המכללה העברית
HEBREW COLLEGE

FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

HEBREW COLLEGE

Contents
June 30, 2019 and 2018

AAFCPAs
great minds | great hearts

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Independent Auditor's Report

To the Board of Trustees of
Hebrew College:

Report on the Financial Statements

We have audited the accompanying financial statements of Hebrew College (a Massachusetts nonprofit corporation) (the College) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2019, 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.

Auditor's 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 audits 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 auditor's 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 Hebrew College as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 2, during fiscal year 2019, the College adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

AAFCPAs, Inc.

Boston, Massachusetts
January 30, 2020

HEBREW COLLEGE

Statements of Financial Position
June 30, 2019 and 2018

	2019			2018		
Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Current Assets:						
Cash	$ 912,728	$ 842,292	$ 1,755,020	$ -	$ 573,990	$ 573,990
Accounts receivable, net of allowances for doubtful accounts of approximately $10,000 and $6,000 at June 30, 2019 and 2018, respectively	23,757	-	23,757	25,119	-	25,119
Current portion of pledges and grants receivable	79,939	644,603	724,542	24,881	914,470	939,351
Current portion of mortgage receivable	1,600,000	-	1,600,000	-	-	-
Current portion of prepaid rent	600,000	-	600,000	-	-	-
Prepaid expenses and other	87,904	-	87,904	189,318	-	189,318
Property held for sale	-	-	-	14,583,601	-	14,583,601
Debt service reserve	-	-	-	404,193	-	404,193
Total current assets	3,304,328	1,486,895	4,791,223	15,227,112	1,488,460	16,715,572
Restricted Cash	461,285	-	461,285	400,116	-	400,116
Investments	4,538	2,695,318	2,699,856	67,942	2,539,000	2,606,942
Pledges and Grants Receivable, net of current portion and discount	-	1,164,897	1,164,897	-	1,105,317	1,105,317
Prepaid Rent, net of current portion	900,000	-	900,000	-	-	-
Mortgage Receivable, net of current portion	4,800,000	-	4,800,000	-	-	-
Property and Equipment, net	156,482	-	156,482	95,732	-	95,732
Due (To) From	(3,431,454)	3,431,454	-	(3,519,631)	3,519,631	-
Total assets	$ 6,195,179	$ 8,778,564	$ 14,973,743	$ 12,271,271	$ 8,652,408	$ 20,923,679
Liabilities and Net Assets						
Current Liabilities:						
Line of credit	$ -	$ -	$ -	$ 50,000	$ -	$ 50,000
Current portion of annuity payable	35,004	-	35,004	35,004	-	35,004
Current portion of long-term debt, net of unamortized debt issuance costs	24,400	-	24,400	6,750,995	-	6,750,995
Current portion of accrued settlement costs	50,406	-	50,406	52,906	-	52,906
Accounts payable	157,586	-	157,586	494,788	-	494,788
Accrued expenses	258,887	-	258,887	1,070,155	-	1,070,155
Deferred revenue	538,075	-	538,075	564,875	-	564,875
Total current liabilities	1,064,358	-	1,064,358	9,018,723	-	9,018,723
Annuity Payable, net of current portion	288,482	-	288,482	323,486	-	323,486
Long-Term Debt, net of current portion and unamortized debt issuance costs	5,346,355	-	5,346,355	170,755	-	170,755
Accrued Settlement Costs, net of current portion	425,312	-	425,312	460,616	-	460,616
Total liabilities	7,124,507	-	7,124,507	9,973,580	-	9,973,580
Net Assets:						
Without donor restrictions	(929,328)	-	(929,328)	2,297,691	-	2,297,691
With donor restrictions	-	8,778,564	8,778,564	-	8,652,408	8,652,408
Total net assets	(929,328)	8,778,564	7,849,236	2,297,691	8,652,408	10,950,099
Total liabilities and net assets	$ 6,195,179	$ 8,778,564	$ 14,973,743	$ 12,271,271	$ 8,652,408	$ 20,923,679

The accompanying notes are an integral part of these statements.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Tuition and fees	$ 3,527,753	$ -	$ 3,527,753	$ 3,581,539	$ -	$ 3,581,539
Less - scholarships and grants	(1,215,736)	-	(1,215,736)	(1,023,431)	-	(1,023,431)
Tuition and fees, net	2,312,017	-	2,312,017	2,558,108	-	2,558,108
Grants	1,660,736	672,011	2,332,747	1,964,232	121,650	2,085,882
Contributions	1,354,491	483,768	1,838,259	1,269,925	706,627	1,976,552
Participant fees	1,338,093	-	1,338,093	1,120,142	-	1,120,142
Facilities rental, conferences and events	341,518	-	341,518	332,060	-	332,060
Consulting and other income	208,379	-	208,379	150,733	-	150,733
Investment return designated for current operations	100,000	-	100,000	100,000	-	100,000
Net assets released from restrictions:						
Purpose restrictions	683,599	(683,599)	-	670,181	(670,181)	-
Time restrictions	408,053	(408,053)	-	25,000	(25,000)	-
Total operating revenue	8,406,886	64,127	8,471,013	8,190,381	133,096	8,323,477
Operating Expenses:						
Instruction	6,068,581	-	6,068,581	5,861,220	-	5,861,220
Academic support	582,913	-	582,913	538,349	-	538,349
Student services	188,133	-	188,133	290,635	-	290,635
Institutional support	2,066,853	-	2,066,853	2,599,351	-	2,599,351
Development	508,182	-	508,182	251,111	-	251,111
Total operating expenses	9,414,662	-	9,414,662	9,540,666	-	9,540,666
Changes in net assets from operations	(1,007,776)	64,127	(943,649)	(1,350,285)	133,096	(1,217,189)
Non-Operating Activities:						
Investment return, net	1,936	92,929	94,865	(62,999)	167,536	104,537
Endowment contributions	-	69,100	69,100	-	720	720
Investment return designated for current operations	-	(100,000)	(100,000)	-	(100,000)	(100,000)
Loss on property held for sale	(2,221,179)	-	(2,221,179)	-	-	-
Net non-operating activity	(2,219,243)	62,029	(2,157,214)	(62,999)	68,256	5,257
Changes in net assets	(3,227,019)	126,156	(3,100,863)	(1,413,284)	201,352	(1,211,932)
Net Assets:						
Beginning of year	2,297,691	8,652,408	10,950,099	3,710,975	8,451,056	12,162,031
End of year	$ (929,328)	$ 8,778,564	$ 7,849,236	$ 2,297,691	$ 8,652,408	$ 10,950,099

The accompanying notes are an integral part of these statements.

HEBREW COLLEGE

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Changes in net assets	$ (3,100,863)	$ (1,211,932)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Loss on property held for sale	2,221,179	-
Depreciation	35,587	691,248
Imputed interest - debt issuance costs	1,006	6,037
Bad debts	147,221	-
Non-cash rent	500,000	-
Change in discount on pledges receivable	25,420	(25,617)
Endowment contributions	(69,100)	(720)
Realized and unrealized gains	(90,156)	(100,514)
Changes in operating assets and liabilities:		
Accounts receivable	(145,859)	73,645
Deposit receivable	-	2,000,000
Pledges and grants receivable	129,809	291,040
Prepaid expenses and other	(61,624)	(176,090)
Annuity payable	(35,004)	(35,004)
Accounts payable	(260,478)	(122,121)
Accrued expenses	(811,268)	232,511
Deferred revenue	(26,800)	(11,465)
Net cash provided by (used in) operating activities	(1,540,930)	1,611,018
Cash Flows from Investing Activities:		
Net increase in debt service and payment reserves	-	(1,341)
Proceeds from release of debt service reserve	404,193	-
Proceeds from the sale of investments	163,404	100,000
Proceeds from sale of property	536,635	-
Mortgage receivable	1,600,000	-
Net increase in restricted cash	(61,169)	(34,386)
Property and equipment additions	(96,337)	(27,860)
Purchase of investments	(166,162)	(10,291)
Net cash provided by investing activities	2,380,564	26,122
Cash Flows from Financing Activities:		
Repayments on line of credit	(50,000)	(1,100,000)
Proceeds on line of credit	400,000	-
Endowment contributions	69,100	720
Payments on accrued settlement costs	(37,804)	(75,513)
Principal payments on long-term debt	(39,900)	(203,520)
Net cash provided by (used in) financing activities	341,396	(1,378,313)
Net Change in Cash	1,181,030	258,827
Cash:		
Beginning of year	573,990	315,163
End of year	$ 1,755,020	$ 573,990
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 41,003	$ 247,235
Supplemental Disclosure of Non-Cash Transactions:		
Unrealized gains on investments	$ 20,187	$ 87,064
Prepaid rent recorded via sale of property	$ 2,000,000	$ -
Mortgage note receivable recorded via sale of property	$ 8,000,000	$ -
Long-term debt repaid via sale of property	$ 6,852,966	$ -
Long-term debt recognized upon sale of property	$ 5,200,000	$ -

The accompanying notes are an integral part of these statements.

HEBREW COLLEGE

Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program						
	Instruction	Academic Support	Student Services	Total Program	Institutional Support	Development	Total
Personnel and Related:							
Salaries and wages	$ 3,838,865	$ 291,432	$ 101,140	$ 4,231,437	$ 1,079,353	$ 341,438	$ 5,652,228
Payroll taxes and benefits	357,704	38,169	12,903	408,776	167,461	38,419	614,656
Total personnel and related	4,196,569	329,601	114,043	4,640,213	1,246,814	379,857	6,266,884
Occupancy:							
Rent	400,000	25,000	25,000	450,000	25,000	25,000	500,000
Utilities	2,989	27,093	-	30,082	346,072	-	376,154
Facilities maintenance and repairs	69	32	40	141	61,430	-	61,571
Interest	32,803	2,050	2,050	36,903	2,050	2,050	41,003
Security	-	4,502	-	4,502	24,629	-	29,131
Imputed interest - debt issuance costs	806	50	50	906	50	50	1,006
Total occupancy	436,667	58,727	27,140	522,534	459,231	27,100	1,008,865
Other:							
Professional services	578,839	1,140	-	579,979	191,823	30,723	802,525
Program	517,682	177	26,831	544,690	1,241	324	546,255
Equipment and software	4,571	134,080	150	138,801	47,621	502	186,924
Bad debts	147,221	-	-	147,221	-	-	147,221
Office expenses	86,120	10,426	8,793	105,339	18,269	12,120	135,728
Event expenses	12,325	-	-	12,325	28,680	40,502	81,507
Corporate	139	5,880	286	6,305	56,064	390	62,759
Travel and meetings	49,840	-	309	50,149	639	255	51,043
Marketing	10,073	-	8,802	18,875	14,692	14,630	48,197
Library	64	41,103	-	41,167	-	-	41,167
Depreciation	28,471	1,779	1,779	32,029	1,779	1,779	35,587
Total other	1,435,345	194,585	46,950	1,676,880	360,808	101,225	2,138,913
Total expenses	$ 6,068,581	$ 582,913	$ 188,133	$ 6,839,627	$ 2,066,853	$ 508,182	$ 9,414,662

The accompanying notes are an integral part of these statements.

1. OPERATIONS AND NONPROFIT STATUS

Hebrew College (the College) is a private, Massachusetts nonprofit corporation established in 1921. The College is an accredited, nonsectarian institution of Judaic studies. The College has programs in graduate and undergraduate studies, high school, Hebrew language, adult studies, and cultural events. The College is a constituent agency of the Combined Jewish Philanthropies of Greater Boston, Inc. (CJP) and is accredited by the New England Commission of Higher Education, Inc. (NECHE). The next comprehensive review by NECHE is scheduled for the Fall of 2020.

The College is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The College is also exempt from state income taxes. Donors may deduct contributions made to the College within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

The College prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the Accounting Standards Codification (ASC).

Adoption of New Accounting Standards

During fiscal year 2019, the College adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities.* This ASU modified the current guidance over several criteria, of which the following affected the College's financial statements:

- Net assets are to be segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see page 8).
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover general expenditures within one year from the statement of financial position date (see Note 17).
- An explanation of the methods used to allocate costs among program and supporting (institutional support and development) functions (see page 7).
- Underwater endowments are reported within one "net assets with donor restrictions" class of net assets. The College also disclosed the spending policy on spending from underwater endowment funds and other information on these funds (see pages 8 and 9).

This ASU has been applied retrospectively to all periods presented. The adoption of the ASU resulted in the following changes to the College's net asset classes for the year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted	$ 1,665,705	$ -	$ 1,665,705
Temporarily restricted	-	2,636,055	2,636,055
Permanently restricted	-	6,648,339	6,648,339
Total net assets, as previously stated	1,665,705	9,284,394	10,950,099
Adjustments required by ASU 2016-14:			
Underwater endowment funds	631,986	(631,986)	-
Total net assets, restated	$ 2,297,691	$ 8,652,408	$ 10,950,099

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards (Continued)

This ASU provides an option to omit the following information for the fiscal year 2018 financial statements:

- Analysis of expense by both natural classification and functional classification.
- Disclosures about liquidity and availability of resources.

Revenue Recognition

Tuition and fees are recorded as services are provided ratably over the related semester. Fees and deposits received in advance of services provided are recorded as deferred revenue. Participant fees are recorded as services are provided.

Grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as net assets with donor restrictions. Amounts with donor restrictions are released from restriction as costs are incurred or as time restrictions lapse. Grants and contributions with donor restrictions received and satisfied in the same period are included in net assets without donor restrictions.

The College occasionally leases its facilities for conferences and events. Facility rental income is recognized when the events occur. Other income is recorded as earned.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts and Notes Receivable and Allowance for Doubtful Accounts

Accounts and notes receivable (see Note 15) are stated at the amount the College expects to collect from outstanding balances. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in accounts and notes receivable. The allowance is based upon specific identification of probably losses and an estimate of additional losses based on historical experience. Account balances are charged off against the allowance when it is probably the receivable will not be recovered.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function.

The financial statements contain certain categories of expenses that are attributable to program and supporting functions and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, payroll taxes, occupancy, and depreciation, which are allocated based on an estimate of time and level of effort spent on the College's program and supporting functions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The net assets of the College consist of the following:

Net Assets Without Donor Restrictions represent those net resources that bear no external restrictions and are generally available for use by the College.

Net Assets With Donor Restrictions represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted), amounts for use in future periods (time restricted), and amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent. In accordance with Massachusetts law, all earnings and appreciation of a donor restricted endowment are restricted until approved by the Board of Trustees (see below and page 9).

Net assets with donor restrictions are restricted as follows:

	2019	**2018**
Subject to expenditure for specific purpose:		
Scholarships	$ 1,063,283	$ 1,302,176
Instructors, fellowships, conferences, and other programs	383,475	401,961
Miller Center	250,000	-
President's growth fund	156,226	95,000
Art Green project	27,300	3,600
	1,880,284	1,802,737
Subject to the passage of time	769,898	833,318
Subject to the College's endowment spending policy and appropriation:		
Investment in perpetuity	6,767,439	6,648,339
Accumulated depreciation	(639,057)	(631,986)
	6,128,382	6,016,353
Total net assets with donor restrictions	$ 8,778,564	$ 8,652,408

A reconciliation of endowment activity for fiscal years 2019 and 2018 is as follows:

Endowment net assets, June 30, 2017	$ 5,948,097
Contributions	720
Investment return	167,536
Appropriation of endowment net assets for expenditure	(100,000)
Endowment net assets, June 30, 2018	6,016,353
Investment return	92,929
Contributions	69,100
Net assets redesignated for endowment	50,000
Appropriation of endowment net assets for expenditure	(100,000)
Endowment net assets, June 30, 2019	$ 6,128,382

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

The fair value of the endowment net assets may periodically fall below the level that donors require the College to retain as a fund of perpetual duration due to unfavorable market fluctuations. In accordance with U.S. GAAP, losses on endowment net assets reduce net assets with donor restrictions to the extent of net accumulated appreciation on these funds. Future gains, if any, that restore the endowment net assets to the original level will increase net assets with donor restrictions until the accumulated depreciation is eliminated. Additional gains are reported as net assets with donor restrictions.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds intended for perpetual duration may fall below the original gift value. The deficiencies resulted from unfavorable market conditions and continued appropriation for expenditure in accordance with donor intentions and the spending policies that were deemed prudent by the Board of Trustees. The College is guided by Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) in establishing spending rates.

The College appropriated $100,000 of net assets to be used for operations in accordance with its investment spending policy (see page 11) for the years ended June 30, 2019 and 2018.

Investment Return Objectives and Risk Parameters

The investment portfolio is managed to provide for the long-term support of the College. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. The College benchmarks its portfolio performance against a number of commonly used indices.

Advertising Costs

The College expenses advertising costs as incurred. Total advertising costs for the years ended June 30, 2019 and 2018, were $33,149 and $22,499, respectively.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost (see Note 7). Donated property and equipment are recorded at fair value at the time of donation.

Depreciation is computed using the straight-line method and the half-year convention for additions over the following estimated useful lives:

Buildings and improvements	15 - 40 years
Land improvements	15 - 20 years
Furniture, fixtures and equipment	3 - 7 years
Data equipment and software	3 - 5 years
Leasehold improvements	20 years

Unamortized Debt Issuance Costs

Unamortized debt issuance costs consisted of closing costs and other fees related to the issuance of long-term debt (see Note 9). These costs were being amortized over the life of the related obligation using the straight-line method, which approximates the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The College follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the College would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The College uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the College. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

The majority of the College's investments are held through a co-investment with CJP. These investments are held in the Jewish Community Endowment Pool (JCEP), a limited partnership under the managerial control of CJP. Investment return consists of interest, dividends, and realized and unrealized gains and losses on investments (see Note 5). Interest and dividend income is recorded as earned. Realized gains and losses on investment transactions are recognized as changes in net assets in the period in which they occur.

Investments are recorded in the financial statements at fair value. If an investment is directly held by the College and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The College's interests in the JCEP limited partnership is reported at the net asset value (NAV) reported by the fund manager, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2019 and 2018, the College had no plans to sell investments at amounts different from NAV.

A summary of inputs used in valuing the College's investments as of June 30, 2019 and 2018, is included in Note 5.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy, except for an annuity payable liability which is measured using Level 3 inputs (see Note 12).

Investment Spending Policy

Massachusetts law allows appropriation of a donor-restricted endowment based on the prudent practices of the Board of Trustees. The Board of Trustees has voted to allow for the use of a portion of total investment return for operations each year up to a 5% calculation of the previous twelve quarter average of the investment balance at quarter end. Additional appropriation is allowed at the discretion of the Board of Trustees. Transfers to net assets without donor restrictions, in accordance with this policy, are reflected in the statements of activities and changes in net assets as investment return designated for current operations.

Collections

The College does not capitalize collections which have been acquired through purchase or donation. Purchases of collections are expensed in the year in which the items are acquired.

Income Taxes

The College accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The College has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2019 and 2018. The College's tax returns are subject to examination by Federal and state jurisdictions.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and expenses in the accompanying statements of activities and changes in net assets. Non-operating activities include primarily endowment, capital and investment related activity.

Subsequent Events

Subsequent events have been evaluated through January 30, 2020, which is the date the financial statements were available to be issued. There were no events that met the criteria for disclosure in the financial statements.

3. RELATED PARTY TRANSACTIONS

One of the College's key employees loaned the College $164,472 during a prior fiscal year. A portion of this loan was repaid during fiscal year 2018. The amount outstanding as of June 30, 2018, was $99,472 and is included in accrued expenses in the accompanying fiscal year 2018 statement of financial position. This amount was repaid in full during fiscal year 2019.

4. RESTRICTED CASH

The United States Department of Education (DOE) requires that the College submit an irrevocable letter of credit to the DOE. The College obtained this letter of credit from a bank for $461,285 and $400,116 at June 30, 2019 and 2018, respectively. The letter of credit is secured by a specific cash account, which is presented as restricted cash in the accompanying statements of financial position.

5. INVESTMENTS

Fair value measurement (see Note 2) was determined using the following inputs at June 30:

2019	Level 1	Level 2	Level 3	Total
Pooled investment fund*	$ -	$ -	$ -	$ 2,511,011
State of Israel bonds	-	4,538	-	4,538
Bond and stock index funds	184,307	-	-	184,307
Total investments	$ 184,307	$ 4,538	$ -	$ 2,699,856
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled investment fund*	$ -	$ -	$ -	$ 2,372,029
State of Israel bonds	-	4,538	-	4,538
Bond and stock index funds	230,375	-	-	230,375
Total investments	$ 230,375	$ 4,538	$ -	$ 2,606,942

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net assets value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

Investments include primarily donor restricted endowment. Accordingly, investments have been classified as non-current assets in the accompanying statements of financial position regardless of maturity or liquidity. Investments are not insured and are subject to ongoing market fluctuations.

5. INVESTMENTS (Continued)

The pooled investment fund consists of the following categories of assets as of June 30:

	2019	2018
Money market funds	4.3%	18.0%
Domestic equity	2.3	2.0
Real assets	0.4	1.0
Absolute return	0.3	3.0
Subtotal	7.3	24.0
Alternative investments:		
Absolute return	36.0	33.6
International equity	21.9	22.7
Fixed income	12.2	-
Domestic equity	7.2	7.6
Credit related	6.7	5.0
Private equity/venture capital	5.1	3.7
Real assets	3.6	3.4
Total alternative investments	92.7	76.0
Total	100.0%	100.0%

6. PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable are recorded at their net present value when unconditionally committed. An allowance for potentially uncollectible pledges and grants receivable is provided based upon management's assessment of potential defaults.

Pledges and grants receivable are due as follows as of June 30:

	2019	2018
Due in one year	$ 724,542	$ 939,351
Due in one to five years	920,000	959,999
Due in five to ten years	324,999	200,000
	1,969,541	2,099,350
Less - discount	80,102	54,682
	1,889,439	2,044,668
Less - current portion	724,542	939,351
Long-term pledges and grants receivable, net	$ 1,164,897	$ 1,105,317

The College discounted long-term pledges using a 2% discount rate at June 30, 2019 and 2018.

7. PROPERTY AND EQUIPMENT AND PROPERTY HELD FOR SALE

Property and Equipment

Property and equipment consist of the following:

	2019	2018
Furniture, fixtures and equipment	$ 2,078,619	$ 2,005,791
Data equipment and software	1,218,646	1,195,137
	3,297,265	3,200,928
Less - accumulated depreciation	3,140,783	3,105,196
Net property and equipment	$ 156,482	$ 95,732

Substantially all of the College's property and equipment were pledged as collateral for the College's long-term debt (see Note 9).

Property Held for Sale

On June 30, 2017, the College signed a purchase and sale agreement to sell its building and land (the Property) for $18,000,000. Accordingly, the Property has been presented at net book value as property held for sale in the accompanying fiscal year 2018 statement of financial position. The College finalized the sale of the Property in August 2018 and incurred a loss on the sale of approximately $2,200,000, which included $2,000,000 of free rent to be utilized over the next four years. In fiscal year 2019, $500,000 of free rent was utilized. The remaining $1,500,000 is included in prepaid rent in the accompanying fiscal year 2019 statement of financial position.

8. LINE OF CREDIT

The College had available a $1,100,000 line of credit with a bank. Outstanding borrowings were due on demand and interest was payable monthly at the bank's prime rate (5% at June 30, 2018), plus 1.25%. There was $50,000 outstanding on the line of credit as of June 30, 2018. This amount was paid off in full in fiscal year 2019. Interest expense on the line of credit was $1,788 and $10,603 for the years ended June 30, 2019 and 2018, respectively.

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2019	2018
Non-interest bearing note payable to CJP, due in quarterly installments of $400,000 starting in July 2020 through July 2023. The note is secured by a note receivable (see Note 15).	$ 5,200,000	$ -
Non-interest bearing note payable to CJP, due in annual installments of $24,400 through December 2025. CJP may loan additional amounts under this agreement. In the event of any default in payment, CJP may declare the entire outstanding note balance due on demand with interest at 10%. The note is unsecured.	170,755	195,155

9. LONG-TERM DEBT (Continued)

	2019	2018
Note payable to Massachusetts Development Finance Agency (MDFA), pursuant to MDFA issuing Series 2012 revenue bonds (Series 2012). Under this agreement, the College was making monthly principal and interest payments of $35,543 through April 2022. The note was secured by substantially all assets of the College and had been personally guaranteed (up to $1,700,000) by certain members of the College's Board of Trustees and College benefactors. The note was paid in full in August 2018 upon the sale of the Property (see Note 7).	-	6,868,466
	5,370,755	7,063,621
Less - unamortized debt issuance costs	-	141,871
Less - current portion	24,400	6,750,995
	$ 5,346,355	$ 170,755

Future principal payments over the next five years are as follows:

2020	$ 24,400
2021 - 2023	$ 1,624,400
2024	$ 424,400

Interest expense was $39,216 and $236,632 for the years ended June 30, 2019 and 2018, respectively. As a part of the note payable to MDFA, the College was required to maintain a debt service reserve fund. The balance of the debt service reserve fund at June 30, 2018, was $404,193, which was used during fiscal year 2019 to repay the MDFA note payable.

Imputed interest on debt issuance costs for the year ended June 30, 2018, was $6,037. As of June 30, 2018, unamortized debt issuance costs were $141,871 and has been deducted from long-term debt in the accompanying fiscal year 2018 statement of financial position. The remaining unamortized balance was written off as part of the sale of the Property (see Note 7) and payoff of debt (see above) in fiscal year 2019.

The College was required to reimburse the bond insurance company for legal costs associated with a 2012 bond refinancing. The reimbursement was payable in twenty quarterly non-interest bearing payments of $12,601 through July 2018. The College also has a payable to the bond insurance company for fees related to the bond refinancing totaling $568,000. The College was required to make twenty-five quarterly non-interest bearing payments of increasing amounts each year. This agreement was re-negotiated in fiscal year 2017, reducing the quarterly payments to $2,500 through July 1, 2018, and $12,601 through July 1, 2028. The outstanding balances of these agreements ($475,718 and $513,522 at June 30, 2019 and 2018, respectively) are presented as accrued settlement costs in the accompanying statements of financial position.

Future payments on the accrued settlement costs over the next five years are $50,406 for fiscal years 2020 through 2024.

10. LEASES

The College had an agreement with the Newton Centre Minyan, Inc. (a Massachusetts nonprofit corporation) (the Minyan) for use of the College's facility. The Minyan paid the College an annual fee of $106,000 during the years ended June 30, 2019 and 2018, for use of this space in accordance with the agreement. This agreement expired on June 30, 2018, at which time the College rented the facility on a monthly basis. The annual fees are included in facilities rental, conferences and events in the accompanying statements of activities and changes in net assets.

11. EMPLOYEE BENEFIT PLANS

The College has a discretionary employer contribution retirement plan under IRC Section 403(b) for qualified employees. Employees are eligible to participate upon hire. Employees contribute to the plan each year within the limits of the IRC, through salary reduction agreements. Only those employees who have completed six months of service are eligible to receive a portion of the employer's discretionary matching contribution, if any. Contributions vest upon attainment of normal retirement age of 65, upon retirement due to disability, upon death, or upon termination of the plan. The College did not contribute to this plan in fiscal years 2019 and 2018.

The College also has a deferred compensation plan for one of its key employees under Section 457(b) of the IRC. There were no contributions made to the plan in fiscal years 2019 and 2018. All contributions are 100% vested. Pursuant to this employee's employment agreement, the College is also required to maintain a deferred compensation plan under Section 457(f) of the IRC. Contributions to this plan vest annually as long as the employee remains employed at the College.

As of June 30, 2018, the College had accrued total contributions of $279,659 to the plans, which was included in accrued expenses in the accompanying fiscal year 2018 statement of financial position. As of June 30, 2018, $63,404 was invested in this plan and was included in investments in the accompanying fiscal year 2018 statement of financial position. As of June 30, 2018, this key employee left the College and the entire balance of the deferred compensation plan was paid out during fiscal year 2019 from proceeds of the sale of the Property (see Note 7).

12. RETIREMENT AGREEMENT

The College has a retirement agreement with a former President of the College (former President). The retirement agreement outlines future retirement annuity payments to a former President, which began in fiscal year 2017, at $2,917 per month. Fair value, which is measured using Level 3 inputs (life expectancy and present value factors using a 1.49% discount rate), was $323,486 and $358,490 as of June 30, 2019 and 2018, respectively, which is presented as annuity payable in the accompanying statements of financial position. Future payments under this agreement will be $35,004 per year.

A reconciliation of the agreement activity is as follows:

	2019	2018
Annuity payable, beginning of year	$ 358,490	$ 393,494
Payments made	(35,004)	(35,004)
Annuity payable, end of year	$ 323,486	$ 358,490

13. CONCENTRATIONS

Approximately 21% and 20% of total operating revenue for the years ended June 30, 2019 and 2018, respectively, is from CJP.

Approximately 84% and 82% of gross pledges receivable at June 30, 2019 and 2018, respectively, are due from four donors.

14. DUE (TO) FROM

Due (to) from in the accompanying statements of financial position consists of:

- The Massachusetts Supreme Judicial Court, with the support and approval of the Attorney General of the Commonwealth of Massachusetts, has authorized the College to borrow up to $2,900,000 of net assets with donor restrictions and/or appreciation on these net assets with donor restrictions for operating purposes. As of June 30, 2019 and 2018, the College had borrowed $2,900,000 under this agreement.

- A $250,000 contribution made in 2005, which was recorded as net assets without donor restrictions, was actually net assets with donor restrictions.

- As of June 30, 2019 and 2018, the College had used $281,454 of net assets with donor restrictions to fund its restricted cash account (see Note 4).

- As of June 30, 2018, the College had received $45,899 of restricted contributions that had not yet been invested. This amount was invested in fiscal year 2019.

- As of June 30, 2018, the College had received $42,278 of net assets with donor restrictions of contributions that had been spent before the restriction had been met. The restriction was met in fiscal year 2019 and the amount was released.

15. MORTGAGE NOTE RECEIVABLE

As part of the sale of the Property (see Note 7), the College entered into an $8,000,000, non-interest bearing note receivable with the buyer of the Property. Of the future payments under this mortgage note receivable, $5,200,000 is to be paid directly to CJP to satisfy the non-interest bearing note payable reflected in Note 9, with the balance being payable to the College. Payments under this agreement are expected to be $1,600,000 for fiscal years 2020 through 2023

The above amounts have not been discounted to their net present value, as all amounts are either expected to be collected in fiscal year 2020 or are offset by the non-interest bearing note payable to CJP.

16. CONTINUING OPERATIONS

The College incurred an operating deficit of approximately $944,000 for the year ended June 30, 2019, which included $500,000 of free rent that was a non-cash transaction (see Note 7). The College incurred an operating deficit of approximately $944,000 for the year ended June 30, 2019. The College has had recurring operating deficits over the past several years and continuous declines in enrollment and tuition. Operating net assets without donor restrictions were approximately $1,814,000 as of June 30, 2019.

Management of the College continues to make significant strides on the path to financial recovery. The College sold its land and building for $18,000,000 in August 2018, using the proceeds to pay off all bank debt obligations and certain liabilities. As a condition of the sale, the College retained the right to remain at its current location through December 2022.

16. CONTINUING OPERATIONS (Continued)

Highlights of other key initiatives undertaken in fiscal year 2019 and carrying forward into fiscal year 2020 and beyond include:

- Relationship Building: Significant efforts have been undertaken to further strengthen the College's reputation in the community through hosted activities and communications about the building sale, installation of the new President, establishment of a President's Council, various donor cultivation events, Graduation and honorary Degrees, new hires and positive press coverage. The College's relationship with CJP, a key Hebrew College and community funder, has also been significantly enhanced during this time period and will continue to be strengthened in the coming years.

- Resource Development: The College raised over $1,900,000 in fiscal year 2019, establishing multiple six figure commitments from new major donors, including a Legacy commitment of $1,000,000. In budgeting for fiscal year 2020, management rigorously planned for a balanced budget, with a highly achievable fundraising goal of $2,000,000. Development efforts have been enhanced with additional staff resources, creation and implementation of a Development Plan that is strongly supported by a Board Development Committee, and improved data management and donor stewardship through implementation of a new data management system, Campus Café.

- Strategic Planning: During fiscal year 2019, the College formed a Strategic Planning Committee of Board, staff and external resources, to undertake a strategic planning process to develop a sustainable business model and provide thoughtful, strategic direction for future decisions about focus, innovation and relocation. Phase one initiatives focused on reducing silos, strengthening integration, achieving operational efficiencies, and leveraging synergies within the institution for greater impact and growth. Cost-saving measures in support of integrated strategic vision and reduction of administrative overhead costs, were implemented in the rebalancing of the fiscal year 2020 budget. Key functions in the areas of registration, human resources, and marketing were centralized to support efficiency and consistency of policies, procedures, and the Hebrew College brand. These initiatives also include culture change and building support for new vision throughout the College as key objectives. Several working groups are carrying forward the work of the Strategic Planning Committee during fiscal year 2020 and will be presenting further findings and recommendation to the Board in Spring of 2020.

- Real Estate: The College launched a real estate committee during fiscal year 2019 and engaged the on-going guidance and services of local real estate brokers. The College has begun to explore a number of strategic partnership opportunities and is poised in 2020 to move into a more active phase of the search with direction from the Strategic Plan. The goal is to identify the College's new home by Spring/Summer of 2021 and then prepare for relocation during the Summer of 2022.

- Board Growth and Development: One of our institutional priorities over the last year has been the revitalization and expansion of our Board of Trustees. We are pleased that eight new members have joined the Board of Trustees in the last year and a half (bringing us to a total of eighteen current members), and the Board has been significantly enhanced by their presence and participation. Our priorities in bringing on new members have included: diversity of age and gender; relevant experience and expertise in strategic planning, fundraising, and financial planning; personal giving capacity; strong networks in the local and national Jewish community, and relationships with potential strategic partners in the world of pluralistic Jewish education.

16. CONTINUING OPERATIONS (Continued)

- Board Growth and Development: (Continued)

  In addition to the thoughtful onboarding of new members, the Board of Trustees has committed to a number of initiatives to strengthen Board culture and build a strong and productive partnership with senior leadership of the College:

  a. Every Board member is now active on one of five committees: Governance, Finance, Development, Academic Affairs, and Real Estate. Each of these committees has at least one chair, who is responsible for regular reports at meetings of the full Board.

  b. At the request of President Anisfeld, an ad hoc committee of the Board is conducting an annual review of her work as president (laying the foundation for a more robust culture of feedback, assessment, learning, and growth within the institution as a whole).

  c. The Board is gathering for a full day retreat on February 9, 2020. We are working with an outside facilitator who will help lead an interactive program designed to help the Board build stronger relationships, better understand their roles and responsibilities, strengthen a sense of partnership with senior staff, feel more informed and inspired about the mission and vision of the College, and feel more prepared to make key strategic decisions moving forward.

At this critical time in the life of our institution, we are excited by the number and quality of lay leaders who have stepped up to lend their experience, expertise, and financial support to help lay the foundation for a vibrant and sustainable future.

17. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for use by the College within one year from the statement of financial position date as of June 30, 2019, are as follows:

Cash	$ 1,755,020
Accounts receivable, net	23,757
Current portion of pledges and grants receivable	724,542
	2,503,319
Less - pledges and grants with purpose restrictions	(281,513)
Less - cash with purpose restrictions	(842,292)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,379,514

As part of the College's liquidity management, the College has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligation come due. As of June 30, 2019, the College has financial assets equal to approximately two months of operating expenses.

18. RECLASSIFICATION

Certain amounts in the fiscal year 2018 financial statements have been reclassified to conform with the fiscal year 2019 presentation in relation to the adoption of ASU 2016-14 (see Note 2).