

BERKELEY STUDENT COOPERATIVE
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED MAY 31, 2016

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
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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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015, 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.

Vossin, Hagen + Co.

Calabasas, California
December 15, 2016

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
MAY 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,912,625	\$ 8,828,992
Assets held for others:		
Cash	87,177	119,422
Trading securities	53,717	7,110
Accounts receivable - net	121,882	62,331
Inventory	56,782	38,622
Prepaid expenses and other assets	298,785	331,296
Restricted deposits - current portion		
Bond-related funds	<u>760,450</u>	<u>739,060</u>
Total current assets	11,291,418	10,126,833
Investment in National Cooperative Bank	31,077	31,077
Investments	3,595,952	3,974,675
Restricted deposits - net of current portion		
Bond-related funds	989,531	1,016,685
Replacement reserve held by others	234,433	231,764
Construction in progress	63,954	184,059
Property and equipment - net	32,270,744	31,761,180
Deferred financing costs - net	<u>529,575</u>	<u>554,862</u>
Total assets	\$ 49,006,684	\$ 47,881,135
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 429,816	\$ 441,928
Payroll and related liabilities	28,733	28,733
Assets held for others	147,456	126,532
Deferred revenue	1,368,514	1,285,918
Refundable deposits	793,592	852,842
Interest payable	146,862	150,472
Bonds and notes payable - current portion	<u>613,588</u>	<u>588,588</u>
Total current liabilities	3,528,561	3,475,013
Bonds and notes payable - net of current portion	17,445,000	18,050,000
Premium on bonds payable	<u>180,374</u>	<u>188,962</u>
Total liabilities	21,153,935	21,713,975
NET ASSETS		
Unrestricted		
Board designated - endowment	45,851	102,955
Undesignated	<u>26,007,562</u>	<u>24,264,869</u>
Total unrestricted	26,053,413	24,367,824
Temporarily restricted	966,339	966,339
Permanently restricted	<u>832,997</u>	<u>832,997</u>
Total net assets	<u>27,852,749</u>	<u>26,167,160</u>
Total liabilities and net assets	<u>\$ 49,006,684</u>	<u>\$ 47,881,135</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, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
REVENUE AND SUPPORT					
Board	\$ 2,255,204	\$ -	\$ -	\$ 2,255,204	\$ 2,321,944
Room	5,329,151	-	-	5,329,151	4,997,121
Apartment rentals	2,379,461	-	-	2,379,461	2,436,307
Retail lease income	302,892	-	-	302,892	279,593
Contributions	130,798	311,086	-	441,884	553,176
Parking and other fees	391,353	-	-	391,353	417,272
Interest income	65,049	-	-	65,049	167,154
Net realized and unrealized gain (loss) on investments	(214,029)	-	-	(214,029)	(124,391)
Other income	242,220	-	-	242,220	169,621
	<u>10,882,099</u>	<u>311,086</u>	<u>-</u>	<u>11,193,185</u>	<u>11,217,797</u>
Net assets released from restrictions	<u>311,086</u>	<u>(311,086)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	11,193,185	-	-	11,193,185	11,217,797
EXPENSES					
Bad debts	48,652	-	-	48,652	40,763
Bank fees	139,179	-	-	139,179	133,873
Board and staff training	49,815	-	-	49,815	44,465
Delivery	25,230	-	-	25,230	16,795
Food	1,292,935	-	-	1,292,935	1,341,872
Insurance, tax and licenses	453,586	-	-	453,586	437,912
Interest and administrative fees	910,752	-	-	910,752	940,341
Legal and accounting	53,261	-	-	53,261	54,943
Member services	123,339	-	-	123,339	96,697
Miscellaneous	184,247	-	-	184,247	198,802
Payroll taxes and benefits	460,302	-	-	460,302	539,284
Rent	102,207	-	-	102,207	107,667
Repairs and maintenance	599,645	-	-	599,645	579,939
Salaries	2,236,103	-	-	2,236,103	2,107,118
Scholarships	113,808	-	-	113,808	63,944
Supplies	172,524	-	-	172,524	157,506
Telephone	110,546	-	-	110,546	93,934
Utilities	796,323	-	-	796,323	767,910
Outside services	480	-	-	480	4,200
Depreciation and amortization	1,634,662	-	-	1,634,662	1,609,385
Total expenses	9,507,596	-	-	9,507,596	9,337,350
CHANGE IN NET ASSETS	1,685,589	-	-	1,685,589	1,880,447
NET ASSETS - beginning of year	24,367,824	966,339	832,997	26,167,160	24,286,713
NET ASSETS - end of year	\$ 26,053,413	\$ 966,339	\$ 832,997	\$ 27,852,749	\$26,167,160

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, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,685,589	\$ 1,880,447
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	1,634,662	1,609,385
Net realized and unrealized (gain) loss on investments	214,029	124,391
Bad debt	48,652	40,763
Amortization of premium on bond payable	(8,588)	(8,558)
(Increase) decrease in:		
Accounts receivable - net	(108,203)	(62,091)
Inventory	(18,160)	17,276
Prepaid expenses and other assets	32,511	(87,053)
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,112)	102,274
Payroll and related liabilities	-	3,166
Deferred revenue	82,596	123,303
Refundable deposits	(59,250)	51,431
Interest payable	(3,610)	(3,744)
Total adjustments	<u>1,802,527</u>	<u>1,910,543</u>
Net cash provided by operating activities	3,488,116	3,790,990
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in restricted deposits	3,095	(10,536)
Net (increase) decrease in investments	164,694	193,018
Net (increase) decrease in assets held for others, net	6,562	-
Payments for construction in progress	(63,954)	(184,059)
Purchase of property and equipment	<u>(1,934,880)</u>	<u>(1,565,902)</u>
Net Cash used in investing activities	<u>(1,824,483)</u>	<u>(1,567,479)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment on bonds and notes payable	<u>(580,000)</u>	<u>(546,412)</u>
Net Cash used in financing activities	<u>(580,000)</u>	<u>(546,412)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,083,633	1,677,099
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,828,992</u>	<u>7,151,893</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,912,625</u>	<u>\$ 8,828,992</u>
Supplementary information:		
Cash paid for interest	<u>\$ 901,339</u>	<u>\$ 940,341</u>
Supplemental disclosure of non-cash investing activities:		
Construction in progress transferred to property and equipment	<u>\$ 184,059</u>	<u>\$ 266,062</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, 2016

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 faculty member from the University, two alumni of BSC, and one representative from the employee association.

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, 2016

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, 2016, 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, 2016, 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 \$9,484,234 as of May 31, 2016. The organization has not experienced any losses in such accounts.

Inventories

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

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2016

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.

Certain investments in trading securities held in BSC brokerage accounts are assets of USCA Alumni Association, an independent California nonprofit organization. Since BSC has no control over the usage of the funds, a corresponding liability is included in the Statements of Financial Positions.

Accounts Receivable

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 \$119,907 as of May 31, 2016.

Prepaid Expenses

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

Investment in National Cooperative Bank

Investment in NCB is recorded at cost, which already approximates fair value, as determined by unobservable inputs (Level 3) and any related realized or unrealized gains or losses are reflected in the Statements of Activities.

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.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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

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.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Revenue

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

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, 2016, 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; 2015, 2014, and 2013, 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, 2016 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 2015 comparative totals have been reclassified to conform with the 2016 reporting format.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2016

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, 2015, 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, 2016
(CONTINUED)

3. INVESTMENT IN NATIONAL COOPERATIVE BANK

As of May 31, 2016, BSC holds the following two types of stock investments at the National Cooperative Bank (NCB):

Class B2 Stock

In accordance with the National Consumer Cooperative Bank Act (Bank Act), Class B stocks are to be held by borrowers of NCB and require each patronage-based borrower under Section 108 of the Bank Act to hold Class B stock at the time the loan is made at a par value equal to 1% of its loan amount.

Class B2 stock is Class B stock purchased for cash from NCB prior to June 28, 1984 and Class B stock distributed as part of the NCB's patronage refund distribution. Class B2 stock is non-redeemable, non-transferable and pays no dividend.

Class C Stock

Class C stocks are held only by cooperatives eligible to borrow from NCB. Class C stock is transferable to another eligible holder only with the approval of NCB. Class C stock has voting rights, but such voting rights are limited in accordance with the weighted voting system.

At May 31, 2016, the stated amount of the Class B2 Stock was \$359,250 (3,592 shares with \$100 par value per share). The stated amount of the Class C Stock was \$440,760 (4407 shares with \$100 par value per share).

The costs of BSC's investment in NCB at May 31, 2016 are summarized as follows:

	Cost
Class B2 stocks	\$ 15,586
Class C stocks	15,491
Total	\$ 31,077

There is no established public trading market for any class of the NCB's common stock and it is unlikely that any such market will develop in view of the restrictions on the transfer of the NCB's common stock. Under the NCB's current patronage dividend policy, NCB makes the non-cash portion of the patronage dividend in the form of Class B stock until a patron has holdings of Class B stock of 12.5% of its loan amount; and thereafter, the non-cash portion of the patronage dividend will be issued in the form of Class C stock. The cash portion of each patronage refund, if any, will be determined by the NCB's Board of Directors based upon its determination of the capital requirements of the NCB and other factors, in its discretion.

BERKELEY STUDENT COOPERATIVE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2016

3. INVESTMENT IN NATIONAL COOPERATIVE BANK - Continued

The determination of fair value for the investment in NCB is categorized as Level 3 input and involves a great deal of subjectivity due to the use of unobservable inputs. In addition, determining when a market is no longer active and placing little or no reliance on distressed market prices requires the use of management's judgment. The need for greater management judgment in determining fair values for Level 3 assets has further been heightened by the current challenging economic conditions, which have resulted in significant volatility in the fair values of certain investment securities.

BSC's investments in NCB, recorded at cost, which approximates fair value, have been categorized based upon a fair value hierarchy of inputs in accordance with GAAP. See Note 2 for a discussion of BSC policies. The fair value of BSC's investments in NCB as of May 31, 2016 was not adjusted, based on management's assumption that BSC does not anticipate realizing any future returns from the NCB stocks and will discontinue receiving any additional financing from NCB. No cash patronages have been received since October 2007.

No unrealized gain or loss was recorded for 2016. There were no returns on assets, purchases, sales, and settlements, or transfers in and out of Level 3 during the year ended May 31, 2016.

4. INVESTMENTS

The investments are comprised of the following at May 31, 2016:

Scholarships – Endowment fund and others	\$ 481,238
Operating reserves, capital improvements, and others	<u>3,168,431</u>
Total	<u>\$ 3,649,669</u>

The following summarizes investments by class:

<i>Asset Class</i>	<i>Total</i>	<i>Fair Value Measurement at May 31, 2016 Using</i>		
		<i>Quoted Prices in</i>	<i>Significant</i>	<i>Significant</i>
		<i>Active Markets</i>	<i>Observable</i>	<i>Unobservable</i>
		<i>for Identical</i>	<i>Inputs</i>	<i>Inputs</i>
		<i>Assets</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
		<i>(Level 1)</i>		
Mutual funds	\$ 2,895,586	\$ 2,895,586	\$ -	\$ -
Certificates of deposit	-	-	-	-
Exchange-traded funds	415,456	415,456	-	-
Federal agencies' obligations	<u>338,627</u>	<u>338,627</u>	-	-
Total	<u>3,649,669</u>	<u>3,649,669</u>	-	-
Less alumni balance	<u>(53,717)</u>	<u>(53,717)</u>	-	-
Net, total	<u>\$ 3,595,952</u>	<u>\$ 3,595,952</u>	<u>\$ -</u>	<u>\$ -</u>

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(CONTINUED)

5. RESTRICTED DEPOSITS

2007 Series Revenue Bonds

Required investments at May 31, 2016, consist of money market funds which are summarized as follows:

Reserve account	\$ <u>1,380,497</u>
Total assets restricted to use under bond trust indenture	\$ <u>1,380,497</u>

Trust funds were established with Wells Fargo Bank (Trustee) from the proceeds of California Municipal Finance Authority Revenue Bonds Series of 2007, 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.

- (A) Bond Fund – held in trust for the benefit of the bondholders. The bond fund is further divided as follows:
- (1) Interest Account – shall be used and withdrawn solely for the purpose of paying interest on the Bonds as it shall become due and payable.
 - (2) Principal Account – shall be used and withdrawn solely for the purpose of paying the principal or Mandatory Sinking Account payments of the Bonds when due and payable and is consist of a:
 - (a) Mandatory Sinking Fund – funds within the Bond Fund to be used for mandatory redemption of bonds, in part, by lot, maturing on 3 dates: April 1, 2022, April 1, 2027 and April 1, 2037.
 - (3) Reserve Account – shall be used and withdrawn solely for the purpose of making up any deficiency in the Interest Account or the Principal Account, or for the payment or redemption of all Outstanding Bonds.
- (B) Redemption Fund – held in trust for the benefit of the bondholders. The bond fund is further divided as follows:
- (1) Optional Redemption Account – funds to be used to subject bonds maturing on or after April 1, 2018 for redemption prior to their respective maturity dates, as a whole or in part, on any date on or after April 1, 2017.
 - (2) Special Redemption Account – funds to be used to subject bonds to redemption prior to their stated maturity, as a whole or in part on any date, in inverse order of maturity and by lot within a maturity, from insurance and condemnation proceeds, at the principal amount together with interest accrued without premium.
- (C) Rebate Fund – maintained separately from any other fund for compliance with the Tax Agreement and used to satisfy the Rebate Requirement, which is calculated every fifth year after bond issuance.

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5. RESTRICTED DEPOSITS - Continued

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, 2016:

Bond fund	\$ 111,557
Repair and replacement reserve	<u>257,927</u>
Total assets restricted to use under bond trust indenture	<u>\$ 369,484</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 \$234,433 as of May 31, 2016.

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6. CONSTRUCTION IN PROGRESS AND PROPERTY AND EQUIPMENT, NET

Construction in progress and property and equipment, net consist of the following at May 31, 2016:

Land	\$ 1,445,551
Buildings and improvements	45,863,106
Leasehold improvements	12,825,149
Furniture, fixtures and equipment	3,442,115
Construction in progress	<u>63,954</u>
Total	63,639,875
Less: accumulated depreciation	<u>(31,305,177)</u>
Net, property and equipment	<u>\$ 32,334,698</u>

BSC's properties serve as collateral for related debt as described in Note 8.

Depreciation expense for the year ended May 31, 2016 was \$1,609,375.

7. DEFERRED FINANCING COSTS

Deferred financing costs consist of the following at May 31, 2016:

Bonds of 2007 issuance costs	\$ 758,612
Less: accumulated amortization	<u>(229,037)</u>
Net deferred financing costs	<u>\$ 529,575</u>

Amortization expense for the year ended May 31, 2016 was \$25,287.

8. BONDS AND NOTES PAYABLE

BSC has a bonds payable with Wells Fargo Bank, N.A. (WFB) in the original amount of \$20,000,000, with interest at rates ranging from 4.125% to 5.00%, payable in semi-annual installments on April 1 and October 1 of each year through 2037. The bonds mature in April 2012 through 2037. Bond proceeds are primarily used for the remodeling of multiple buildings of BSC. The bonds are collateralized by deeds of trust and net revenues from multiple properties. Interest expense for 2016 was \$890,989. Interest payable at May 31, 2016 was \$145,133. The principal balance due at May 31, 2016 was \$17,763,588.

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 2016 was \$10,350. Interest payable at May 31, 2016 was \$1,729. The principal balance due at May 31, 2016 was \$295,000.

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8. BONDS AND NOTES PAYABLE – Continued

Original proceeds from the WFB bonds were increased by a bond premium of \$257,635 with an effective interest rate of 4.55%, to be amortized over the term of the loan. Interest expense for the WFB bonds was net of premium amortization of \$8,588 for 2016. The unamortized premium on the WFB bonds payable was \$180,374 as of May 31, 2016.

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

For the year ending May 31,		
2017	\$	613,588
2018		638,588
2019		663,588
2020		588,588
2021		618,588
Thereafter		<u>15,116,022</u>
Total	\$	<u>18,238,962</u>

Covenants Compliance

In accordance with the loan and indenture agreements for the 2007 Series Revenue Bonds, Housing Bonds of 1979 and unsecured NCB Notes, the Organization is required to meet certain reporting, insurance, and financial covenants. As of May 31, 2016, management believes that BSC was in compliance with all covenants.

9. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets at May 31, 2016 are for the following purposes:

	May 31, 2015	Contributions And Investment Returns	Releases from Restrictions	May 31, 2016
Capacity building	\$ 673,690	\$ 267,197	\$ (267,197)	\$ 673,690
Scholarships	292,649	43,889	(43,889)	292,649
Total	<u>\$ 966,339</u>	<u>\$ 311,086</u>	<u>\$ (311,086)</u>	<u>\$ 966,339</u>

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10. ENDOWMENT FUNDS

As of May 31, 2016, 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, 2016	\$ 102,955	\$ -	\$ 832,997	\$ 935,952
New designations	103,361	-	-	103,361
Investment return:				
Net loss (realized and unrealized)	(46,657)	-	-	(46,657)
Amount appropriated for expenditure	<u>(113,808)</u>	<u>-</u>	<u>-</u>	<u>(113,808)</u>
Balance at May 31, 2016	<u>\$ 45,851</u>	<u>\$ -</u>	<u>\$ 832,997</u>	<u>\$ 878,848</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.

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10. ENDOWMENT FUNDS - Continued

Spending Policies

BSC has a policy of appropriating for distribution each year 3% to 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar 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.

11. 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 \$72,590 at May 31, 2016.

12. 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, 2016.

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12. 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 January 1, 2013, the monthly based rent was amended \$7,770 escalating to \$8,400 through August 31, 2016. As part of the agreement with the University, BSC may make building improvements in lieu of paying rent up to \$30,000. Annual rental expense was \$105,000 at May 31, 2016.

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, 2016, BSC incurred total rent expenses of \$102,207.

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

For the year ending May 31,		
2017	\$	104,517
2018		107,037
2019		109,557
2020		112,077
2021		114,597
Thereafter		68,817
Total		<u>\$ 616,602</u>

Contracts and Other Commitments

BSC enters into contracts for various routine construction projects. Future costs for these contracts were approximately \$475,000 at May 31, 2016.

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13. FUNCTIONAL EXPENSES

Expenses for the year ended May 31, 2016 are classified by function as follows:

Program	\$ 7,583,668
Management and general	1,762,062
Fundraising	<u>161,866</u>
Total	<u>\$ 9,507,596</u>

14. SUBSEQUENT EVENTS

BSC refinanced the 2007 Bonds in September of 2016. The refinancing of the remaining debt of \$17,600,000 resulted in an interest rate reduction to 2.99% fixed over 17 years. This resulted in a net present value savings of \$3.1 million dollars and allows for the BSC to pay off the debt 4 years earlier. The BSC was able to negotiate a favorable loan to value ratio of approximately 56%, maintained the ability to borrow up to an additional \$2 million dollars and is no longer required to maintain a pledged account.