

BERKELEY STUDENT COOPERATIVE
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED MAY 31, 2018

VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6



VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE



AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Berkeley Student Cooperative (BSC)
(A California Non-Profit Corporation)
Berkeley, California

We have audited the accompanying financial statements of Berkeley Student Cooperative (BSC) (A California Non-Profit Corporation), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

INDEPENDENT AUDITORS' REPORT - Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Berkeley Student Cooperative as of May 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Berkeley Student Cooperative's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

The summary financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States of America. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Berkeley Student Cooperative.

Vorlein, Hays + Co.

Calabasas, California
May 17, 2019

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
MAY 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,701,703	\$ 5,349,258
Assets held for others:		
Cash	53,170	45,982
Trading securities	-	53,717
Accounts receivable - net	625,839	(26,282)
Inventory	80,348	79,522
Prepaid expenses and other assets	<u>322,224</u>	<u>328,347</u>
Total current assets	5,783,284	5,830,544
Investments - Note 3	11,141,114	9,207,104
Restricted deposits - net of current portion		
Bond - related funds	376,703	376,790
Replacement reserve held by others	240,586	237,224
Construction in progress	150,546	253,013
Property and equipment - net - Note 5	33,309,848	32,436,177
Deferred financing costs - net	<u>1,008,576</u>	<u>1,177,004</u>
Total assets	<u>\$ 52,010,657</u>	<u>\$ 49,517,856</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 637,152	\$ 779,981
Other liabilities - Note 12	426,467	-
Payroll and related liabilities	7,212	12,995
Assets held for others	53,170	47,852
Deferred revenue	1,833,397	1,442,491
Refundable deposits	540,318	508,028
Interest payable	50,745	47,784
Bonds and notes payable - current portion - Note 7	<u>943,938</u>	<u>918,770</u>
Total current liabilities	4,492,399	3,757,901
Bonds and notes payable - net of current portion - Note 7	15,372,499	16,316,438
Premium on bonds payable	<u>-</u>	<u>-</u>
Total liabilities	19,864,898	20,074,339
NET ASSETS		
Unrestricted		
Board designated - endowment	102,955	102,955
Undesignated	<u>29,803,508</u>	<u>27,541,226</u>
Total unrestricted	29,906,463	27,644,181
Temporarily restricted - Note 8	1,406,299	966,339
Permanently restricted	<u>832,997</u>	<u>832,997</u>
Total net assets	<u>32,145,759</u>	<u>29,443,517</u>
Total liabilities and net assets	<u>\$ 52,010,657</u>	<u>\$ 49,517,856</u>

See accompanying auditors' report and notes to financial statements.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUE AND SUPPORT					
Room and board revenue	\$ 7,408,136	\$ -	\$ -	\$ 7,408,136	\$ 7,526,283
Apartment rentals	2,581,088	-	-	2,581,088	2,407,407
Retail lease income	279,593	-	-	279,593	279,593
Contributions	395,276	853,922	-	1,249,198	447,949
Parking and other fees	413,801	-	-	413,801	311,097
Interest income	224,562	-	-	224,562	129,106
Net realized and unrealized gain (loss) on investments	225,400	-	-	225,400	217,365
Other income	187,994	-	-	187,994	191,891
	<u>11,715,850</u>	<u>853,922</u>	<u>-</u>	<u>12,569,772</u>	<u>11,510,691</u>
Net assets released from restrictions	413,962	(413,962)	-	-	-
Total revenue and support	<u>12,129,812</u>	<u>439,960</u>	<u>-</u>	<u>12,569,772</u>	<u>11,510,691</u>
EXPENSES					
Bad debts	60,382	-	-	60,382	67,179
Bank fees	172,318	-	-	172,318	153,423
Board and staff training	125,177	-	-	125,177	65,913
Delivery	18,387	-	-	18,387	19,707
Food	1,362,482	-	-	1,362,482	1,311,579
Insurance, tax and licenses	422,917	-	-	422,917	528,029
Interest and administrative fees	527,341	-	-	527,341	326,611
Legal and accounting	60,725	-	-	60,725	54,152
Member services	149,495	-	-	149,495	109,300
Miscellaneous	108,331	-	-	108,331	186,373
Outside services	44,292	-	-	44,292	155,884
Payroll taxes and benefits	513,325	-	-	513,325	537,766
Rent	107,247	-	-	107,247	104,727
Repairs and maintenance	623,474	-	-	623,474	789,802
Salaries	2,501,224	-	-	2,501,224	2,446,506
Scholarships	113,962	-	-	113,962	107,988
Supplies	150,110	-	-	150,110	175,256
Telephone	124,590	-	-	124,590	157,109
Utilities	893,526	-	-	893,526	876,112
Depreciation and amortization	1,788,225	-	-	1,788,225	1,746,507
Total expenses	<u>9,867,530</u>	<u>-</u>	<u>-</u>	<u>9,867,530</u>	<u>9,919,923</u>
CHANGE IN NET ASSETS	<u>2,262,282</u>	<u>439,960</u>	<u>-</u>	<u>2,702,242</u>	<u>1,590,768</u>
NET ASSETS - beginning of year	<u>27,644,181</u>	<u>966,339</u>	<u>832,997</u>	<u>29,443,517</u>	<u>27,852,749</u>
NET ASSETS - end of year	<u>\$ 29,906,463</u>	<u>\$ 1,406,299</u>	<u>\$ 832,997</u>	<u>\$ 32,145,759</u>	<u>\$29,443,517</u>

See accompanying auditors' report and notes to financial statements.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,702,242	\$ 1,590,768
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	1,788,225	1,746,507
Net realized and unrealized (gain) loss on investments	(225,400)	(217,365)
Bad debt	60,382	67,179
Amortization of premium on bond payable	-	(180,374)
(Increase) decrease in:		
Accounts receivable - net	(712,503)	80,985
Inventory	(826)	(22,740)
Prepaid expenses and other assets	6,123	(29,562)
Increase (decrease) in:		
Accounts payable and accrued expenses	(142,829)	350,165
Other liabilities	426,467	-
Payroll and related liabilities	(5,783)	(15,738)
Deferred revenue	390,906	73,977
Refundable deposits	32,290	(285,564)
Interest payable	2,961	(99,078)
Total adjustments	<u>1,620,013</u>	<u>1,468,392</u>
Net cash provided by operating activities	4,322,255	3,059,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in restricted deposits	-	1,370,400
Net (increase) decrease in investments	(1,711,885)	(5,362,710)
Net (increase) decrease in assets held for others, net	51,847	(58,409)
Payments for construction in progress	(150,546)	(253,013)
Purchase of property and equipment	<u>(2,336,822)</u>	<u>(1,799,946)</u>
Net Cash used in investing activities	<u>(4,147,406)</u>	<u>(6,103,678)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (increase) decrease in deferred financing costs	96,367	(695,469)
Proceeds from bonds and notes payable	-	17,600,000
Repayment on bonds and notes payable	<u>(918,771)</u>	<u>(18,423,380)</u>
Net Cash used in financing activities	<u>(822,404)</u>	<u>(1,518,849)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(647,555)	(4,563,367)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,349,258</u>	<u>9,912,625</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,701,703</u>	<u>\$ 5,349,258</u>
Supplementary information:		
Cash paid for interest	<u>\$ 524,591</u>	<u>\$ 323,861</u>
Supplemental disclosure of non-cash investing activities:		
Construction in progress transferred to property and equipment	<u>\$ 253,013</u>	<u>\$ 63,954</u>

See accompanying auditors' report and notes to financial statements.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

1. ORGANIZATION AND NATURE OF ACTIVITIES

The Berkeley Student Cooperative (BSC) was incorporated on November 21, 1934 as a non-profit corporation for the following purposes:

- To promote the social and general welfare of the community by offering low rent housing to all students of the University of California, Berkeley (the University) regardless of race, creed, color or national origin, and thus influence the community to eliminate prejudice and discrimination in housing.
- To advance the cause of education by providing inexpensive board and lodging for the University students with limited resources.
- To relieve the government of the State of California from the burden of building and operating more state-owned dormitories.
- To engage in a continuous educational program designed to further tolerance through mutual, self-help living at minimal cost.

Membership is open to students and the University staff regardless of race, religion or political affiliation, upon payment of a life membership fee. There is only one class of membership. All members enjoy the same rights and privileges.

The Board of Directors consists of at least one member from each house representing 70 members or fraction thereof, one member of the Alumni Association, one representative from the Employee Association, and up to two additional members of the Alumni Association and/or University faculty.

BSC generates its revenues primarily from room and board and rental income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BSC prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America. The significant accounting and reporting policies used by BSC are described below to enhance the usefulness and understandability of the financial statements.

Accounting Method

The Organization uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of timing of payments.

Financial Statement Presentation

The financial statements are presented based on ASC Topic 958, *Not-for-Profit Entities*. ASC Topic 958, Sections 210 and 225 requires classification of BSC's net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. The statement requires presentation of the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – in the statement of financial position and the amounts of change in each of those classes of net assets in the statement of activities.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted Net Assets* – Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily Restricted Net Assets* – Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. BSC's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by BSC, unless the donor provides more specific directions about the period of its use. At May 31, 2018, temporarily restricted net assets are restricted primarily for capacity building, capital improvements and scholarships.
- *Permanently Restricted Net Assets* – Permanently restricted net assets are resources whose use by BSC is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. At May 31, 2018, permanently restricted net assets were restricted for scholarships, and the principal was to be maintained in perpetuity.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in demand deposit accounts as well as cash on hand. Not included as cash and cash equivalents are funds restricted as to their use, regardless of liquidity. The organization considers all highly liquid investments purchased with an original maturity of three months or less that are not restricted to be cash and cash equivalents. The organization occasionally maintains cash on deposit at banks in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted accounts, was approximately \$4,577,734 as of May 31, 2018. The organization has not experienced any losses in such accounts.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets Held for Others

Certain cash accounts are maintained by the various houses for transactions occurring at the house level. Cash generally is raised from house members and is held in bank accounts under the BSC's name. Expenditures from these accounts must adhere to BSC's policies and are subject to review. A corresponding liability is included in the statement of financial position.

Accounts Receivable - Net

BSC estimates an allowance for credit losses on student account balances that may not be collected. A review is made of each student's unpaid balance at the end of each semester. Based on an assessment of the student's current creditworthiness, an estimate of the balance that may not be collected is made. In addition, an amount of the estimated credit losses on the aggregate remaining accounts receivable is made based on past collection experience. Once all the efforts to collect have been undertaken, the unpaid balance is written off as a charge to the allowance for doubtful accounts. The allowance for doubtful collections was \$151,312 as of May 31, 2018.

Inventory

Inventory, comprised of food, supplies, and furniture, are reported at the lower of cost or market value.

Prepaid Expenses and Other Assets

Prepaid deposits and other costs are expensed ratably over their respective terms of agreement.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Construction in Progress

Construction in progress is stated at cost and generally consists of governmental fees, consulting and professional fees as well as construction costs. These costs are recorded as construction in progress and are not depreciated until the construction project is completed.

Property and Equipment and Deferred Financing Costs

Property and equipment is stated at cost of acquisition or construction, or fair value if donated. Costs of improvements or betterments that increase the value of the property or extend its useful life are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets, except leasehold improvements. Leasehold improvements are stated at cost and are amortized over the shorter of the life of the asset or the terms of the underlying leases.

Deferred financing costs are costs incurred in obtaining debt financing for acquisition or rehabilitation. Deferred financing costs are stated at cost and amortized over the terms of the respective agreements on a straight-line basis. The useful lives of the assets are estimated as follows:

Buildings and site improvements	1 to 40 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	1 to 40 years
Loan and leasing fees	30 years

Deferred Revenue

Rents and fees collected in advance for future period(s) on leases in effect as of year-end.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Contributed Goods and Services

Contributions of goods received that are measurable are recorded as revenue at their estimated fair value when received. Contributions of services are recognized if the services received meet any of these criteria: (1) if they create or enhance nonfinancial assets and (2) if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Revenue Recognition

The Organization's operating revenues are derived primarily from leasing activities. Revenue is recognized monthly over the terms of the respective leases net of vacancy loss.

Contributions are recognized as revenue when they are unconditionally communicated. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

BSC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California income taxes under section 23701(d) of the California Revenue and Taxation Code. The IRS classified the organization as one that is not a private foundation within the meaning of section 509(a) of the Code because it is an organization described in section(s) 509(a)(1) and 170(b)(1)(A)(vi).

BSC has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) Section 740-10, which clarifies the accounting for uncertainty in income taxes. ASC Section 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Section 740-10 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended May 31, 2018, BSC had no material unrecognized tax benefits, tax penalties or interest.

BSC's Forms 990, *Return of Organization Exempt from Income Tax*, for each of the tax years ended May 31; 2017, 2016, and 2015, are subject to examination by the IRS, generally for 3 years after they were filed.

Expense Recognition and Allocation

The cost of providing BSC's programs and other activities is summarized on a functional basis in the footnotes to the financial statements at May 31, 2018 and for the year then ended. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of BSC.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, BSC's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. BSC's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2017 comparative totals have been reclassified to conform with the 2018 reporting format.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Totals

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BSC's financial statements for the year ended May 31, 2017, from which the summarized information was derived.

Fair Value Measurements

BSC reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability 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 asset or liability 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 or liability based on the best information available. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which BSC has access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the terms and relatively short maturity of these financial instruments. The investment categories of stocks, mutual funds, exchange-traded funds, and federal agencies' obligations are valued at quoted market prices, which represent the net asset value of shares held by BSC at year end. The carrying amounts of liabilities, approximate fair value because of the relatively short maturity of these financial instruments.

When available, BSC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018
(CONTINUED)

3. INVESTMENTS

The investments are comprised of the following at May 31, 2018:

Scholarships – Endowment fund and others	\$ 1,873,024
Operating reserves, Capital Improvements Fund, and Growth Fund	<u>9,268,090</u>
Total	<u>\$ 11,141,114</u>

The following summarizes investments by class:

<i>Asset Class</i>	Total	Fair Value Measurement at May 31, 2018 Using		
		<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Mutual funds	\$ 2,785,530	\$ 2,785,530	\$ -	\$ -
Certificates of deposit	-	-	-	-
Exchange-traded funds	4,076,675	4,076,675	-	-
Real Estate	221,769	221,769	-	-
Federal agencies' obligations	<u>4,057,140</u>	<u>4,057,140</u>	-	-
Total	<u>\$ 11,141,114</u>	<u>\$ 11,141,114</u>	<u>\$ -</u>	<u>\$ -</u>

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018
(CONTINUED)

4. RESTRICTED DEPOSITS

Housing Bonds of 1979

Required investments consist of mutual funds stated at fair value (Level 1 input – quoted prices in active markets of identical assets) for the following at May 31, 2018:

Bond fund	\$ 113,740
Repair and replacement reserve	<u>262,963</u>
Total assets restricted to use under bond trust indenture	<u>\$ 376,703</u>

Trust funds were established with U.S. Bank (Trustee) from the proceeds of the Housing Bonds of 1979, as mandated and restricted by the related bond trust indenture. Several funds are required by the bond trust indenture. Amounts currently maturing under the bond trust indenture are shown as restricted deposits in the Statements of Financial Position.

Revenue Fund – held in trust for the benefit of the bondholders and shall receive all revenues from the Fenwick Project. BSC will pay current expenses of the Fenwick Project from this fund. All remaining funds shall be withdrawn and applied in the following order or priority:

- (A) Housing Bond and Interest Sinking Fund Account of 1979 (Bond Fund) – shall be used by the Trustee for the purpose of paying interest on and principal of the bonds as the same become due and payable. Such amounts as are deposited in the Bond Fund to provide or maintain said debt service reserve shall be held by the Trustee in a Debt Service Reserve Fund, which shall be part of the Bond Fund.
- (B) Housing Repair and Replacement Reserve Account of 1979 – shall be maintained through an annual deposit to the Trustee in an amount of \$16,200 or such portion thereof as is available for deposit, until such time as the funds and investments in the Repair and Replacement Reserve Account shall aggregate \$243,000 at or before the close of each fiscal year. Withdrawals are to be used to pay cost of unusual or extraordinary maintenance or repairs or renewals or replacement of any portion of the Fenwick Project, or the cost of renovation or replacement of furniture and equipment not paid as part of the current expenses of the Fenwick Project.

Replacement Reserve Account Held by the University

In connection with the lease agreement between BSC and the University for the Cloyne Court property, BSC was required to maintain a major maintenance reserve account held by the University. The reserve balance was \$240,586 as of May 31, 2018.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018
(CONTINUED)

5. CONSTRUCTION IN PROGRESS AND PROPERTY AND EQUIPMENT, NET

Construction in progress and property and equipment, net consist of the following at May 31, 2018:

Land	\$ 1,445,551
Buildings and improvements	41,409,662
Leasehold improvements	21,502,748
Furniture, fixtures and equipment	3,668,152
Construction in progress	<u>150,546</u>
Total	68,176,660
Less: accumulated depreciation	<u>(34,716,265)</u>
Net, property and equipment	<u>\$ 33,460,394</u>

Depreciation expense for the year ended May 31, 2018 was \$1,716,164.

6. DEFERRED FINANCING COSTS

Deferred financing costs consist of the following at May 31, 2018:

Bonds of 2016 issuance costs	\$ 1,177,004
Less: accumulated amortization	(72,061)
Less: adjust due to interest rate change	<u>(96,367)</u>
Net deferred financing costs	<u>\$ 1,008,576</u>

Amortization expense for the year ended May 31, 2018 was \$72,061.

7. BONDS AND NOTES PAYABLE

In 2016, BSC refinanced its 2007 bonds and has a bonds payable with Wells Fargo Bank, N.A. (WFB) in the original amount of \$17,600,000, (the 2016 series bonds). The interest rate for these bonds as of May, 31, 2018 was 3.634%, with interest and principle payments payable in monthly installments on the first of each month. The original bond proceeds were primarily used for seismic retrofits and disabled access improvements at multiple BSC properties. The bonds are collateralized by deeds of trust and net revenues from multiple properties. Interest expense for 2018 was \$521,341. Interest payable at May 31, 2018 was \$50,745. The principal balance due at May 31, 2018 was \$16,216,437.

BSC obtained Housing Bonds of 1979, in the original amount of \$2,375,000, with interest rate at 3% per annum, payable in semi-annual installments on April 1 and October 1 of each year through April 1, 2019, to U.S. Bank, trustee. Annual principal payments in the amounts as specified in the bond maturity schedule are due on April 1 each year. Bond proceeds were used for the construction of Rochdale II (Fenwick Weavers Village), a HUD project under the college housing program, and are collateralized by net revenues. Interest expense for 2018 was \$6,000. Interest payable at May 31, 2018 was \$3,000. The principal balance due at May 31, 2018 was \$100,000.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

7. BONDS AND NOTES PAYABLE – Continued

Principal payments and/or redemptions on bonds and notes payable for the next five years are estimated as follows:

<u>For the Year Ending May 31,</u>	
2019	\$ 843,939
2020	868,653
2021	896,584
2022	924,145
2023	952,554
Thereafter	<u>11,730,562</u>
Total	<u>\$ 16,216,437</u>

Covenants Compliance

In accordance with the loan and indenture agreements for the 2016 Series Revenue Bonds, Housing Bonds of 1979 (no longer applicable) the Organization is required to meet certain reporting, insurance, and financial covenants. As of May 31, 2018, management believes that BSC was in compliance with all covenants.

8. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets at May 31, 2018 are for the following purposes:

	<u>May 31, 2017</u>	Contributions And Investment Returns	Releases from Restrictions	<u>May 31, 2018</u>
Capacity building	\$ 673,690	\$ 746,961	\$ (300,000)	\$ 1,120,651
Scholarships	292,649	106,961	(113,962)	285,648
Total	<u>\$ 966,339</u>	<u>\$ 853,922</u>	<u>\$ (413,962)</u>	<u>\$ 1,406,299</u>

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018
(CONTINUED)

9. ENDOWMENT FUNDS

As of May 31, 2018, changes in donor-endowed and board-endowed net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at May 31, 2017	\$ 45,851	\$ -	\$ 832,997	\$ 878,848
New designations	106,961	-	-	106,961
Investment return:				
Net loss (realized and unrealized)	64,104	-	-	64,104
Amount appropriated for expenditure	<u>(113,961)</u>	<u>-</u>	<u>-</u>	<u>(113,961)</u>
Balance at May 31, 2018	<u>\$ 102,955</u>	<u>\$ -</u>	<u>\$ 832,997</u>	<u>\$ 935,952</u>

BSC's endowment consists of donor-restricted funds and board-designated funds established for the purpose of providing a permanent endowment for its scholarship program. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of BSC has interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gifts as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, BSC classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 these accounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence of the Act.

In addition, since 1996, the board has been designating a portion of its unrestricted net assets each year to support the permanent endowment for its scholarship program.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018

9. ENDOWMENT FUNDS - Continued

Spending Policies

BSC has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year proceeding the fiscal year in which the distribution is planned. In establishing this policy, BSC considered long-term expected return on its endowment. This is consistent with the Organization's specified term as well as to provide additional real growth through new designations and investment return.

Investment Return Objectives and Risk Parameters

BSC expects its endowment funds, over time, to provide an average rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount. The objective is achieved by adopting an investment policy that attempts to maximize total return consistent with an acceptable level of risk.

10. RETIREMENT PLANS

BSC provides a tax-sheltered annuity retirement plan under Section 403(b) of the Internal Revenue Code to all eligible salaried and regular employees working a minimum of 28 hours per week. Employees are covered by the plan after meeting the plan's service requirement. Eligible employees may also make voluntary contributions to the plan. Employer contributions to the plan equal to 8% of the employees' salary. Employer contributions amounted to \$100,753 at May 31, 2018.

11. COMMITMENTS AND CONTINGENCIES

Leases

BSC leases an apartment building to another entity under a non-cancellable lease agreement which expires in April 2025. The lessee must pay for all property taxes, insurance, repairs and utilities. The lease agreement provides for, among other things, an option for BSC to buy out the lease after ten years (2005) and again after twenty years (2015), under terms described in the lease agreement. The annual minimum rental payments under the agreement for the years from 2014 through 2017 are \$279,588, adjustable every three years under terms described in the agreement. The next lease increase review will be for the period of April 2017 through March 2020, and the revised lease income is calculated based on the lessee's rent collections for the 12 months immediately prior to April 2014. Lease terms also include a \$300,000 payment which is recorded as deferred income and is recognized as rental income on a straight-line basis over twenty years. Gross rentals received by BSC under this lease agreement amounted to \$279,592 at May 31, 2018.

**BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018**

11. COMMITMENTS AND CONTINGENCIES - Continued

BSC leases the following properties from the University:

Cloyne Court

Land and building for an annual rental of \$1 through June 30, 2046. The lease, considered an exchange transaction, calls for BSC to provide housing for students of the University.

Convent

Effective September 1, 2016, the monthly base rent was amended to \$8,400 escalating to \$9,450 through December 31, 2021. As part of the lease agreement with the University, BSC may make building improvements in lieu of paying rent up to \$105,000. Annual rent expense was \$104,580 at May 31, 2018.

Rochdale I

Land lease for an annual rental of \$1 through May 31, 2020. The lease, considered an exchange transaction, calls for BSC to provide housing for students of the University and to carry out certain capital improvements as specified in the third lease amendment which was effective May 17, 2010.

Rochdale II (Fenwick)

Land lease for an annual rental of \$2,667 through June 2019. The lease, considered an exchange transaction, calls for BSC to provide housing for students of the University.

At May 31, 2018, BSC incurred total rent expenses of \$107,247.

Annual lease payments required on the above mentioned leases approximate the following:

<u>For the Year Ending May 31,</u>		
2019	\$	109,557
2020		109,410
2021		66,150
Thereafter		-
Total	<u>\$</u>	<u>285,117</u>

Contracts and Other Commitments

BSC enters into contracts for various routine construction projects. Future costs for these contracts were approximately \$1,851,950 at May 31, 2018.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2018
(CONTINUED)

12. OTHER LIABILITIES

Other liabilities represent a cash adjustment to the bank reconciliation module in the BSC's accounting software equal to all outstanding checks that need to be written off since the BSC began using its current software package. This liability will be reduced in subsequent years as checks are either paid or written off on an annual basis as required.

13. FUNCTIONAL EXPENSES

Expenses for the year ended May 31, 2018 are classified by function as follows:

Program	\$ 8,024,365
Management and general	1,632,785
Fundraising	<u>210,380</u>
Total	<u>\$ 9,867,530</u>

14. SUBSEQUENT EVENTS

BSC has evaluated events subsequent to May 31, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through May 17, 2019, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.