIONAL COLLEGE

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2019 (with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Activities:				
Revenues:				
Tuition and fees	$ 68,238,170	$ -	$ 68,238,170	$ 68,313,101
Residence and dining	9,627,275	-	9,627,275	9,745,745
Less: Scholarships and awards	(28,461,021)	-	(28,461,021)	(27,460,161)
Net tuition, fees, residence and dining	49,404,424	-	49,404,424	50,598,685
Private contributions and grants	855,577	952,039	1,807,616	1,041,630
Federal and state grants	1,150,193	-	1,150,193	1,166,601
Auxiliary enterprises	406,514	-	406,514	506,357
Other income	1,445,950	-	1,445,950	1,369,837
Net assets released from restrictions	513,855	(513,855)	-	-
Total Revenues and Other Support	53,776,513	438,184	54,214,697	54,683,110
Program Expenses:				
Instruction	18,394,925	-	18,394,925	18,100,332
Student services	14,564,299	-	14,564,299	12,914,773
Library	1,057,010	-	1,057,010	1,017,556
Auxiliary enterprises	2,808,527	-	2,808,527	3,064,875
Total Program Expenses	36,824,761	-	36,824,761	35,097,536
Supporting Service Expenses:				
Management and general	17,153,285	-	17,153,285	17,287,558
Fundraising	731,898	-	731,898	671,168
Total Supporting Service Expenses	17,885,183	-	17,885,183	17,958,726
Total Operating Expenses	54,709,944	-	54,709,944	53,056,262
Change in Net Assets from Operations	(933,431)	438,184	(495,247)	1,626,848
Nonoperating Activities:				
Investment return	201,368	499,999	701,367	1,163,464
Change in split interest agreements	-	(7,087)	(7,087)	37,276
Change in pension valuation	(632,654)	-	(632,654)	(18,836)
Change in Net Assets from Nonoperating Activities	(431,286)	492,912	61,626	1,181,904
Change in Net Assets	(1,364,717)	931,096	(433,621)	2,808,752
Net Assets, Beginning of Year	33,255,661	14,059,016	47,314,677	44,505,925
Net Assets, End of Year	$ 31,890,944	$14,990,112	$ 46,881,056	$ 47,314,677

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

AMERICAN INTERNATIONAL COLLEGE

Statements of Functional Expenses

For the Year Ended June 30, 2019
(with comparative totals for 2018)

	2019							2018
	Program Expenses							
	Instruction	**Student Services**	**Library**	**Auxiliary Enterprises**	**Management and General**	**Fundraising**	**Total**	Total
Expenses:								
Salaries and wages	**$ 11,499,306**	**$ 5,719,474**	**$ 381,713**	**$ 730,072**	**$ 4,351,336**	**$ 384,506**	**$ 23,066,407**	$ 21,919,891
Occupancy	**472,729**	**169,548**	**74,548**	**603,820**	**4,398,985**	**9,955**	**5,729,585**	5,381,342
Depreciation	**441,481**	**815,374**	**172,654**	**1,044,327**	**1,122,703**	**25,847**	**3,622,386**	3,580,241
Dining and catering	**27,400**	**3,385,479**	**-**	**12,391**	**68,528**	**11,092**	**3,504,890**	3,373,309
Employee benefits	**1,751,184**	**660,246**	**52,715**	**131,061**	**675,049**	**50,165**	**3,320,420**	2,948,724
Consulting	**154,499**	**250,351**	**-**	**-**	**1,764,498**	**-**	**2,169,348**	2,474,002
Commissions	**2,079,757**	**-**	**-**	**-**	**-**	**-**	**2,079,757**	2,235,648
Payroll taxes	**802,799**	**390,590**	**24,053**	**55,428**	**434,848**	**25,903**	**1,733,621**	1,643,251
Miscellaneous	**150,007**	**511,735**	**-**	**4,075**	**271,156**	**79,902**	**1,016,875**	1,122,984
Athletics	**-**	**937,936**	**-**	**-**	**-**	**-**	**937,936**	734,975
Maintenance	**-**	**-**	**-**	**-**	**875,785**	**24,424**	**900,209**	738,055
Advertising and promotion	**-**	**-**	**-**	**-**	**834,725**	**12,173**	**846,898**	923,763
Travel	**67,363**	**583,733**	**31**	**1,517**	**64,353**	**22,219**	**739,216**	712,922
Interest	**285,857**	**105,462**	**-**	**199,357**	**76,719**	**-**	**667,395**	475,222
Insurance	**-**	**116,769**	**-**	**-**	**489,140**	**-**	**605,909**	630,663
Dues and subscriptions	**55,206**	**111,442**	**344,299**	**7,533**	**67,134**	**3,436**	**589,050**	525,863
Rental	**281,602**	**215,868**	**-**	**-**	**-**	**-**	**497,470**	457,143
Information technology	**16,950**	**68,079**	**5,778**	**-**	**370,779**	**22,141**	**483,727**	448,757
Bad debts	**-**	**-**	**-**	**-**	**434,973**	**46,550**	**481,523**	250,000
Supplies and equipment	**129,108**	**239,862**	**-**	**-**	**30,533**	**-**	**399,503**	276,840
Other fees	**-**	**-**	**-**	**-**	**353,170**	**-**	**353,170**	756,639
Office	**148,109**	**-**	**1,219**	**4,817**	**170,021**	**9,720**	**333,886**	671,654
Professional fees	**-**	**-**	**-**	**-**	**296,062**	**-**	**296,062**	420,484
Transportation services	**-**	**274,984**	**-**	**-**	**-**	**-**	**274,984**	284,385
Training	**31,568**	**7,367**	**-**	**14,129**	**2,788**	**3,865**	**59,717**	66,505
	$ 18,394,925	**$ 14,564,299**	**$ 1,057,010**	**$ 2,808,527**	**$ 17,153,285**	**$ 731,898**	**$ 54,709,944**	$ 53,053,262

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

AMERICAN INTERNATIONAL COLLEGE

Statements of Cash Flows

For the Years Ended June 30,

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	**$ (433,621)**	$ 2,808,752
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**3,622,386**	3,580,241
Provision for doubtful accounts	**281,523**	250,000
Unrealized investment gains	**(269,305)**	(495,485)
Change in investments held in trust by others	**7,087**	(37,276)
Change in pension valuation	**632,654**	18,836
Related party debt forgiveness	**(200,000)**	-
Changes in assets and liabilities:		
Accounts receivable	**(809,238)**	(894,405)
Pledges receivable	**(172,980)**	131,875
Prepaid expenses and other assets	**74,222**	122,864
Accounts payable and accrued expenses	**(2,175,448)**	2,471,028
Deferred revenues and student deposits	**370,734**	29,297
Accrued pension obligation	**(200,000)**	(200,000)
Net Adjustments	**1,161,635**	4,976,975
Net Cash Provided by Operating Activities	**728,014**	7,785,727
Cash Flows from Investing Activities:		
Purchases of investments	**(910,941)**	(972,805)
Purchase of property and equipment	**(3,430,531)**	(7,102,120)
Net Cash Applied to Investing Activities	**(4,341,472)**	(8,074,925)
Cash Flows from Financing Activities:		
Proceeds from the issuance of debt	**10,427,554**	50,000
Proceeds from (repayment of) line of credit, net	**300,000**	(300,000)
Principal payments on debt	**(1,821,326)**	(1,564,310)
Principal payments on capital lease obligations	**(198,972)**	(192,707)
Net Cash Provided by (Applied to) Financing Activities	**8,707,256**	(2,007,017)
Net Increase (Decrease) in Cash and Equivalents	**5,093,798**	(2,296,215)
Cash and Equivalents, Beginning of Year	**3,107,864**	5,404,079
Cash and Equivalents, End of Year	**$ 8,201,662**	$ 3,107,864

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

AMERICAN INTERNATIONAL COLLEGE

Notes to the Financial Statements

June 30, 2019

Note 1 - **Organization**

American International College (the "College"), located in Springfield, Massachusetts, is an independent, not-for-profit, coeducational institution that is accredited by the New England Commission of Higher Education. The College's mission is to prepare students for personal fulfillment, professional achievement and civic engagement through educational experiences that transform lives.

The College participates in federal student financial aid programs sponsored by the United States of America Department of Education (the "ED"), which facilitates the payment of tuition and other expenses for students.

Note 2 - **Summary of Significant Accounting Policies**

Basis of Presentation
The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America which require the College to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expensed for any purpose in performing the objectives of the College. These net assets may be used at the discretion of the College's management and the board of trustees.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the College or by the passage of time. Other restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without restrictions in the statements of activities and changes in net assets. Restricted contributions in which the restrictions are met in the same year are reported as without donor restrictions revenue.

Measure of Operations
The statements of activities and changes in net assets report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the College's ongoing purpose. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable, pledges receivable, accrued pension obligation, and asset retirement obligations as well as estimating depreciation.

Cash and Equivalents
Cash and equivalents include all cash on deposit with banks and short-term investments with original maturities of three months or less. Cash and equivalents held by the College’s investment managers are considered investments.

Accounts Receivable
The adequacy of the allowance for doubtful accounts is reviewed on an ongoing basis by College management and adjusted as required. In determining the amount required in the allowance, management considers a variety of factors including collection experience and history.

Pledges Receivable
Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Therefore, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities and changes in net assets.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Fair Value Measurements

Promulgations of the Financial Accounting Standards Board ("FASB") have established a framework for measuring fair value, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seventy-five years. The College's policy is to capitalize property and equipment acquired and expense normal repairs and maintenance as incurred. The College's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may be not recovered.

Deferred Revenues and Student Deposits

Deferred revenues represent unearned income related to academic courses and programs that transcend the fiscal year-end. Student deposits are required payments by students who will be attending the College in the next academic year and are recognized ratably as revenues upon the students' matriculation.

Income Taxes

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

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

Endowment Funds

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor-restricted funds and focuses on the prudent spending of the entire donor-restricted fund, including accumulated earnings, rather than the historical dollar concept.

UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UPMIFA requires donor-restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization.

The College's Board of Trustees (the "Board") classifies donor-restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to unrestricted net assets. Unrealized gains will be classified as unrestricted nets assets to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the College's spending policy.

The College's investment policy for endowment funds is intended to preserve capital to the extent possible and provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

As of June 30, 2019 and 2018, the College did not have endowment funds with an aggregate fair value less than donor-stipulated levels. These would be commonly referred to as "underwater".

Functional Allocation of Expenses

Expenses are categorized by program services, management and general, or fundraising on a direct identification basis, where practical, and on a percentage allocation basis based on management's judgement. A variety of cost allocation techniques are used such as time and effort and square footage.

<u>*Adoption of New Accounting Pronouncement*</u>
Not-for-Profit Entities - Presentation of Financial Statements for Not-for-Profit Entities - The FASB issued Accounting Standards Update ("ASU") 2016-14. The adoption of this pronouncement had a material effect on the presentation of the financial statements but did not necessitate an adjustment to total net assets of prior periods or operations of the current period. The pronouncement changes the net asset classification and investment return and enhances the disclosures for information about liquidity and availability of resources and expenses. The ASU has been applied retrospectively to all periods presented.

<u>*New Accounting Pronouncements*</u>
Revenue from Contracts with Customers - FASB issued ASU 2014-09 effective, as amended, for periods beginning after December 15, 2018, for non-public companies. The purpose of the pronouncement is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. The ASU requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition, in addition to improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Management is in the process of evaluating this pronouncement and has not yet determined its impact, if any, on the financial statements.

Leases - FASB issued ASU 2016-02 effective for non-public and most not-for-profit entities for fiscal years beginning after December 15, 2019. The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, an amendment to Topic 958 - Not-for-Profit Entities - FASB issued ASU 2018-08. The purpose of this pronouncement is to provide guidance in determining whether resource providers and resource recipients are participating in an exchange transaction, or if the transfer of funds is a contribution, by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. For non-public resource recipients, the amendment is effective for periods beginning after December 15, 2018. For non-public resource providers, the amendment is effective for periods beginning after December 15, 2019. Management is in the process of evaluating this pronouncement and has not yet determined its impact on the financial statements.

AMERICAN INTERNATIONAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019

Comparative Information
The financial statements include certain prior year summarized comparative information in total, but not by net asset class or functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications
Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note 3 - **Accounts Receivable**

Accounts receivable consists of the following at June 30,:

	2019	2018
Student receivables	**$ 1,963,881**	$ 1,754,941
Other receivables	**237,447**	162,753
	2,201,328	1,917,694
Less: allowance for doubtful accounts	**(532,197)**	(822,828)
	$ 1,669,131	$ 1,094,866

Note 4 - **Pledges Receivable**

Pledges receivable are as follows at June 30,:

	2019	2018
Due is less than one year	**$ 31,333**	$ 49,595
Due in one to five years	**398,123**	270,434
	429,456	320,029
Less: discount to net present value	**(6,406)**	(6,406)
	423,050	313,623
Less: allowance for doubtful accounts	**(117,164)**	(134,167)
	$ 305,886	$ 179,456

At June 30, 2019 and 2018, the long-term portion of unconditional promises to give is discounted at 1.6% and 2.4%, respectively.

Note 5 - **Investments**

The following is a summary of investments at June 30,:

	2019		2018	
Description	**Cost**	**Fair Value**	Cost	Fair Value
Money market funds	**$ 788,692**	**$ 788,692**	$ 747,604	$ 747,604
Mutual funds:				
Bond funds	**3,172,174**	**3,167,350**	3,094,824	3,002,509
Equity funds	**5,461,031**	**6,626,884**	5,297,316	6,331,342
Hybrid funds	**6,828,867**	**9,294,846**	6,204,816	8,616,071
	$ 16,250,764	**$ 19,877,772**	$ 15,344,560	$ 18,697,526

As of June 30, 2019 and 2018, all investments are level 1 investments and are valued at quoted market value of the shares held at fiscal year-end.

Note 6 - **Investments Held in Trust by Others**

Investments held in trust by others represent the fair market value of the College's rights to split interest agreements. Investments consist primarily of corporate equities and fixed income instruments. When investment vehicles are directed or restricted by the donor(s), the College is not involved in the investment choices and thus gains or losses, whether realized or unrealized, incurred on these investments, are applied to the applicable donor-restricted net assets classification. The following represents a summary of the restrictions on these assets at June 30,:

	2019	2018
With donor restrictions:		
Scholarships and awards	**$ 425,723**	$ 429,679
Institutional support	**370,077**	373,208
	$ 795,800	$ 802,887

Note 7 - **Property and Equipment**

A summary of the major components of property and equipment at June 30, is as follows:

	2019	2018
Land	$ 2,249,863	$ 2,249,863
Land improvements	6,798,947	6,401,844
Buildings and building improvements	63,962,312	56,218,410
Furnishings and equipment	22,107,970	20,865,615
Construction in progress	-	5,952,829
Asset retirement obligations	2,758,700	2,758,700
	97,877,792	94,447,261
Less: accumulated depreciation	(46,508,880)	(42,886,494)
	$ 51,368,912	$ 51,560,767

Note 8 - **Debt**

Line of Credit
The College has available a $6,000,000 revolving line of credit, renewable annually each November. The line of credit requires monthly interest-only payments at the prime rate (5.50% and 5.00% at June 30, 2019 and 2018, respectively). The line of credit is collateralized by real estate owned by the College. At June 30, 2019 and 2018, the balance on the line of credit was $4,000,000 and $3,700,000, respectively.

Debt
Bonds, mortgages and notes payable consist of the following at June 30,:

	2019	2018
Bonds payable:		
Bonds payable, due October 2038, requiring aggregate monthly principal and interest payments of $56,957. Interest rate of 3.25%.	$ 9,790,979	$ 50,000

Mortgages payable:		
Mortgage payable, due June 2032, presently requiring monthly principal and interest payments of $19,935. Interest rate of 4.10% through May 2022 and then adjusted to a fixed rate equal to the then prevailing FHLB rate plus 2.00%.	**$ 2,407,573**	$ 2,545,017
Mortgage payable, due September 2024, requiring monthly principal and interest payments of $39,186. Interest rate of 4.375%.	**2,202,125**	2,567,297
Notes payable:		
Note payable, due October 2035, presently requiring monthly principal and interest payments of $18,072. Interest rate of 3.875% through October 2025 and then adjusted to a fixed rate equal to the then prevailing five-year United States Treasury rate plus 2.00%.	**2,612,494**	2,724,316
Note payable, due June 2026, requiring monthly principal and interest payments of $16,974. Interest rate of 4.10%.	**1,237,605**	1,387,203
Note payable, due November 2025, requiring monthly principal and interest payments of $7,215. Interest rate of 2.75%.	**508,111**	-
Note payable, due August 2020, requiring monthly principal and interest payments of $20,081. Interest rate of 3.55%.	**294,200**	501,811
Note payable with related party, due March 2019, bearing interest at 2.50%.	**-**	200,000
Non-interest bearing note payable with a vendor, requiring monthly principal payments of $49,898 through August 2024.	**3,109,688**	3,708,457
Total debt	**22,162,775**	13,684,101
Bond issuance costs	**(72,446)**	-
Debt, net	**$ 22,090,329**	$ 13,684,101

Future principal maturities of debt subsequent to June 30, 2019 are as follows:

Fiscal Year Ended June 30,	
2020	$ 2,067,158
2021	1,935,158
2022	1,931,482
2023	1,985,892
2024	2,042,359
2025-2029	4,783,824
2030-2034	4,336,145
2035-2039	3,008,311
	$ 22,090,329

All mortgages and notes payable, except the non-interest bearing note payable, are under obligation with one financial institution constituting a master loan and security agreement. These mortgages and notes payable are collateralized by an interest in all assets of the College, including the products and proceeds thereof. The master loan and security agreement contains covenants regarding certain operating activities and financial statements amounts and ratios of the College. The College is in compliance with covenants at June 30, 2019.

Capital Lease Obligations
The College had capital lease obligations for computer and fitness equipment that expired during the fiscal year ended June 30, 2019. The following is a summary of property held under capital lease as of June 30,:

	2019	2018
Computer equipment	**$ 781,995**	$ 1,018,573
Fitness equipment	**96,540**	96,540
	878,535	1,115,113
Less: accumulated depreciation	**(327,555)**	(409,454)
	$ 550,980	$ 705,659

Interest expense on all indebtedness amounted to $667,395 and $475,222 for the years ended June 30, 2019 and 2018, respectively. Cash paid for interest was $731,306 and $411,311 for fiscal years 2019 and 2018, respectively.

Note 9 - **Pension Plans**

Defined Benefit Plan
The College maintains a contributory defined benefit pension plan covering certain employees. The amount contributed to the plan by the College is based upon the expected benefit as defined in the plan. Effective February 1, 2006, the College amended the defined benefit pension plan and all accrued benefits have been frozen.

The College contributed $200,000 to the plan during the years ended June 30, 2019 and 2018. The measurement dates used to determine the pension assets and benefit obligations was June 30, 2019 and 2018, respectively. The plan's investment funding vehicle is a pension funding contract (no reserve for retired employees and immediate recognition of experience gains or losses).

The following is the plan's funded status at June 30,:

	2019	2018
Change in pension benefit obligation:		
Benefit obligation, beginning of year	**$ 10,071,036**	$ 10,105,913
Interest cost	**409,320**	371,441
Assumption changes	**792,077**	(33,928)
Actuarial (gain) loss	**63,367**	238,469
Benefits paid	**(528,459)**	(610,859)
Benefit obligation, end of year	**10,807,341**	10,071,036
Change in plan assets:		
Fair value of plan assets, beginning of year	**8,582,213**	8,435,926
Actual return on plan assets	**677,110**	602,146
Employer contributions	**200,000**	200,000
Expenses	**(45,000)**	(45,000)
Benefits paid	**(528,459)**	(610,859)
Fair value of plan assets, end of year	**8,885,864**	8,582,213
Funded status at end of year	**$ (1,921,477)**	$ (1,488,823)

Components of net periodic pension costs:		
Interest cost	**$ 409,320**	$ 371,441
Expected return on plan assets	**(608,164)**	(596,711)
Amortization of net actuarial loss	**389,786**	419,598
Total net periodic pension costs	**$ 190,942**	$ 194,328

The plan's weighted average assumptions are as follows at June 30,:

	2019	2018
Discount rate - benefit obligations	**3.31%**	4.16%
Rate of compensation increase	**N/A**	N/A
Discount rate - net periodic pension cost	**4.16%**	3.70%
Expected long-term return on plan assets	**7.25%**	7.25%

The plan's assets are allocated as follows at June 30,:

	2019	2018
Domestic equity securities	**81%**	80%
Foreign equity securities	**7%**	8%
Debt securities	**12%**	12%

The College expects to contribute approximately $200,000 to the plan in fiscal year 2020.

The following plan benefit payments (assumes 50% lump-sum distributions) are expected to be paid to retirees subsequent to June 30, 2019:

Fiscal Years Ending June 30,	
2020	$ 643,904
2021	684,974
2022	711,776
2023	728,583
2024	748,588
2025-2029	3,615,528
	$ 7,133,353

Defined Contribution Plan
The College participates in a defined contribution 403(b) plan covering all eligible employees of the College. Employer contributions to the plan amounted to $630,281 and $583,312 for the years ended June 30, 2019 and 2018, respectively.

Note 10 - **Asset Retirement Obligations**

In accordance with promulgations of the FASB, the College has recorded conditional asset retirement obligations that relate to certain asbestos remediation, removal of oil and gas tanks, and other environmental indemnifications. The asset retirement obligations are based on management's estimate of the College's potential. It is possible that new or additional information may warrant changes to this estimate.

Following is a reconciliation of the aggregate conditional asset retirement obligations associated with the College's asbestos remediation, removal of oil and gas tanks, and other environmental indemnifications at June 30,:

	2019	2018
Asset retirement obligations, beginning of year	**$ 1,810,663**	$ 1,810,663
Determination of additional obligations	**-**	-
Obligations paid	**-**	-
Asset retirement obligations, end of year	**$ 1,810,663**	$ 1,810,663

Note 11 - **Net Assets**

Net Assets Without Restrictions
Net assets without donor restrictions comprise the receipt of funds related to activities the College engages in that are not restricted in nature, and gains on certain endowed net assets. Net assets without restrictions consist of the follow at June 30,:

	2019	2018
Financial stability (Board designated)	**$ 3,811,124**	$ 3,650,650
Undesignated	**28,079,820**	29,605,011
	$ 31,890,944	$ 33,255,661

The board of trustees established a fund to provide for the long-term financial stability of the College and to enhance its ability to respond to extraordinary emergency needs. The purpose of this fund is to provide a mechanism for the board to set aside and invest certain funds.

AMERICAN INTERNATIONAL COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019

Net Assets With Restrictions
Net assets with donor restrictions consist of the following at June 30,:

	2019	2018
Endowment (for perpetuity)	**$ 11,178,271**	$ 11,054,092
Scholarships and awards (for purpose)	**2,606,052**	2,560,254
Institutional support (for purpose)	**742,721**	444,670
Athletics (for purpose)	**463,068**	-
	$ 14,990,112	$ 14,059,016

Net Assets Released from Restrictions
Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the purposes specified by donors for the years ended June 30, as follows:

	2019	2018
Scholarships and awards	**$ 354,525**	$ 557,432
Institutional support	**159,330**	42,971
	$ 513,855	$ 600,403

Note 12 - **Endowment**

Changes in endowment net assets for the years ended June 30, are as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	**$ 4,213,589**	**$ 13,973,104**	**$ 18,186,693**
Contributions	**161,035**	**131,266**	**292,301**
Investment return	**160,474**	**492,912**	**653,386**
Amounts appropriated	**-**	**(284,548)**	**(284,548)**
Endowment net assets, end of year	**$ 4,535,098**	**$ 14,312,734**	**$ 18,847,832**

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 3,598,758	$ 13,183,598	$ 16,782,356
Contributions	374,909	356,604	731,513
Investment return	239,922	830,636	1,070,558
Amounts appropriated	-	(397,734)	(397,734)
Endowment net assets, end of year	$ 4,213,589	$ 13,973,104	$ 18,186,693

Note 13 - **Related Parties**

Members of the College's board of trustees may, from time to time, be associated, either directly or indirectly, with entities doing business with the College. The College's conflict of interest policy requires, among other things, that no trustee can participate in any decision in which he or she (or an immediate family member) has a material financial interest.

The College requires management and trustees complete an annual disclosure of significant financial interest in, or employment or consulting relationships with, entities doing business with the College. When such relationships are identified, measures are taken to address the actual or perceived conflict to protect the best interest of the College and ensure compliance with applicable conflict of interest policies. The College takes measures to mitigate any actual or perceived conflict, including requiring that any related party transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to, and in the best interest of, the College.

Related Party Transactions
During the years ended June 30, 2019 and 2018, the College purchased goods and services from related parties totaling approximately $44,000 and $177,000, respectively.

Note 14 - **Contingencies, Risks and Uncertainties**

Cash
The College maintains cash balances at financial institutions and at times during the year these balances may exceed the federally insured limit. Management monitors the financial condition of these financial institutions, along with its balances in cash, to keep this potential risk at a minimum. At June 30, 2019 and 2018, uninsured amounts totaled approximately $8,568,000 and $2,974,000, respectively.

Contingent Liabilities
The College has a supplemental executive retirement plan ("SERP") agreement with its president. The College has agreed to award the president, on an annual basis, an amount ranging from $25,000 to $125,000, as determined annually by the board's Compensation Committee. The SERP awards become vested on June 30, 2023. Awarded amounts can also be vested upon the termination of the employment relationship as a result of the death, permanent disability or termination without cause.

Management has recorded the total contingent liability and related expense associated with the supplemental executive retirement plan to date in the amount of $40,000 as of June 30, 2019. This contingent liability is included in accrued expenses in the statements of financial position.

Composite Score

As a condition of eligibility to participate in Federal Student Financial Assistance programs, the College is required to demonstrate financial responsibility, as defined by U.S. Department of Education ("ED") regulations, by maintaining a Composite Score of at least 1.5. The regulations also establish a Composite Score zone between 1.0 and 1.4; institutions falling within this zone are allowed up to three consecutive years to improve their financial condition without requiring surety.

The College has calculated a Composite Score of 2.1 and 1.9 for the years ended June 30, 2019 and 2018, respectively.

Note 15 - **Availability and Liquidity**

The following represents the College's financial assets available to meet general expenditures within one year at June 30,:

	2019	2018
Financial assets at year-end:		
Cash and equivalents	**$ 8,201,662**	$ 3,107,864
Accounts receivable	**1,669,131**	1,094,866
Pledges receivable	**305,886**	179,456
Investments	**19,877,772**	18,697,526
	30,054,451	23,079,712
Less: amounts not available to be used within one year:		
Net assets with donor restrictions	**(14,990,112)**	(14,059,016)
Board designated net assets	**(3,811,124)**	(3,650,650)
Investments held in trust by others	**(795,800)**	(802,887)
Pledges receivable (due in one to five years)	**(280,957)**	(136,833)
	(19,877,993)	(18,649,386)
Financial assets available to meet general expenditures within one year:	**$ 10,176,458**	$ 4,430,326

The College reviews its cash position on a regular basis to ensure that adequate funds are available to meet expenses. If funds are needed for expenses, management can liquidate investments, request the Board to undesignate previously designated assets, or access its line of credit ($2,000,000 and $2,300,000 of available credit at June 30, 2019 and 2018, respectively). At June 30, 2019 and 2018, management believes that the College has no liquidity issues.

Note 16 - **<u>Management's Acceptance of Financial Statements</u>**

Management has evaluated subsequent events through October 17, 2019, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any events subsequent to June 30, 2019 requiring disclosure in these financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
American International College
Springfield, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American International College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statements of financial position as of June 30, 2019, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 17, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

25 Braintree Hill Office Park ● Suite 102 ● Braintree, MA 02184 ● P:617.471.1120 ● F:617.472.7560
27 Church Street ● Winchester, MA 01890 ● P:781.729.4949 ● F:781.729.5247
www.ocd.com

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 17, 2019