

BETHUNE-COOKMAN UNIVERSITY, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Years Ended June 30, 2018 and 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Bethune-Cookman University, Inc.
Daytona Beach, Florida

We have audited the accompanying financial statements of Bethune-Cookman University, Inc. (the "University"), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

To the Board of Trustees
Bethune-Cookman University, Inc.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the University's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the University will continue as a going concern. As discussed in Note 1 to the financial statements, the University has suffered recurring, significant operational losses, is operating under a probationary accreditation status, and its borrowing arrangements are subject to acceleration by the creditors due to a technical default. These matters, among other things, raise substantial doubt about its ability to continue as a going concern. The University administration's evaluation of the events and conditions and its plans to mitigate those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty and our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 University's internal control over financial reporting and compliance.



MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
January 16, 2019

BETHUNE-COOKMAN UNIVERSITY, INC.

BALANCE SHEETS

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,681,482	\$ 7,113,647
Investments	41,588,578	42,323,284
Student accounts receivable, net	7,132,317	7,417,196
Grants and student aid receivable	4,078,448	1,904,109
Contributions receivable, net	666,142	784,327
Assets whose use is limited	2,309,867	3,595,505
Prepaid expenses	120,143	172,118
Property and equipment, net	153,698,204	156,148,569
Other assets	306,393	2,008,693
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 212,581,574</u>	<u>\$ 221,467,448</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 4,932,379	\$ 4,098,747
Accrued expenses and other liabilities	6,838,959	5,064,135
Student deposits	321,472	204,972
Deferred lease payments	7,351,073	6,877,440
Long-term debt	105,995,946	109,798,006
	<u> </u>	<u> </u>
TOTAL LIABILITIES	125,439,829	126,043,300

COMMITMENTS AND CONTINGENCIES

NET ASSETS		
Unrestricted	51,778,713	61,620,916
Temporarily restricted	24,260,759	22,887,719
Permanently restricted	11,102,273	10,915,513
	<u> </u>	<u> </u>
TOTAL NET ASSETS	87,141,745	95,424,148
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 212,581,574</u>	<u>\$ 221,467,448</u>

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

BETHUNE-COOKMAN UNIVERSITY, INC.**STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS****Years Ended June 30, 2018 and 2017**

	2018	2017
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Tuition and fees	\$ 57,247,204	\$ 55,033,633
Less scholarship allowance	(17,738,161)	(15,389,200)
Net tuition and fees	39,509,043	39,644,433
Auxiliary activities	26,943,742	24,430,641
Private gifts and grants	1,169,852	1,220,968
Investment income	1,305,814	2,083,559
Other income	1,375,672	1,969,123
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	70,304,123	69,348,724
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of scholarship and donor stipulations	16,944,901	18,943,095
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	16,944,901	18,943,095
EXPENSES		
Education and general:		
Instruction	23,936,710	25,281,889
Institutional support	28,101,891	28,308,479
Academic support	1,327,301	1,186,078
Operation and maintenance	7,329,428	8,130,100
Student services and activities	9,267,933	7,175,604
Research	1,125,869	636,269
Total educational and general	71,089,132	70,718,419
Auxiliary activities	26,002,095	26,371,221
TOTAL EXPENSES	97,091,227	97,089,640
CHANGE IN UNRESTRICTED NET ASSETS	(9,842,203)	(8,797,821)

(Continued)

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

BETHUNE-COOKMAN UNIVERSITY, INC.**STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS (Continued)****Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ (9,842,203)	\$ (8,797,821)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Federal grants and contracts	6,426,709	6,453,897
State grants	5,340,813	6,585,627
Private gifts and grants	4,507,293	5,025,438
Investment income	1,617,923	3,438,900
Auxiliary enterprises	266,154	284,162
Other	159,049	30,779
Net assets released from restrictions	(16,944,901)	(18,943,095)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	1,373,040	2,875,708
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Private gifts and grants	186,760	144,116
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	186,760	144,116
CHANGE IN NET ASSETS	(8,282,403)	(5,777,997)
NET ASSETS AT BEGINNING OF YEAR	95,424,148	101,202,145
NET ASSETS AT END OF YEAR	<u>\$ 87,141,745</u>	<u>\$ 95,424,148</u>

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

BETHUNE-COOKMAN UNIVERSITY, INC.**STATEMENTS OF CASH FLOWS****Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,282,403)	\$ (5,777,997)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,786,727	5,895,384
Net unrealized gains on investments	(152,061)	(2,460,421)
Contributions for long-term endowments	(186,760)	(144,116)
Provision for doubtful accounts	2,447,029	2,908,684
Changes in operating assets and liabilities:		
Student accounts receivable	(2,162,150)	(1,924,718)
Grants and student aid receivable	(2,174,339)	(1,164,692)
Prepaid expenses	51,975	360,267
Contributions receivable	118,185	219,442
Other assets	1,200	187,156
Accounts payable	833,632	1,150,034
Accrued expenses and other liabilities	1,774,824	1,774,580
Deferred lease payments	473,633	3,675,820
Student deposits	116,500	(157,195)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(1,354,008)</u>	<u>4,542,228</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in amount due from FUM Foundation	(363)	119,043
Net change in assets whose use is limited	1,285,638	(830,521)
Purchase of investments	(12,008,542)	(37,694,027)
Proceeds from sales and maturities of investments	12,895,672	45,611,661
Purchase of property and equipment	(1,635,262)	(2,422,550)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>537,143</u>	<u>4,783,606</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term endowments	186,760	144,116
Repayments on bonds payable	(840,000)	(815,000)
Repayments of other borrowings	(2,936,643)	(3,598,423)
Repayments on capital lease obligations	(25,417)	(409,165)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,615,300)</u>	<u>(4,678,472)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(4,432,165)</u>	<u>4,647,362</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,113,647</u>	<u>2,466,285</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,681,482</u>	<u>\$ 7,113,647</u>

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

BETHUNE-COOKMAN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

NOTE 1 - NATURE OF THE ORGANIZATION, BASIS OF PRESENTATION AND LIQUIDITY

Bethune-Cookman University, Inc. (“B-CU” or the “University”), located in Daytona Beach, Florida, is a private, not-for-profit university affiliated with the General Board of Higher Education and Ministry, an agency of the United Methodist Church.

The University offers undergraduate, graduate, and continuing education courses to students on its main campus and two satellite locations and is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (“SACS”).

In addition to education and instructional programs, the University operates student housing and, meals programs and as the B-CU Wildcats, participates in NCAA Division I intercollegiate athletics.

Basis of Presentation

As a private, not-for-profit institution, the University presents its financial statements in accordance with generally accepted accounting principles applicable to not-for-profit organizations. Accordingly, the financial statements present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classifying net assets and changes in net assets as follows:

- *Unrestricted net assets* - Net assets that are not subjected to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets whose use is subject to donor-imposed restrictions that can be fulfilled by actions of the University or by the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the University.

Liquidity

During the years ended June 30, 2018, 2017 and 2016, the University experienced declines in net assets of approximately \$8,280,000, \$5,780,000 and \$18,550,000, respectively. The University’s administration has funded the operating deficits through the use of unrestricted cash and investments and has not executed operational changes necessary to generate positive cash flows. As a result, unrestricted cash and investments have declined from \$21,030,000 at June 30, 2016 to \$10,060,000 at June 30, 2018.

**NOTE 1 - NATURE OF THE ORGANIZATION, BASIS OF PRESENTATION
AND LIQUIDITY (Continued)**

The University has also entered into a capital lease arrangement for new student housing buildings that exceeded the amount of additional debt the University was allowed to incur under the terms of its 2010 Bond Indenture and, as a result, triggered a technical default (but not a payment default) of the 2010 Bonds and, through cross-default provisions, technical defaults on substantially all of the University's debt arrangements.

In addition, the SACS placed the University under probation pending a future review of its progress toward implementing changes intended to stabilize and restructure its finances. The outcome of that review could potentially result in a release from probation, an extension of the probation or the revocation of the University's accreditation.

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate a possibility that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are available to be issued. The possibility of an unfavorable outcome of the SACS review, a continuation of negative operating results, and the potential of demand from creditors for immediate repayment of the University's borrowing arrangements, among other things, raise substantial doubt about the University's ability to continue as a going concern. To mitigate these doubts, the University's administration has engaged a financial advisor and developed a plan, described below, that the administration believes will be probable of satisfying the University's liquidity needs for at least one year beyond the issuance of these financial statements.

- The University's administration has successfully negotiated a stipulation agreement with the mortgagor of the leased student housing which provides, among other things, for a reduction in cash outflow of approximately \$100,000 per month. This stipulation agreement is currently in place pending further determination of the Circuit Court.
- The administration has begun an overall review to ensure internal controls are in place to safeguard assets and to enhance the good stewardship of fiscal resources. In connection with this review, the administration plans to execute a reduction of the University's current workforce and other cost-cutting measures, which the administration expects to result in annual operating cost savings sufficient to ensure the University has liquidity to meet its obligations.
- The 2010 Bond obligations have been paid when due. Accordingly, there has not been a payment default. The administration is currently seeking an agreement with the trustee of its 2010 Bonds to waive the bondholder's right to accelerate the repayment of the bonds due to the technical default. The administration believes it will be successful in obtaining the agreement. However, because the agreement has not yet been finalized, the bondholders currently have the right to require acceleration.

**NOTE 1 - NATURE OF THE ORGANIZATION, BASIS OF PRESENTATION
AND LIQUIDITY (Continued)**

- The administration plans to report these actions and others to SACS and, while there can be no assurance, the administration is hopeful that the University's probationary accreditation status will be extended through the conclusion of calendar year 2019.

While the University's administration believes its plan will successfully mitigate the substantial doubts regarding its ability to continue as a going concern, the effective execution of the administration's plans are dependent on the outcome of future events which are inherently uncertain. As a result, there can be no assurance that the University will be able to continue as a going concern and these financial statements include no adjustments related to the possible outcome of this uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the more significant accounting policies followed by the University in the preparation of its financial statements.

Cash and Cash Equivalents

The University considers all unrestricted, highly liquid investments with a maturity of three months or less when purchased, except those classified as assets whose use is limited or investments, to be cash equivalents.

The University has cash balances with banks in excess of FDIC-insured limits, which potentially subjects the University to credit risk. Management believes the risk related to these deposits is minimal.

Investments

Investments are reported in the balance sheets at fair value. Fair value is determined using the quoted closing or latest bid prices. Realized gains and losses are calculated based on proceeds received, less carrying value. The carrying value of securities sold is based on the specific-identification method, when practicable, otherwise, the average cost method is used. Changes in net unrealized gains and losses are reported in the statements of activities and represent the change in the fair value of investments during the year.

Student Accounts Receivable

The University grants credit without collateral to its students and allows students to continue to enroll in classes as long as the student's receivable balance does not exceed \$3,000. Credit risk related to student accounts receivable is somewhat mitigated because these receivables are distributed among a wide range of students.

The balance sheets present accounts receivable at the estimated amounts to be realized from students, third-party payors, and others. The University's administration provides an allowance for uncollectible accounts based on an analysis of the age of the receivable, historical collection experience, and payor-specific credit evaluations. The allowance for uncollectible student accounts at June 30, 2018 and 2017, was approximately \$9,887,000 and \$7,440,000, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Student Aid Receivable

Amounts due from federal and state government grantor agencies for research and programmatic activities and for student scholarship and financial aid programs are reflected in the balance sheets as grants and student aid receivable. The University's administration believes that credit risk related to these amounts are minimal because of the taxing authority of the governmental entities from which they are due. Accordingly, the financial statements include no provision or allowance for uncollectible grants and student aid.

Contributions Receivable

Unconditional contributions and promises to give cash and other assets (including multi-year pledges) are recognized at fair value in the period made. Amounts to be received over more than one year are measured at the present value of estimated future cash flows.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

An allowance for uncollectible contributions is provided based upon the administration's judgment after considering such factors as the prior collection history, type of contribution, and nature of the fundraising activity.

Assets Whose Use is Limited

Assets whose use is limited includes amounts set aside under provisions of borrowing and contractual arrangements. A detail of the amounts comprising assets whose use is limited is presented in Note 5.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair market value at the date of gift, if donated. Assets acquired in the amount of \$5,000 or greater with a useful life in excess of one year are capitalized. The cost of recurring replacements and maintenance or repairs that do not improve or extend the useful life of the asset are charged to operations as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets: 30 years for buildings and 6 to 20 years for equipment. Equipment acquired through capital lease financing is amortized over the shorter of the asset's useful life or the term of the lease using the straight-line method.

Impairment of Long-Lived Assets and Intangible Assets

The University's administration continually monitors conditions that may affect the carrying value of its long-lived assets and intangible assets. When changes in conditions indicate potential impairment, the administration evaluates the asset's carrying value and, if necessary, the asset is written down to its estimated net realizable value. There were no asset impairment charges during the years ended June 30, 2018 and 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

Costs incurred in connection with the issuance of long-term borrowings are deferred and amortized to expense over the term of the related obligation. Other assets consist of the unamortized balance of deferred costs associated with the issuance of the 2010 bonds (see Note 7) and reimbursable advances related to a student housing development project.

Revenue Recognition

Net Tuition and Fees

Tuition and fee revenue is recognized at the estimated net realizable amounts due from students, third-party payors, and others at the time instruction and services are provided.

Auxiliary Activities

Student housing revenue is recognized on the accrual basis in the period in which occupancy rights are provided. The lease agreements require certain deposits. These deposits are initially recorded as deferred revenue and are recognized as income in the periods earned.

Ancillary charges for student meals and various additional services are recorded in the period the meals and services are provided.

Receipts from athletic and arts program event ticket sales is initially recorded as deferred revenue and recognized as revenue at the time of the event.

The following table summarizes the auxiliary revenues for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Student housing	\$ 19,130,360	\$ 17,030,302
Student meals	5,524,007	4,998,899
Athletics	2,456,367	2,616,232
Other	99,162	69,370
Total auxiliary revenues	<u>\$ 27,209,896</u>	<u>\$ 24,714,803</u>

Grant and Contract Revenues

Revenues from grants and contracts are recognized when related expenses are incurred or services are provided, as defined in the contract or grant agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions and Donations

Contributions and gifts are recorded at their estimated fair values on the date of receipt.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets received with donor stipulations that limit the use of the donated assets are reported as a restricted contribution. When a restriction ends, or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions in that period.

Donated merchandise used for fundraising activities is recorded as support upon sale, rather than upon receipt, since no objective basis is available to measure its value.

Numerous individuals volunteer their time and effort in support of the University and its mission. No amounts have been reflected in these financial statements for those donated services, as there is no objective basis to measure their value.

Income Taxes

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University may, from time to time, engage in activities subject to unrelated business income tax. However, taxes on unrelated business activities have not been material to the financial statements. Accordingly, no provision or liability for income taxes is included in the financial statements. Furthermore, the University's administration has concluded that there are no uncertain tax positions requiring recognition in its financial statements.

Fair Value Measurement

Estimates of the fair value of financial instruments are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Changes in assumptions and in the University's operating environment could significantly affect these estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

The fair value of financial instruments is based on a three-tier hierarchy, which prioritizes the input used in measuring 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 levels are defined as follows:

- Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2** Inputs other than quoted prices in active markets within Level 1 that are either directly or indirectly observable.
- Level 3** Significant, unobservable inputs for the asset or liability in which little or no market data exists.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

If available, quoted market prices are used to value investments, including investments classified as assets whose use is limited. Corporate bonds and notes, U.S. Government obligations, and equity securities are valued at the closing price reported on the most active market on which the individual securities are traded. Mutual funds are valued at the closing price reported on the most active market on which the fund is traded or at the net asset value of the University's units. Hedge funds, limited partnerships, private equities, and alternative investments not traded on active markets are valued using a combination of market and income approaches related to the specific characteristics of the investment.

If the University does not have the ability to unilaterally redeem its investment from the investee at net asset value per share (or its equivalent), the fair value measurement of the investment is categorized as Level 3.

Functional Expense Allocation

Expenses are allocated in the statements of activities and changes in net assets in categories recommended by the National Association of Colleges and Universities Business Officers. The University's primary program service is instruction. Expenses reported as academic support and student services and activities are incurred in the support of the organization's primary program service. Institutional support mainly includes management and general expenses. Operation and maintenance includes all expenses for operations established to provide services and maintenance related to grounds and facilities. Research includes expenses allocated to research activities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Reclassifications**

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

NOTE 3 - INVESTMENTS

The following tables summarize the composition of investments as of June 30, 2018 and 2017:

	2018	
	Fair Value	Cost
Global ex-U.S. equity	\$ 12,057,854	\$ 10,421,169
U.S. mid- to large-cap equity	10,168,902	7,462,441
Hedge funds	7,984,336	4,738,355
Debt mutual funds	7,989,626	8,134,885
Commingled funds	2,861,270	2,770,572
Loan due from FUM Foundation	22,563	22,563
Short-term investment funds	504,027	504,027
Total investments	<u>\$ 41,588,578</u>	<u>\$ 34,054,012</u>

	2017	
	Fair Value	Cost
Global ex-U.S. equity	\$ 11,114,759	\$ 10,126,420
U.S. mid- to large-cap equity	11,600,046	7,768,601
Hedge funds	7,424,523	4,738,355
Debt mutual funds	9,013,628	8,998,994
Commingled funds	2,640,400	2,778,480
Loan due from FUM Foundation	22,200	22,200
Short-term investment funds	507,728	507,728
Total investments	<u>\$ 42,323,284</u>	<u>\$ 34,940,778</u>

The following tables summarize investment income and its classification in the statements of activities and changes in net assets for the fiscal years ended June 30, 2018 and 2017:

	2018	
	Unrestricted	Temporarily Restricted
Dividends and interest	\$ 207,396	\$ 706,662
Net realized gains	1,015,307	842,311
Change in unrealized gain on investments	83,111	68,950
Total investment income	<u>\$ 1,305,814</u>	<u>\$ 1,617,923</u>

	2017	
	Unrestricted	Temporarily Restricted
Dividends and interest	\$ 307,980	\$ 380,407
Net realized gains	871,854	1,501,797
Change in unrealized gain on investments	903,725	1,556,696
Total investment income	<u>\$ 2,083,559</u>	<u>\$ 3,438,900</u>

NOTE 3 - INVESTMENTS (Continued)

Certain investments impose, or have the right to impose, withdrawal restrictions that could adversely impact the University's ability to quickly exit these investments. For instance, investments in certain commingled funds and bond funds are only redeemable on a weekly basis (i.e., first day of the calendar month and every Friday) at the option of the University upon four days' written notice. The international bonds investment is redeemable on a monthly basis (i.e., first day of each calendar month) at the option of the University upon 15 days' written notice. The investment in hedge funds is redeemable on a quarterly or semiannual basis (i.e., first business day of the calendar quarter) at the option of the University upon 45 days' written notice. Also, included in investments is \$22,563 and \$22,200 at June 30, 2018 and 2017, respectively, on deposit with the Florida United Methodist Foundation ("FUM Foundation"). The FUM Foundation invests these funds primarily in loans made to religious institutions. This investment may only be liquidated with approval of the FUM Foundation's Board of Trustees and is subject to a 45-day withdrawal restriction.

The University incurred investment-related expenses, custodian fees, and investment advisor fees of \$84,924 and \$113,785 for the years ended June 30, 2018 and 2017, respectively. These amounts were netted against investment earnings in the statements of activities and changes in net assets.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2018 and 2017 are presented, net of allowances and discounts, as follows:

	<u>2018</u>	<u>2017</u>
Total unconditional promises to give	\$ 720,953	\$ 889,239
Less allowance for doubtful accounts	-	-
	<u>720,953</u>	<u>889,239</u>
Less discounts	<u>(54,811)</u>	<u>(104,912)</u>
Net unconditional promises to give	<u>\$ 666,142</u>	<u>\$ 784,327</u>

Unconditional pledges at June 30, 2018, are due in the following fiscal years:

2019	\$ 304,940
2020	112,329
2021	97,593
2022	76,625
2023 and thereafter	<u>129,466</u>
Total	<u>\$ 720,953</u>

Pledges to be collected after one year from the fiscal year-end are discounted at a rate of 3% over the term of the pledge. The discount rate is applied to the schedule of payments due during each ensuing fiscal year.

From time to time, the University is informed of intentions to give by prospective donors. Such expressions of intent are revocable and unenforceable. The ultimate value of these expressions has not been established or recognized in the financial statements.

NOTE 5 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consists of certain sinking fund and escrow accounts required under the terms of certain debt agreements, as well as beneficiary interests in amounts held in trust. Details of assets whose use is limited at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Amounts in escrow and sinking funds	\$ 1,818,278	\$ 3,117,176
Beneficiary interest in trusts	<u>491,589</u>	<u>478,329</u>
Total assets whose use is limited	<u>\$ 2,309,867</u>	<u>\$ 3,595,505</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment, and related accumulated depreciation and amortization at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 9,106,883	\$ 9,106,883
Building	112,679,291	110,666,240
Buildings purchased under capital leases	81,744,064	81,744,064
Equipment purchased under capital leases	3,716,137	4,614,200
Equipment	17,905,016	16,322,783
Construction in progress	<u>1,683,466</u>	<u>1,044,325</u>
	226,834,857	223,498,495
Less accumulated depreciation and amortization	<u>(73,136,653)</u>	<u>(67,349,926)</u>
Property and equipment, net	<u>\$ 153,698,204</u>	<u>\$ 156,148,569</u>

Amortization expense on assets under capital leases was \$1,145,672 and \$1,292,216 for the years ended June 30, 2018 and 2017, respectively. Depreciation expense was \$4,641,055 and \$4,603,168 for the years ended June 30, 2018 and 2017, respectively.

During fiscal year 2016, construction was completed on four new student housing buildings on the University's campus property. The project was financed through a 40-year lease arrangement with the developer that, in substance, is similar to an installment sale. Accordingly, it is accounted for as a capital lease in the University's financial statements. That is, the University recognized an asset and an obligation equal to the lower of the fair value of the constructed asset or present value of the minimum lease payments during the lease term, which was determined to be \$85 million. The building assets will be amortized in accordance with the University's normal depreciation policies.

NOTE 7 - BORROWING ARRANGEMENTS

Details of borrowing arrangements at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
HBCU Dormitory Capital Project Loan, bearing interest at 6.01%; payable in monthly installments of \$30,850, including interest through September 2027; collateralized by land and building.	\$ 2,605,946	\$ 2,806,722
2010 Series Bonds, bearing interest at rates ranging from 1.125% to 5.38% and due on July 1 and January 1 of each year. Principal payments are due annually on July 1 and the bonds mature serially through July 2032. The bond obligation is collateralized by the University's general revenues.	18,390,000	19,230,000
Loan payable subject to an interest rate swap arrangement which provides for a variable interest rate of LIBOR plus 195 basis points; interest payments are due monthly and principal is due quarterly; matures on October 1, 2024; collateralized by land and building.	-	1,795,866
Loan payable subject to an interest rate swap arrangement which provides for a variable interest rate of LIBOR plus 225 basis points; interest due monthly and principal due quarterly; matures on October 22, 2019; collateralized by land and building.	-	940,001
Capital lease payable for four residence halls with an imputed interest rate of 7.29%; payable in monthly installments through December 2055; collateralized by the leased assets.	85,000,000	85,000,000
Various equipment capital leases; payable in monthly and annual installments; collateralized by the leased assets.	-	25,417
	<u>\$ 105,995,946</u>	<u>\$ 109,798,006</u>

Under the terms of the HBCU Dormitory Capital Project Loan and 2010 Series Bonds, the University is required to make sinking fund deposits for the periodic payment of bond interest and the retirement of bond principal.

Temporarily restricted assets of \$2,055,563 and \$1,957,086 at June 30, 2018 and 2017, respectively, were provided by a National Endowment for the Humanities matching grant and are restricted for retirement of indebtedness.

In December 2010, the University issued \$23,825,000 in Higher Education Revenue Bonds ("2010 Series Bonds"). The proceeds from the sale of the 2010 Series Bonds were used to refund the 2001 Series Bonds and finance a portion of the construction of a new dormitory. These serial bonds mature annually, with a final maturity on July 1, 2032. The terms of the 2010 Series Bonds include the maintenance of certain deposits with a trustee, including, beginning in 2021, mandatory sinking fund deposits. The 2010 Series Bonds and certain other borrowing agreements include restrictive covenants which require the University to comply with certain financial and non-financial covenants.

NOTE 7 - BORROWING ARRANGEMENTS (Continued)

Interest expense and interest paid on all borrowing arrangements totaled \$7,851,458 and \$3,999,172 for the year ended June 30, 2018, respectively, and \$7,856,166 and \$4,220,258 for the year ended June 30, 2017, respectively. No interest was capitalized during the years ended June 30, 2018 and 2017.

The following is a schedule, by years, of future minimum lease payments under capital lease, together with the present value of the net minimum lease payments as of June 30, 2018:

Year Ending June 30,	Amount
2019	\$ 6,324,050
2020	6,411,860
2021	6,500,984
2022	6,591,446
2023	6,683,270
Thereafter	264,459,450
Total minimum lease payments	296,971,060
Lease amount representing interest	(211,971,060)
Present value of net minimum lease payments	\$ 85,000,000

During fiscal year 2018, the University filed legal action against the developer holding the capital lease and ceased making lease payments to the developer. The University placed the unpaid lease payment amounts in escrow pending settlement of the litigation. In October 2018, following a joint stipulation order between the University and the Trustee holding the developer's loan, the University began making loan payments directly to the Trustee. While the payments under the joint stipulation order temporarily reduce the University's cash requirements, they do not change the terms of the capital lease.

Future annual principal maturities under all borrowing arrangements other than capital leases are as follows:

Year Ending June 30,	Amount
2019	\$ 1,082,511
2020	1,129,324
2021	1,178,672
2022	1,232,372
2023	1,292,237
Thereafter	15,080,830
	<u>\$ 20,995,946</u>

NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The following table presents the fair value for assets, measured on a recurring basis by hierarchy level, as of June 30, 2018:

Description	Fair Value	Level 1: Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2: Significant Other Observable Inputs	Level 3: Significant Observable Inputs
Investments:				
U.S. mid- to large-cap equity	\$ 10,168,902	\$ 10,168,902	\$ -	\$ -
Global ex-U.S. equity	12,057,854	12,057,854	-	-
Hedge funds	7,984,336	-	7,984,336 ⁽²⁾	-
Commingled funds	2,861,270	-	2,861,270 ⁽¹⁾	-
Debt mutual funds	7,989,626	7,989,626	-	-
Short-term investment funds	504,027	504,027	-	-
Assets held in trust by others	491,589	-	-	491,589 ⁽³⁾
Amount due from FUM Foundation	22,563	-	-	22,563

The following table presents the fair value for assets, measured on a recurring basis by hierarchy level, as of June 30, 2017:

Description	Fair Value	Level 1: Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2: Significant Other Observable Inputs	Level 3: Significant Observable Inputs
Investments:				
U.S. mid- to large-cap equity	\$ 11,600,046	\$ 11,600,046	\$ -	\$ -
Global ex-U.S. equity	11,114,759	11,114,759	-	-
Hedge funds	7,424,523	-	7,424,523 ⁽²⁾	-
Commingled funds	2,640,400	-	2,640,400 ⁽¹⁾	-
Debt mutual funds	9,013,628	9,013,628	-	-
Short-term investment funds	507,728	507,728	-	-
Assets held in trust by others	478,329	-	-	478,329 ⁽³⁾
Amount due from FUM Foundation	22,200	-	-	22,200

- (1) The valuation of investments in certain commingled funds and bond funds are based on the values of the underlying investments, for which quoted market prices are readily available. The University then determines its share of the overall fair value. The commingled funds classified as Level 2 are organized as a limited partnership. Participating shares are redeemable on a weekly basis (i.e., first day of the calendar month and every Friday) at the option of the University upon four days' written notice. The bonds investment classified as Level 2 is organized as a limited partnership.
- (2) The fair value of this investment is based on the net asset value per share. The net asset value is determined by the fund manager, based on the values of the underlying investments. This investment is organized as a limited liability company.
- (3) The University is the irrevocable remainder beneficiary of several split-interest agreements. The assets of these charitable remainder trusts are held by an independent trustee. The University's interest in these trusts has been recorded at fair value using a payout rate of approximately 3.0% and a discount rate of 2.8%. The change in fair value since the prior year is driven by unrealized gains and losses on the investments held by the trust and is included in investment income.

NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES
(Continued)

The carrying value of receivables, accounts payable, and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair value of debt obligations is estimated based on quoted market prices for the same or similar issues or based on the current rates offered to the University for debt of the same maturities. The fair value of debt obligations approximated carrying value as of June 30, 2018 and 2017.

Changes in Fair Value of Level 3 Instruments

The University classifies the fair value of financial instruments within Level 3 if there are no observable markets for the instruments, or, in the absence of active markets, the majority of the inputs used to determine the fair value of the instruments are based on assumptions about market participants. The following is a roll-forward table of Level 3 financial instruments for which the University has used significant, unobservable inputs in the fair value measurement on a recurring basis:

	Assets Held in Trust by Others
Fair value as of June 30, 2016	\$ 439,957
Unrealized gains included in change in net assets	38,372
Fair value as of June 30, 2017	478,329
Unrealized gains included in change in net assets	13,260
Fair value as of June 30, 2018	<u>\$ 491,589</u>

NOTE 9 - RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Institution support programs	\$ 1,157,731	\$ 1,262,656
Acquisition and maintenance of building and equipment	4,737,339	4,510,384
Student aid	10,043,958	9,223,635
Other educational and general operations	8,321,731	7,891,044
	<u>\$ 24,260,759</u>	<u>\$ 22,887,719</u>

Permanently restricted net assets at June 30, 2018 and 2017 are restricted in perpetuity, the income from which is expendable to support:

	2018	2017
Student aid	\$ 9,956,561	\$ 9,819,826
Other educational and general operations	1,145,712	1,095,687
	<u>\$ 11,102,273</u>	<u>\$ 10,915,513</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, principally for student aid, instruction, research and departmental support, and as assets acquired with donor-restricted funds were placed into service.

NOTE 10 - INVESTMENT PORTFOLIO AND ENDOWMENT

The University's investment portfolio consists of endowed assets and institutional assets.

The endowed assets consist of approximately 180 individual funds established for a variety of purposes and are segregated as follows:

	<u>2018</u>	<u>2017</u>
Permanently restricted endowment	\$ 11,102,273	\$ 10,915,513
Temporarily restricted endowment	<u>23,103,027</u>	<u>21,625,063</u>
Total funds provided by donors	<u>\$ 34,205,300</u>	<u>\$ 32,540,576</u>

Interpretation of Relevant Law for Endowed Assets

The State of Florida operates under the Florida Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), enacted in 2012. The Board of Trustees of the University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires. Deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2018 and 2017, the amount of permanently restricted endowments whose fair value of assets was less than the level required by donor stipulation totaled \$8,504 and \$4,808, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

NOTE 10 - INVESTMENT PORTFOLIO AND ENDOWMENT (*Continued*)

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain an average annual real total return (net of investment management fees) of at least 5.0% over the long term (rolling 20-quarter periods). It is recognized that the real return objective may be difficult to attain in every such period but should be attainable over a series of such periods.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University's investments are diversified by asset class, within asset classes and by manager. The purpose of diversification is to provide reasonable assurance that no class of securities, manager, or individual holding will have a disproportionate impact on the endowment's aggregate results. The asset allocation of the endowment reflects the University's long-term financial objectives, as well as the University's tolerance for risk. Endowment results are measured relative to blended benchmarks composed of the appropriate asset class indices and weighted based upon the endowment policy target and actual allocations.

Endowment Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowment seeks to achieve reasonable stability in budgeting for University operations and to maintain intergenerational equity between near-term and long-term priorities. The Board of Trustees believes that, subject to exigent circumstances, a long-term spending rate of 3.0% of the endowment is appropriate and, therefore, has adopted the following spending policy: Spending from the endowment in any given fiscal year shall equal 3.0% of the endowment's average market value for the preceding 12 quarters. In establishing this policy, the University considered the return objective of at least 5.0% over the long term.

NOTE 10 - INVESTMENT PORTFOLIO AND ENDOWMENT (Continued)**Endowment Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)**

The following table presents changes in endowment net assets by restriction classification:

	Unrestricted Institutional Assets and Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Net assets at June 30, 2016	\$ 18,418,615	\$ 18,568,285	\$ 10,771,397	\$ 47,758,297
Investment return:				
Investment income	212,059	380,407	-	592,466
Net appreciation (realized and unrealized)	1,775,579	3,058,493	-	4,834,072
Total investment return	1,987,638	3,438,900	-	5,426,538
Contributions	-	140,386	144,116	284,502
Appropriation of endowment assets of expenditure	-	(522,508)	-	(522,508)
Other changes:				
Transfers from board designated endowment funds	(10,645,745)	-	-	(10,645,745)
Net assets at June 30, 2017	9,760,508	21,625,063	10,915,513	42,301,084
Investment return:				
Investment income	207,396	706,662	-	914,058
Net appreciation (realized and unrealized)	1,098,418	911,261	-	1,262,481
Total investment return	1,305,814	1,617,923	-	2,176,539
Contributions	-	309,525	186,760	496,285
Appropriation of endowment assets of expenditure	(21,193)	(449,484)	-	(470,677)
Other changes:				
Transfers from board designated endowment funds	(3,684,414)	-	-	(2,937,216)
Net assets at June 30, 2018	\$ 7,360,715	\$ 23,103,027	\$ 11,102,273	\$ 41,566,015

NOTE 10 - INVESTMENT PORTFOLIO AND ENDOWMENT (Continued)**Endowment Net Asset Composition by Type of Fund**

	Unrestricted Institutional Assets and Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
June 30, 2018				
Donor-restricted endowment funds	\$ (8,504)	\$ 23,103,027	\$ 11,102,273	\$ 34,196,796
Board designated endowment funds	7,369,219	-	-	7,369,219
Total funds	<u>\$ 7,360,715</u>	<u>\$ 23,103,027</u>	<u>\$ 11,102,273</u>	<u>\$ 41,566,015</u>
June 30, 2017				
Donor-restricted endowment funds	\$ (4,808)	\$ 21,625,063	\$ 10,915,513	\$ 32,535,768
Board designated endowment funds	9,765,316	-	-	9,765,316
Total funds	<u>\$ 9,760,508</u>	<u>\$ 21,625,063</u>	<u>\$ 10,915,513</u>	<u>\$ 42,301,084</u>

NOTE 11 - FUNDRAISING EXPENSES

The University expenses the costs associated with fundraising as incurred. Fundraising expenses totaled \$1,772,601 and \$2,448,802 for the years ended June 30, 2018 and 2017, respectively. They are reflected as part of institutional support in the statements of activities and changes in net assets.

NOTE 12 - COMMITMENTS AND CONTINGENCIES**Legal Contingencies**

In the normal course of business, the University is party to various matters involving disputes or litigation. While it is not possible at this time to determine the ultimate outcome of these matters, the administration believes, based on advice of legal counsel, that any ultimate liability will not be material to the financial statements.

Retirement Plan

The University maintains a tax-sheltered annuity plan that is available to employees on a voluntary basis. The total expenses for this plan were \$1,158,107 and \$1,128,510 for the years ended June 30, 2018 and 2017, respectively.

Compliance Contingencies

Amounts received by the University under federal and state financial assistance programs are subject to audit and adjustment by those grantor agencies. If expenses under those programs were to be disallowed as a result of such audits, the reimbursement to the federal or state government would be recorded as a liability of the University. In the opinion of the administration, any such adjustment, if any, would not be material to the University's financial statements or its financial assistance programs.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through January 16, 2019, the date the financial statements were available to be issued. Other than those matters disclosed in the notes to the financial statements, there were no subsequent events that required recognition.

SUPPLEMENTAL INFORMATION



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

To the Board of Trustees
Bethune-Cookman University, Inc.
Daytona Beach, Florida

We have audited the financial statements of Bethune-Cookman University, Inc. (the “University”) as of and for the fiscal years ended June 30, 2018 and 2017, and have issued our report thereon dated January 16, 2019, which contained an unmodified opinion on those financial statements. That report appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information, shown on pages 28 and 29 related to the 2018 and 2017 financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2018 and 2017 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements for the years ended June 30, 2018 and 2017, as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the University as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. Those audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on pages 28 and 29 related to the 2016 and 2015 financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2016 and 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

To the Board of Trustees
Bethune-Cookman University, Inc.

In our opinion, the supplemental information shown on pages 28 and 29 related to the 2016 and 2015 financial statements is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A." in a cursive script.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 16, 2019

BETHUNE-COOKMAN UNIVERSITY, INC.

Statement of Financial Position of Unrestricted Net Assets, Exclusive of Plant Assets and Plant-Related Debt

Modified Presentation in Accordance with Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) Core Requirement 2.11.1 (2)

Last Four Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
ASSETS				
Cash and cash equivalents	\$ 4,047,821	\$ 2,466,285	\$ 7,113,647	\$ 2,681,482
Investments	25,237,190	18,559,858	9,782,708	7,383,277
Student accounts receivable, net	5,269,083	8,401,162	7,417,196	7,132,317
Grants and student aid receivable	1,540,731	739,417	1,904,109	4,078,448
Prepaid expenses	266,975	532,385	172,118	120,143
Other assets	<u>2,654,516</u>	<u>2,195,849</u>	<u>2,008,693</u>	<u>306,393</u>
TOTAL ASSETS	<u><u>\$ 39,016,316</u></u>	<u><u>\$ 32,894,956</u></u>	<u><u>\$ 28,398,471</u></u>	<u><u>\$ 21,702,060</u></u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 1,312,945	\$ 2,948,713	\$ 4,098,747	\$ 4,932,379
Accrued expenses and other liabilities	2,105,972	3,289,555	5,064,135	6,838,959
Student deposits	283,922	362,167	204,972	321,472
Deferred lease payments	-	3,201,620	6,877,440	7,351,073
Long-term debt	<u>-</u>	<u>2,970,474</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	3,702,839	12,772,529	16,245,294	19,443,883
NET ASSETS				
Unrestricted, exclusive of plant and plant-related debt	<u>35,313,477</u>	<u>20,122,427</u>	<u>12,153,177</u>	<u>2,258,177</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 39,016,316</u></u>	<u><u>\$ 32,894,956</u></u>	<u><u>\$ 28,398,471</u></u>	<u><u>\$ 21,702,060</u></u>

See Report of Independent Certified Public Accountants on Supplemental Information.

BETHUNE-COOKMAN UNIVERSITY, INC.

Statement of Changes in Unrestricted Net Assets, Exclusive of Plant

Modified Presentation in Accordance with Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) Core Requirement 2.11.1 (2)

Last Four Fiscal Years

	2015	2016	2017	2018
TOTAL UNRESTRICTED NET ASSETS (Accrual Basis) - Per Audited Financial Statements	\$ 88,274,399	\$ 70,418,737	\$ 61,620,916	\$ 51,778,713
Less: Property, plant and equipment	(77,928,149)	(159,621,403)	(156,148,569)	(153,698,204)
Less: Assets limited to plant	(3,601,795)	(2,325,027)	(3,117,176)	(1,818,278)
Add: Plant-related debt	28,569,022	111,650,120	109,798,006	105,995,946
UNRESTRICTED NET ASSETS, NOT INCLUDING PLANT AND DEBT	35,313,477	20,122,427	12,153,177	2,258,177
REVENUES				
Tuition and fees	57,021,941	53,471,564	55,033,633	57,247,204
Less scholarship allowance	(16,028,616)	(14,495,289)	(15,389,200)	(17,738,161)
Net tuition and fees	40,993,325	38,976,275	39,644,433	39,509,043
Auxiliary activities	20,054,554	20,312,125	24,430,641	26,943,742
Private gifts and grants	3,257,835	2,865,429	1,220,968	1,169,852
Investment income (loss)	482,211	(630,913)	2,083,559	1,305,814
Other income	1,068,776	1,636,465	1,969,123	1,375,672
Net assets released from restrictions	16,202,758	14,013,388	18,943,095	16,944,901
TOTAL REVENUES	82,059,459	77,172,769	88,291,819	87,249,024
EXPENSES				
Education and general:				
Instruction	23,398,116	25,327,333	25,281,889	23,936,710
Institutional support	21,583,591	28,448,579	28,308,479	28,101,891
Academic support	2,323,117	1,369,046	1,186,078	1,327,301
Operation and maintenance	10,694,572	8,931,950	8,130,100	7,329,428
Student services and activities	7,172,445	8,267,061	7,175,604	9,267,933
Research	222,799	234,343	636,269	1,125,869
Auxiliary activities	17,611,924	22,450,119	26,371,221	26,002,095
Add: Capital outlay net of debt	5,431,075	1,369,760	2,422,550	3,336,362
Add: Reduction in debt related to capital	1,840,508	642,134	2,644,263	2,503,162
Less: Depreciation	(4,514,522)	(4,676,506)	(5,895,384)	(5,786,727)
TOTAL EXPENSES	85,763,625	92,363,819	96,261,069	97,144,024
CHANGE IN UNRESTRICTED NET ASSETS, EXCLUSIVE OF PLANT	<u>\$ (3,704,166)</u>	<u>\$ (15,191,050)</u>	<u>\$ (7,969,250)</u>	<u>\$ (9,895,000)</u>

See Report of Independent Certified Public Accountants on Supplemental Information.