

Eastern Nazarene College
Financial Statements for the year ending June 30, 2019
Summary of the Financial Report

Overview

The audited financial statements for the year ending June 30, 2019 were reviewed and accepted by the Audit Committee of the Board of Trustees. The opinion of our independent audit firm, O'Connor & Drew P.C. is that the financial statements present fairly, in all material respects, the financial position of Eastern Nazarene College as of June 30, 2019. The following discussion and analysis provides a narrative summary of the financial statements.

Statement of Financial Position (Total Assets, Liabilities, and Net Assets)

Total assets of the College were \$49.3 million, down \$4.5 million or 8% from \$53.8 million the prior year-end. The reduction in assets was primarily attributable to a special payment of \$2.6 million to reduce long-term debt and operating losses of \$1.4 million. Our unrestricted cash and equivalents decreased by \$4.1 million to \$0.6 million for the same reasons. Much of the prior year cash balance of \$4.7 million was from asset sales earmarked for debt reduction.

Total Liabilities were \$24 million down \$2.9 million or 11% from the prior year. The reduction in debt accounts for the reduction in liabilities. Overall total debt was \$21.2 million, down by \$3.2 million from \$24.4 million. Of the \$21.2 million in debt, \$18.2 million is long term debt and \$3.0 million is a line of credit. Interest on debt was \$875,000, down from \$1,019,000 the prior year.

Our net assets of \$25.3 million were down \$1.6 million from \$26.9 million. Endowment assets were flat at \$19.4 million. At the same time the endowment provided funding of \$1.15 million for student scholarships, instructional, academic and general support in accordance with donor restrictions. Unrestricted net assets decreased \$1.7 million from \$7.5 million to \$5.8 million. The decrease in unrestricted net assets is primarily attributable to a \$1.4 million operating loss.

Statement of Activities (Operating and Non-operating Results)

Our FY19 operating loss was \$1.4 million, compared to a loss of \$1.8 million the prior year. Operating revenues were \$18.3 million up \$0.5 million or 3%, due primarily to higher auxiliary revenues and net assets released from restrictions. At the same time, operating expenses were \$19.7 million up \$0.2 million or 1% from the prior year.

In addition, we experienced non-operating losses of \$0.8 million, resulting primarily endowment payments for student scholarships, instructional, academic and general support of \$1.15 million in excess of \$750,000 in earnings on the endowment portfolio.

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Statement of Financial Position (Total Assets, Liabilities, and Net Assets)

Total assets of the College were \$41.3 million, down \$8 million or 16% from \$49.3 million the prior year-end. The large reduction in assets was attributable to operating losses of nearly \$4 million and the sale of the 180 Old Colony investment property to the City of Quincy for \$6.8 million. Unrestricted cash and equivalents decreased to \$0.4 million from \$0.6 million.

Total Liabilities were \$20.9 million down \$3.1 million or 13% from the prior year. Overall total debt was \$18.6 million, down by \$2.6 million from \$21.2 million. Proceeds of \$4.0 million from the sale of 180 Old Colony was used to reduce our line of credit from \$3.0 million to \$1.5 million, and \$2.5 million was used to reduce our long term debt to \$15.1 million. Total bank debt principal payments of \$4.6 million were partially offset by a Paycheck Protection Program (PPP) loan of \$2 million. Interest on debt was \$818,000, down from \$875,000 the prior year.

Our net assets of \$20.3 million were down \$5.0 million from \$25.3. Endowment assets decreased \$834,000 from \$19.4 million to \$18.6 million. At the same time the endowment provided funding of \$1.3 million for student scholarships, instructional, academic and general support in accordance with donor restrictions. Unrestricted net assets decreased \$4.1 million from \$5.8 million to \$1.7 million. The decrease in unrestricted net assets is primarily attributable to an operating loss of nearly \$4 million.

Statement of Activities (Operating and Non-operating Results)

Our FY20 operating loss was \$4.0 million, compared to a loss of \$1.4 million the prior year. Operating revenues of \$16.8 million were down \$1.45 million or 8%, due primarily to \$0.9 million in lower tuition and fee revenue and a \$0.4 million reduction in unrestricted gifts. At the same time, operating expenses of \$20.8 million were up \$1.1 million or 5% from the prior year.

In addition, we experienced non-operating losses of nearly \$1 million, resulting primarily from minimal earnings on the endowment portfolio (due to losses on residential real estate properties) against \$1.3 million of payments for student scholarships, instructional, academic and general support.

EASTERN NAZARENE COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2020

EASTERN NAZARENE COLLEGE

Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Eastern Nazarene College
Quincy, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of Eastern Nazarene College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Nazarene College as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the College adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting guidance for Contributions Received and Contributions Made (Topic 958)*, and ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. Additionally, as discussed in Note 3, due to a change in circumstances the College has reclassified certain real estate from property and equipment to investments. Our opinion is not modified with respect to that matter.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility supplemental schedule and disclosures on pages 33-35 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Internal Control

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 (except for Notes 9 and 17, for which the date is December 22, 2020), on our consideration of Eastern Nazarene College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Certified Public Accountants
Braintree, Massachusetts

October 19, 2020

(except for Notes 9 and 17, for which the date is December 22, 2020)

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30, 2020 and 2019

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30,

Assets

	<u>2020</u>	Restated <u>2019</u>
Current Assets:		
Cash and equivalents	\$ 413,283	\$ 581,745
Restricted cash and equivalents	1,718,537	310,054
Cash held in escrow	994,695	-
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of \$817,415 and \$615,256 at 2020 and 2019, respectively	1,201,019	893,534
Pledges receivable, net	98,926	123,171
Other receivables	210,701	456,232
Perkins loans receivable, net of allowance for doubtful accounts of \$225,246 at 2020 and 2019	472,202	577,435
Prepays and other assets	262,406	335,342
Investments	18,427,654	28,225,822
Assets held in trust by others	207,214	212,707
Debt service reserve funds held by bond trustee	965,535	958,504
Property and equipment, net	<u>16,287,646</u>	<u>16,616,901</u>
Total Assets	<u>\$ 41,259,818</u>	<u>\$ 49,291,447</u>

Liabilities and Net Assets

Liabilities:		
Line of credit	\$ 1,500,000	\$ 3,000,000
Accounts payable and accrued expenses	1,483,263	1,972,846
Deferred revenues and student deposits	264,643	130,157
Paycheck Payroll Protection Loan	2,034,615	-
Long-term debt	15,135,862	18,208,142
Advances from the United States Department of Education	<u>505,712</u>	<u>723,805</u>
Total Liabilities	<u>20,924,095</u>	<u>24,034,950</u>
Net Assets:		
Without donor restrictions	1,736,219	5,823,148
With donor restrictions	<u>18,599,504</u>	<u>19,433,349</u>
Total Net Assets	<u>20,335,723</u>	<u>25,256,497</u>
Total Liabilities and Net Assets	<u>\$ 41,259,818</u>	<u>\$ 49,291,447</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues:			
Tuition and fees	\$ 17,551,654	\$ -	\$ 17,551,654
Less: financial aid	(9,983,191)	-	(9,983,191)
Net tuition and fees	7,568,463	-	7,568,463
Gifts and grants	868,671	493,365	1,362,036
Church gifts	1,377,944	-	1,377,944
Auxiliary enterprises	5,305,517	-	5,305,517
Government grants	172,389	-	172,389
Other revenues	106,159	9,058	115,217
Net assets released from restrictions	1,435,443	(1,435,443)	-
Total Revenues and Other Support	16,834,586	(933,020)	15,901,566
Expenses:			
Program Expenses:			
Instructional	4,698,285	-	4,698,285
Student services	3,886,117	-	3,886,117
Academic support	382,114	-	382,114
Auxiliary enterprises	2,482,788	-	2,482,788
Total Program Expenses	11,449,304	-	11,449,304
Supporting Services Expenses:			
Management and general	7,588,970	-	7,588,970
Fundraising	937,437	-	937,437
Interest	817,719	-	817,719
Total Supporting Services Expenses	9,344,126	-	9,344,126
Total Operating Expenses	20,793,430	-	20,793,430
Changes in Net Assets from Operating Activities	(3,958,844)	(933,020)	(4,891,864)
Non-Operating Activities:			
Net investment income	(422,135)	104,668	(317,467)
Changes in the value of assets held in trust by others	-	(5,493)	(5,493)
Net rental income	294,050	-	294,050
Changes in Net Assets from Non-Operating Activities	(128,085)	99,175	(28,910)
Changes in Net Assets	\$ (4,086,929)	\$ (833,845)	\$ (4,920,774)

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

EASTERN NAZARENE COLLEGE

Statements of Activities - Continued

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues:			
Tuition and fees	\$ 18,505,372	\$ -	\$ 18,505,372
Less: financial aid	(10,025,105)	-	(10,025,105)
Net tuition and fees	8,480,267	-	8,480,267
Gifts and grants	1,250,569	570,531	1,821,100
Church gifts	1,458,828	-	1,458,828
Auxiliary enterprises	5,446,457	-	5,446,457
Government grants	163,915	-	163,915
Other revenues	170,196	13,822	184,018
Net assets released from restrictions	1,315,729	(1,315,729)	-
Total Revenues and Other Support	18,285,961	(731,376)	17,554,585
Expenses:			
Program Expenses:			
Instructional	4,630,065	-	4,630,065
Student services	3,590,597	-	3,590,597
Academic support	418,540	-	418,540
Auxiliary enterprises	2,476,823	-	2,476,823
Total Program Expenses	11,116,025	-	11,116,025
Supporting Services Expenses:			
Management and general	6,705,345	-	6,705,345
Fundraising	1,021,044	-	1,021,044
Interest	874,982	-	874,982
Total Supporting Services Expenses	8,601,371	-	8,601,371
Total Operating Expenses	19,717,396	-	19,717,396
Changes in Net Assets from Operating Activities	(1,431,435)	(731,376)	(2,162,811)
Non-Operating Activities:			
Net investment income	(942,117)	718,643	(223,474)
Changes in the value of assets held in trust by others	-	(2,965)	(2,965)
Net rental income	169,700	-	169,700
Changes in Net Assets from Non-Operating Activities	(772,417)	715,678	(56,739)
Changes in Net Assets	\$ (2,203,852)	\$ (15,698)	\$ (2,219,550)

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

EASTERN NAZARENE COLLEGE

Statements of Changes in Net Assets

For the Years Ended June 30, 2020 and 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Balance at June 30, 2018, as previously reported	\$ 7,478,000	\$ 19,449,047	\$ 26,927,047
Restatement - See Note 3	<u>549,000</u>	<u>-</u>	<u>549,000</u>
Balance at June 30, 2018, as restated	8,027,000	19,449,047	27,476,047
Changes in net assets	<u>(2,203,852)</u>	<u>(15,698)</u>	<u>(2,219,550)</u>
Balance at June 30, 2019, as restated	5,823,148	19,433,349	25,256,497
Changes in net assets	<u>(4,086,929)</u>	<u>(833,845)</u>	<u>(4,920,774)</u>
Balance at June 30, 2020	<u>\$ 1,736,219</u>	<u>\$ 18,599,504</u>	<u>\$ 20,335,723</u>

See accompanying notes to the financial statements.

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses

For the Year Ended June 30, 2020

	<u>Program Services</u>				<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Instructional</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>Auxiliary Enterprises</u>			
Expenses:							
Salaries and wages	\$ 3,016,516	\$ 2,138,564	\$ 280,137	\$ 924,867	\$ 2,376,720	\$ 443,497	\$ 9,180,301
Other fees	659,023	183,196	-	875,697	729,220	3,000	2,450,136
Employee benefits	499,734	355,879	39,630	98,139	1,083,555	63,737	2,140,674
Depreciation and amortization	24,037	130,568	-	311,522	909,563	-	1,375,690
Interest	-	-	-	-	817,719	-	817,719
Office	81,132	182,981	6,513	19,199	384,720	81,031	755,576
Occupancy	12,727	69,133	-	164,944	481,594	-	728,398
Advertising and promotion	3,534	235,838	22,240	2,194	68,664	278,291	610,761
Payroll taxes	216,284	141,710	15,370	42,577	163,542	30,410	609,893
Miscellaneous	39,576	174,017	2,372	34,136	317,981	8,199	576,281
Retirement	133,386	87,440	11,350	-	100,502	10,679	343,357
Scholarships	-	-	-	-	303,696	-	303,696
Insurance	200	16,678	-	9,366	270,922	-	297,166
Travel	12,049	169,991	23	147	19,902	18,298	220,410
Information technology	-	-	-	-	207,122	-	207,122
Professional fees	-	-	-	-	171,134	-	171,134
Conference	87	122	4,479	-	133	295	5,116
Total	<u>\$ 4,698,285</u>	<u>\$ 3,886,117</u>	<u>\$ 382,114</u>	<u>\$ 2,482,788</u>	<u>\$ 8,406,689</u>	<u>\$ 937,437</u>	<u>\$ 20,793,430</u>

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

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses - Continued

For the Year Ended June 30, 2019

	Program Services				Management and General	Fundraising	Total
	<u>Instructional</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>Auxiliary Enterprises</u>			
Expenses:							
Salaries and wages	\$ 3,037,371	\$ 1,836,178	\$ 313,185	\$ 810,018	\$ 2,185,055	\$ 429,023	\$ 8,610,830
Employee benefits	853,062	361,466	40,690	75,023	961,415	63,570	2,355,226
Other fees	277,734	91,814	-	1,029,553	443,414	3,076	1,845,591
Depreciation and amortization	11,257	136,709	-	280,548	899,598	-	1,328,112
Office	86,807	194,011	7,577	19,367	520,408	80,493	908,663
Interest	-	-	-	-	874,982	-	874,982
Occupancy	7,215	87,618	-	179,806	576,560	-	851,199
Advertising and promotion	7,767	387,618	5,619	1,472	34,461	257,504	694,441
Payroll taxes	219,497	120,472	17,050	37,698	145,995	31,595	572,307
Miscellaneous	12,848	63,135	12,040	36,834	135,453	114,432	374,742
Retirement	113,710	74,344	12,801	-	98,588	15,344	314,787
Travel	2,243	216,350	3,000	-	38,570	26,007	286,170
Insurance	-	19,453	-	6,504	256,450	-	282,407
Professional fees	-	-	-	-	201,051	-	201,051
Scholarships	-	-	-	-	107,475	-	107,475
Information technology	-	-	-	-	100,583	-	100,583
Conference	554	1,429	6,578	-	269	-	8,830
Total	<u>\$ 4,630,065</u>	<u>\$ 3,590,597</u>	<u>\$ 418,540</u>	<u>\$ 2,476,823</u>	<u>\$ 7,580,327</u>	<u>\$ 1,021,044</u>	<u>\$ 19,717,396</u>

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

EASTERN NAZARENE COLLEGE

Statements of Cash Flows

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (4,920,774)	\$ (2,219,550)
Adjustments to reconcile changes in net assets to net cash provided by (applied to) operating activities:		
With donor restricted contributions held in perpetuity	(390,190)	(401,204)
Depreciation	1,358,464	1,308,139
Amortization	17,226	19,973
Bad debts	457,667	(177,206)
Realized and unrealized investment gains, net	367,326	317,705
Changes in the value of assets held in trust by others	5,493	2,965
Changes in operating assets and liabilities:		
Student accounts, pledges, and other receivables	(495,376)	(321,215)
Prepays and other assets	72,936	24,046
Collections of Perkins loans	105,233	200,087
Change in advances from the United States Department of Education	(218,093)	(35,475)
Accounts payable and accrued expenses	(489,583)	284,897
Deferred revenues and student deposits	<u>134,486</u>	<u>23,939</u>
Net Adjustments	<u>925,589</u>	<u>1,246,651</u>
Net Cash Applied to Operating Activities	<u>(3,995,185)</u>	<u>(972,899)</u>
Cash Flows from Investing Activities:		
Advance to debt service reserve fund held by bond trustee	(7,031)	(6,971)
Property and equipment acquisitions	(1,029,209)	(743,328)
Proceeds from sale of investments	14,494,048	5,998,656
Purchases of investments	<u>(5,063,206)</u>	<u>(5,283,459)</u>
Net Cash Provided by (Applied to) Investing Activities	<u>8,394,602</u>	<u>(35,102)</u>
Cash Flows from Financing Activities:		
With donor restricted contributions held in perpetuity	390,190	401,204
Advances on (payments to) line of credit, net	(1,500,000)	-
Proceeds from Paycheck Protection Program loan	2,034,615	-
Principal payments on long-term debt	<u>(3,089,506)</u>	<u>(3,171,313)</u>
Net Cash Applied to Financing Activities	<u>(2,164,701)</u>	<u>(2,770,109)</u>
Net Increase (Decrease) in Cash and Equivalents	2,234,716	(3,778,110)
Cash and Equivalents, Beginning of Year	<u>891,799</u>	<u>4,669,909</u>
Cash and Equivalents, End of Year	\$ 3,126,515	\$ 891,799
Cash and Equivalents Consist Of The Following At June 30:		
Cash and equivalents	\$ 413,283	\$ 581,745
Restricted cash and equivalents	1,718,537	310,054
Cash held in escrow	<u>994,695</u>	<u>-</u>
Total	\$ 3,126,515	\$ 891,799
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 821,864</u>	<u>\$ 875,761</u>

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements

June 30, 2020 and 2019

Note 1 - **Organization**

Eastern Nazarene College (the “College”), located in Quincy, Massachusetts, is a Christian liberal arts four-year institution affiliated with the International Church of the Nazarene. The College is accredited by the New England Commission of Higher Education and offers more than forty traditional undergraduate programs and nine other programs including graduate and adult studies degree completion and certificate programs. The total student population of approximately 800 is principally drawn from the New England area. The College’s mission is to provide a quality education in a distinctly Christian environment.

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

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (COVID-19) as a pandemic. On March 17, 2020, the College transitioned students to a distant learning environment for the completion of the 2020 spring semester, and the 2020 summer semester was taught online.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The College was awarded \$761,414 of which 50% (or half) is required to be distributed to students affected by the COVID-19 crisis as emergency grants and the other half is required by the College to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants.

As of June 30, 2020, the College expended \$360,650 for emergency grants to students and \$31,709 for institutional costs from the HEERF funds.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Basis of Presentation

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

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

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

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

Measure of operations

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable, value of investments, categories in the fair value hierarchy, estimating depreciation, amortization and the recoverability of long-lived assets.

Cash and Equivalents

Cash and equivalents include all highly liquid debt instruments with maturities of three months or less and include banks deposits and money market funds.

Restricted Cash and Equivalents

Restricted cash and equivalents includes donor restricted monies held in the endowment and monies held by the College restricted by the United States Government for use as part of the Federal Perkins Loan Program.

Cash Held in Escrow

Cash held in escrow relates to cash held by a financial institution from the sale of certain real estate investments. These funds become available to the College upon meeting certain stipulations of the financial institution.

Allowance for Doubtful Accounts

Student accounts and Perkins Loans are periodically evaluated for collectability based on past experience and history with students. Other receivables are evaluated for collectability and an allowance for doubtful accounts is established as needed. For the years ended June 30, 2020 and 2019, management did not deem it necessary to establish an allowance for other receivables.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Pledges Receivable

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

Investments

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

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

Assets Held in Trust by Others

The College is named as the beneficiary of several charitable remainder trusts and charitable gift annuities, as well as an irrevocable trust, all of which are administered by a third party. The irrevocable trust is reported in net assets with donor restrictions, and the reported value is measured by the fair market value based on quoted market prices of the trust assets. The charitable remainder trusts and charitable gift annuities are reported in net assets with donor restrictions at the present value of the estimated future benefit to be received when the assets are distributed.

Property and Equipment

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Other Assets

Other assets consist of prepaid expenses, bookstore inventory, and other supplies. Inventories are stated at the lower of cost or market, and cost is determined using the first-in, first-out method.

Deferred Revenues and Student Deposits

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

Tuition and Fees

Tuition and Fees are recognized as revenue when earned. revenue is recorded as earned at the College's established rates, net of financial aid and endowment scholarships provided directly by the College to students.

Advances from the United States Department of Education

Advances from the United States Department of Education include funds advanced to the College under the Federal Perkins Loan Program ("Perkins"). Perkins funds have been made available mostly from the ED and, to a much lesser extent, an institutional match of funds to support what in the past had been a revolving loan fund. The amounts advanced by the ED are generally refundable subject to certain adjustments and thus are reflected as an obligation. The College is no longer lending under this program as the program is no longer available for student loans.

Fair Value Measurements

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

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for similar assets or liabilities in inactive |

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

markets;

- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

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

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

Management establishes the fair value measurement valuation policies for the valuation of all investments and assets held in trust by others. Annually, at a minimum, management reviews the continuing viability of the valuation techniques used to establish fair value measurements and evaluates and adjusts, as necessary, the unobservable inputs used in the fair value measurements based on current market conditions and other third-party information.

Endowment Funds

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor-restricted funds and focuses on the prudent spending of the entire donor-restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA’s requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor’s intended purpose of the endowment fund, stipulated or otherwise.

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The College's investment policy for endowment funds establishes a primary objective to invest with an emphasis upon consistency of performance, moderate volatility, and a balance between capital appreciation, preservation of capital, and current income. The intent of this goal is to preserve, over time, the principal value of assets as measured in real, inflation-adjusted terms.

The College's endowment funds are primarily for the awarding of scholarships. The goal of the College's endowment spending and distribution policy is to preserve the purchasing power of the endowment and provide predictable support of operations and scholarships. Under this policy, as approved by the Board of Trustees, scholarship and support funds target 3-5% spend calculated on a trailing three-year average of the fund balances associated with the endowment.

From time to time, the fair values of endowment fund assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained for a perpetual duration. The decline below the required perpetual duration, commonly referred to as "underwater", is reported as losses within net assets with donor restrictions. The Board of Trustees have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2020 and 2019, the College did not have endowment funds below the amount of the donor-required levels.

Gifts and Grants

Contributions are recognized as revenue when the conditions contained in the respective agreements have been met. Contributions are conditional if there is a barrier that must be overcome before the recipient is entitled to the asset transferred and the donor has the right to request the asset back if it was not used properly.

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding the purpose and how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Church Gifts

Amounts collected from individual Nazarene churches in the Northeast region are given to the College on an annual basis.

Income Taxes

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

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

Advertising

The College charges the cost of advertising to expenses as incurred.

Compensated Absences

Employees earn the right to be compensated during absences for vacation. Accrued vacation is the amount earned by all eligible employees through June 30, 2020 and 2019. Accordingly, the College's policy is to expense compensated absences when actually paid to employees.

Functional Allocations of Expenses

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

Adoption of New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The purpose of this pronouncement is to provide guidance in determining whether transactions are non-exchange (within the scope of Topic 958) or exchange (within the scope of Topic 606) and determining whether contributions are conditional. The College adopted the provisions of ASU 2018-08 for contributions received on a modified prospective basis as of July 1, 2019.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Therefore, it is applied to any remaining portion of existing agreements not yet recognized as of July 1, 2019, in addition to all new agreements entered into after that date. The adoption of this pronouncement did not have a material effect on these financial statements. The College will adopt the provisions for contributions made on July 1, 2020 and does not expect a significant impact on its financial statements.

FASB issued ASU 2016-18, *Restricted Cash (Topic 230)*. The purpose of this pronouncement is to provide guidance on the classification of restricted cash in the statement of cash flows. The College adopted the provisions of ASU 2016-18 on a retrospective basis as of July 1, 2018 and did not necessitate an adjustment to net assets in the prior period.

New Accounting Pronouncements

FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and additional ASUs containing modifications to ASU 2014-09 (collectively referred to as “the new revenue recognition standard”). It is effective for periods beginning after December 15, 2019 for non-public companies. The purpose of the new revenue recognition standard is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. It requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition.

FASB issued ASU 2016-02, *Leases*, which is effective for periods beginning after December 15, 2021. The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded.

FASB issued ASU 2018-13 *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which is effective for periods beginning after December 15, 2019. Implementation of this standard will add, modify, or eliminate certain fair value instrument disclosures.

FASB issued ASU 2019-03, *Updating the Definition of Collections*, which is effective for periods beginning after December 15, 2019. Implementation of this standard will expand the definition of collections to allow the sale of collections to be used for the direct care of existing collections.

Management is in the process of evaluating these pronouncements and has not yet determined their impact on the financial statements.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Reclassification**

Due to a change in circumstance, the College has elected to reclassify certain real estate from property and equipment with an immaterial net book value to investments. Real estate that had previously been used for the mission of the College is now deemed to be investment property and treated as such. To enhance the comparability of the financial statements the 2019 presentation has been restated to reflect this change in circumstances.

The table below presents the effects of the reclassification to the previously issued financial statements.

Statement of Net Position:	<u>As Previously Reported</u>	<u>Reclassification</u>	<u>As Restated</u>
<i>June 30, 2019</i>			
Investments	\$ 27,676,822	\$ 549,000	\$ 28,225,822
Net Assets -			
Without Donor Restrictions	\$ 5,274,148	\$ 549,000	\$ 5,823,148
<i>June 30, 2018</i>			
Net Assets -			
Without Donor Restrictions	\$ 7,478,000	\$549,000	\$ 8,027,000

Note 4 - **Pledges Receivable**

Discount rates of approximately 0.50% have been applied to pledges due in years subsequent to both years ending June 30, 2020 and 2019. Pledges receivable consist of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 25,000	\$ 25,000
Due in two to five years	<u>75,000</u>	<u>100,000</u>
	100,000	125,000
Less: discount to net present value	<u>1,074</u>	<u>1,829</u>
	<u>\$ 98,926</u>	<u>\$ 123,171</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Fair Value Measurements**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Public Securities: Market value using quoted market prices.

Privately Held Securities: Estimated values based on security type.

Mutual Funds: Net asset value of the shares held at fiscal year-end.

Real Estate: Market value using current year appraised values produced by a qualified realtor based on sales in a competitive market under all conditions requisite to a sale between unrelated parties.

Limited Partnerships: Valuations are calculated by the investment manager and take into account the fund's underlying assets.

Assets Held in Trust by Others: Either market value using quoted market prices or net asset value of the shares held at fiscal year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The following tables set forth, by level, the College's assets:

	<u>June 30, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,163,438	\$ -	\$ -	\$ 1,163,438
Mutual Funds	1,521,310	-	-	1,521,310
Real Estate	-	15,707,371	-	15,707,371
Limited partnerships	-	-	31,535	31,535
	<u>2,684,748</u>	<u>15,707,371</u>	<u>31,535</u>	<u>18,423,654</u>
Non-recurring Basis:				
Privately held securities	-	-	4,000	4,000
Total Investments	<u>\$ 2,684,748</u>	<u>\$ 15,707,371</u>	<u>\$ 35,535</u>	<u>\$ 18,427,654</u>
Assets held in trust by others	<u>\$ 207,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,214</u>
				Restated
				<u>June 30, 2019</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,201,209	\$ -	\$ -	\$ 1,201,209
Mutual Funds	3,482,773	-	-	3,482,773
Real Estate	-	23,486,855	-	23,486,855
Limited partnerships	-	-	50,985	50,985
	<u>4,683,982</u>	<u>23,486,855</u>	<u>50,985</u>	<u>28,221,822</u>
Non-recurring Basis:				
Privately held securities	-	-	4,000	4,000
Total Investments	<u>\$ 4,683,982</u>	<u>\$ 23,486,855</u>	<u>\$ 54,985</u>	<u>\$ 28,225,822</u>
Assets held in trust by others	<u>\$ 212,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,707</u>

During 2020, the College sold a building held as investment real estate which resulted in a reduction of the balance by approximately \$6.4 million from fiscal year 2019.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The following table sets forth a summary of changes in the fair value of the College's Level 3 assets for the years ended June 30, 2020 and 2019:

	<i>Privately Held Securities</i>	<i>Limited Partnerships</i>
Balances, June 30, 2018	\$ 4,000	\$ 63,773
Net sales	-	(9,965)
Net investment income	-	(2,823)
Distributions of capital	-	-
Balances, June 30, 2019	4,000	50,985
Net sales	-	(15,427)
Net investment income	-	(4,023)
Distributions of capital	-	-
Balances, June 30, 2020	<u>\$ 4,000</u>	<u>\$ 31,535</u>

Note 6 - **Property and Equipment**

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

	<u>2020</u>	Restated <u>2019</u>
Land	\$ 704,742	\$ 704,742
Buildings	11,298,211	11,298,211
Improvements	16,510,705	16,018,099
Equipment and furnishings	21,403,113	20,843,313
Construction in progress	<u>548,936</u>	<u>572,133</u>
Total	50,465,707	49,436,498
Less: accumulated depreciation	<u>(34,178,061)</u>	<u>(32,819,597)</u>
Land, Buildings, and Equipment, net	<u>\$ 16,287,646</u>	<u>\$ 16,616,901</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 7 - **Line of Credit**

The College has a revolving line of credit with a financial institution. During fiscal year 2020 the College renegotiated the terms of the line. As part of the negotiation, the maximum borrowing was decreased from \$3,000,000 at June 30, 2019 to \$1,500,000 at June 30, 2020. As part of the agreement the College must have the line paid off for sixty consecutive days twice during each fiscal year. Interest is based on the prime rate. The rate at June 30, 2020 was 3.25% and June 30, 2019 was 5.50%. All borrowings are collateralized by a security interest in all business assets of the College and a junior mortgage on certain properties listed in Note 9. The outstanding balance of the line was \$1,500,000 and \$3,000,000 at June 30, 2020 and 2019, respectively.

Note 8 - **Payroll Protection Program**

Payroll Protection Program Loan

In April 2020, the College received a Payroll Protection Program loan under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the amount of \$2,034,615. The loan will be forgiven based upon the College using the proceeds on eligible expenses over a twenty-four-week period from the time that the loan is obtained (the "covered period"). Eligible expenses include payroll and related benefits, utilities, and mortgage interest. It is the intent of management to use the funds from the loan in accordance with provisions of the CARES Act and thus it is anticipated the loan will be forgiven.

Should any portion of the loan not be forgiven, it will become a two-year term loan with an interest rate of 5% per year. The interest on the any unforgiven portion of the loan will be deferred for the first six months of the loan. Management intends to reduce the debt in full or a portion thereon and reflect that reduction as other non-operating revenue when all or a portion of the loan is forgiven.

Maturities of the PPP loan subsequent to June 30, 2020 if no portion of the debt is forgiven for the years ending June 30,:

2021	\$	218,622
2022		1,350,607
2023		465,386
		<hr/>
	\$	<u>2,034,615</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Long-Term Debt**

Bond Payable

During fiscal year 2015, the College issued \$23,000,000 in Massachusetts Development Finance Agency (the "Agency") Revenue Bonds, Series 2014 (the "Bonds"). The purpose of the Bonds was to refinance prior long-term debt and finance capital projects. The Bonds have certain covenants related to debt service coverage and liquidity. The Bonds are collateralized by a security interest in revenues, and a first priority interest in the East Elm and Old Colony campuses, and certain other property held by the College.

In accordance with FASB ASU 2015-03, the outstanding balance of the Bonds as of June 30, 2020 and 2019, of \$15,445,790 and \$18,535,493, are reported net of issuance costs of approximately \$310,000 and \$327,000, respectively. Bond issuance costs will be amortized as interest expense over the remaining life of the Bonds using the straight-line method. Amortization for the years ended June 30, 2020 and 2019 was approximately \$17,000 and \$20,000, respectively. Annual amortization for the remaining life of the Bonds will be approximately \$17,000.

In September 2017, the College entered into a \$2,000,000 term loan agreement with interest at 5.5% and due September 2019. The note calls for interest-only payments in the first year and principal and interest payments beginning in October 2018. The proceeds were used to pay off the \$1,500,000 line of credit as well as provide additional working capital for the College. The balance was paid in full during fiscal year 2019.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

In May 2020, the college used \$2,500,000 of proceeds from the sale of the property known as 180 Old Colony to make an extra principal payment on long-term debt. As part of the negotiations, the monthly loan payments were reduced based on the lower outstanding principal balance amortized over the remaining term of the loan.

Future principal maturities of long-term debt subsequent to June 30, 2020 are as follows:

Fiscal Years Ending June 30,	
2021	\$ 424,381
2022	439,256
2023	454,652
2024	469,270
2025	487,036
Thereafter	<u>13,171,195</u>
	15,445,790
Less: issuance costs, net	<u>309,928</u>
	<u>\$ 15,135,862</u>

The College is in technical default of the debt service coverage and liquidity ratio as of June 30, 2020. Subsequent to year end, the lending institution granted the College a waiver for these debt covenant breaches.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Net Assets**

Net Assets Without Restrictions

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

	<u>2020</u>	<u>2019</u>
Board designated funds	\$ 643,337	\$ 690,718
Undesignated	<u>1,092,882</u>	<u>5,132,430</u>
	<u>\$ 1,736,219</u>	<u>\$ 5,823,148</u>

Net Assets With Restrictions

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

	<u>2020</u>	<u>2019</u>
Endowment (for perpetuity)	\$ 13,672,261	\$ 13,279,695
Scholarships and awards (for purpose)	3,875,971	4,893,826
Capital improvements (for purpose)	290,402	335,602
Instructional and academic support (for purpose)	589,816	666,632
General support (for purpose)	66,297	144,968
Assets held in custody of others (for purpose)	<u>104,757</u>	<u>112,626</u>
	<u>\$ 18,599,504</u>	<u>\$ 19,433,349</u>

Net Assets Released from Restrictions

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

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 1,123,021	\$ 1,093,130
Capital improvements	-	4,000
Instruction and academic support	122,826	61,147
General support	<u>189,596</u>	<u>157,452</u>
	<u>\$ 1,435,443</u>	<u>\$ 1,315,729</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 690,718	\$ 18,855,002	\$ 19,545,720
Investment return	4,130	104,668	108,798
Change in the value of assets held in trust by others	-	2,376	2,376
Contributions	1,550	390,190	391,740
Amounts appropriated	(53,061)	(1,242,167)	(1,295,228)
Endowment net assets, end of year	\$ 643,337	\$ 18,110,069	\$ 18,753,406
	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 701,107	\$ 18,847,658	\$ 19,548,765
Investment return	31,914	718,644	750,558
Change in the value of assets held in trust by others	-	2,129	2,129
Contributions	1,550	401,204	402,754
Amounts appropriated	(43,853)	(1,114,633)	(1,158,486)
Endowment net assets, end of year	\$ 690,718	\$ 18,855,002	\$ 19,545,720

Board-designated funds without donor restrictions are quasi-endowments. These contributions do not have donor-imposed restrictions. The College's Board of Trustees have determined that these particular donations will be retained by the College as investments rather than expending for operational or other purposes.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Retirement Benefits**

The College participates in a defined contribution retirement plan and tax deferred annuity plan administered by the Teachers Insurance and Annuity Association (“TIAA”) and the College Retirement Equities Fund (“CREF”) for all eligible employees. This plan requires a minimum 5.00% contribution from eligible employees along with the College contributing an additional 7.50%. Contributions from the College to this plan amounted to \$343,357 and \$314,787 for the years ended June 30, 2020 and 2019, respectively.

Note 13 - **Rental Income**

The College receives rental income through the leasing of numerous residential dwellings under tenant-at-will agreements. On a majority of these tenant-at-will agreements, the College is responsible for occupancy costs such as water and utilities. The properties are deemed to be held for investment and therefore are not depreciated. The properties are included in investments within the statements of financial position. Rental income is included within the statements of activities and changes in net assets under the caption net rental income.

A summary of net rental income as of June 30, is as follows:

	<u>2020</u>	<u>2019</u>
Gross rents	\$ 401,656	\$ 358,131
Less:		
Utilities	66,822	78,596
Repairs and Maintenance	<u>40,784</u>	<u>109,835</u>
Net Rental Income	<u>\$ 294,050</u>	<u>\$ 169,700</u>

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

Third-Party Agreements

The College has a contract with a third-party vendor expiring in fiscal 2024 for the provision of food services. Annual costs to the College are dependent upon the number of residential students.

Government Grants

All funds expended by the College in connection with government grants are subject to review or audit by governmental agencies. In the opinion of management, any liability resulting from a review or audit would not have a significant impact on the financial statements of the College.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Operating Leases

The College leases various equipment under operating lease agreements. Rental expense associated with these operating leases amounted to approximately \$87,000 for years ended June 30, 2020 and 2019.

Subsequent to June 30, 2020, minimum future lease payments under such leases are as follows:

Fiscal Years <u>Ending June 30,</u>	
2021	\$ 86,844
2022	86,844
2023	86,844
2024	14,160
2025	<u>14,160</u>
	<u>\$ 288,852</u>

Prepaid Tuition Program

The College participates in the Massachusetts Educational Financing Authority's U.Plan Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept as payment of tuition the amount determined by this Program without regard to standard tuition rates in effect at the time of the individual's enrollment at the College. The effect of the Program cannot be determined as it is contingent on future tuition increases and the number of Program participants who attend the College.

Contingency

The vast majority of higher educational institutions transitioned to distance learning during the 2020 spring semester due to the COVID-19 crisis. Many higher educational institutions have been served with a class action lawsuit due to this decision. The plaintiffs' claim that they have suffered academic harm after the 2020 spring semester transitioned to distance learning. Since the lawsuits are in the early stages, there have been no settlements or court decisions on this matter. The College has not been served with a lawsuit related to COVID-19. Management believes that any potential future adverse outcome is possible, but unlikely, and, would not be material to the College.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Investments

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks.

Composite Score

As a condition of eligibility to participate in federal student financial aid programs, the College is required to demonstrate financial responsibility, as defined by the United States Department of Education regulations, by maintaining a Composite Score of at least 1.5. The regulations also establish a Composite Score zone between 1.0 and 1.4; institutions falling within this zone are allowed up to three consecutive years to improve their financial condition without requiring surety.

The College has calculated a Composite Score of 2.0 and 2.2 for the years ended June 30, 2020 and 2019, respectively.

Note 15 - Availability and Liquidity

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

	<u>2020</u>	<u>Restated 2019</u>
Financial assets at year-end:		
Cash and equivalents	\$ 3,126,515	\$ 891,799
Accounts receivable, net	1,201,019	893,534
Pledges receivable, net	98,926	123,171
Other receivables	210,701	456,232
Investments	18,427,654	28,225,822
	<u>23,064,815</u>	<u>30,590,558</u>
Less: amounts not available to be used within one year:		
Investments held in real estate	(15,707,371)	(23,486,855)
Board designated net assets	(643,337)	(690,718)
Net assets with donor restrictions (net real estate investments)	(4,641,133)	(5,333,862)
	<u>(20,991,841)</u>	<u>(29,511,435)</u>
Financial assets available to meet general expenditures within one year:	<u>\$ 2,072,974</u>	<u>\$ 1,079,123</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The College reviews its cash position on a regular basis to ensure that adequate funds are available to meet expenses. If funds are needed for expenses, management can liquidate investments, request the Board undesignated previously designated assets, or sell investment property. At June 30, 2020 and 2019, management believes that the College has no liquidity issues.

Note 16 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through October 19, 2020, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any other events subsequent to June 30, 2020, other than the events mentioned below, requiring additional disclosure in these financial statements.

Note 17 - **Subsequent Events**

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined.

As a result of the COVID-19 crisis and other factors, student enrollment has decreased for the 2020 fall semester. In addition, capacity of residence hall occupancy has been reduced to meet social distancing guidelines.

In August 2020, the College drew down \$417,000 which represents the remaining institutional funds due from the HEERF grant. The drawdown includes both funds that were due from FY2020 and funds to be spent in FY2021.

In the summer of 2020, the College placed four residential houses on Sewall Street on the market to reduce real estate exposure, fund student Scholarships and increase liquid assets. One property, 16 Sewall St. closed on September 29, 2020 for \$500,000. Another property, 26 Sewall St. closed on October 8, 2020 for \$510,000. Another property, 12 Sewall St. closed on October 23, 2020 for \$390,000. Another property, 8-10 Sewall St. closed on October 23, 2020 for \$395,000. Faculty and staff renting these houses were moved into other residential properties owned by the College. Housing options for employees were recently increased by the addition of rentals of the second floor of Young Apartments.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

In July of 2020, the College announced the final approval from NECHE (New England Commission of Higher Education) and SCHE (State Council for Higher Education in Virginia) to open an extension site in Richmond, VA. This site is part of the property of the Southside Church of the Nazarene and its affiliate, Guardian Christian Academy. Using a cohort, hybrid model, the College will offer 3 undergraduate degree completion programs. This opportunity allows the College, Southside and GCA to provide dual enrollment for GCA high school students, business degree completion for congregants and local adult students and a 2-year intensive ministry preparation program.

In August 2020, the bank released funds held in escrow of \$994,695 pertaining to the proceeds from the sale of 180 Old Colony Ave. While the majority of the proceeds paid down college debt, these funds are also being used to support operations.

In October 2020, the Massachusetts Development Finance Agency trustee released 115 Elm St. from its security interest as collateral for the bond. The property was subsequently transferred to the College's endowment fund in exchange for \$980,000 which is being used to fund capital expenditures and strategic initiatives for the fiscal year ending 2021.

In November 2020, the College's financial institution extended the interest deferral period for the Payroll Protection Program loan to the first ten months of the loan following the end of the covered period.

SUPPLEMENTAL INFORMATION

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Schedule
Year Ended June 30, 2020

Primary Reserve Ratio:			
		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	3,770,834
2	SFP	Net assets with donor restrictions	18,599,504
3		Secured and Unsecured related party receivable - Total	-
4	Not applicable	Unsecured related party receivables	-
5		Property, Plant and Equipment, net (includes Construction in progress) - Total	16,287,646
6	SD Line 3d	Property, plant and equipment pre-implementation	15,258,437
7	Not applicable	Property, plant and equipment post- implementation with outstanding debt for original purchase	-
8	SD Line 6a	Property, plant and equipment post-implementation without outstanding debt for original purchase	968,009
9	SD Line 5	Construction in progress	61,200
10		Lease right-of-use asset, net - Total	-
11	Not applicable	Lease right-of-use, pre-implementation (grandfather of leases option not chosen)	-
12	Not applicable	Lease right-of-use asset, post-implementation	-
13	Not applicable	Intangible assets	-
14	Not applicable	Post-employment and pension liabilities	-
15		Long-term debt- for long term purposes - Total	15,135,862
16	SD Line 8d	Long- term debt- for long term purpose pre-implementation	15,135,862
17	Not applicable	Long-term debt- for long term purposes post-implementation	-
18	Not applicable	Line of Credit for Construction in progress	-
19		Lease right-of-use asset liability - Total	-
20	Not applicable	Pre-implementation right-of-use asset liability (grandfather of leases option not chosen)	-
21	Not applicable	Post-implementation right-of-use asset liability	-
22		Annuities, term endowment and life income with donor restrictions - Total	-
23	SD Line 2a	Annuities with donor restrictions	-
24	SD Line 2b	Term Endowments with donor restrictions	-
25	Not applicable	Life income funds with donor restrictions	-
26	SD Line 1	Net Assets with donor restrictions - restricted in perpetuity	13,672,261
		Total Expenses without Donor Restrictions & Losses without Donor Restrictions:	
27	Statement of Activities (SOA)- Total Expense prior to Other Changes	Total expenses without donor restrictions- taken directly from Statement of Activities	20,793,430
28	Not applicable	Non-operating and Net Investment (loss)	-
29	Not applicable	Net Investment losses	-
30	Not applicable	Pension-related changes other than net periodic costs	-
Equity Ratio:		Modified Net Assets:	
31	SFP	Net assets without donor restrictions	3,770,834
32	SFP	Net assets with donor restrictions	18,599,504
33	Not applicable	Intangible Assets	-
34	Not applicable	Intangible Assets- Goodwill	-
35		Secured and unsecured related party receivables- Total	-
36	Not applicable	Unsecured related party receivables	-
		Modified Assets:	
37	SFP	Total Assets	41,259,818
38	Not applicable	Lease right-of-use asset pre-implementation	-
39	Not applicable	Pre-implementation right-of-use asset liability	-
40	Not applicable	Intangible Assets	-
41	Not applicable	Secured and unsecured related part receivables	-
42	Not applicable	Unsecured related party receivables	-
Net Income Ratio:		Change in Net Assets Without Donor Restrictions:	
43	SOA	Change in net assets without donor restrictions	(4,086,929)
		Total Revenue without Donor Restrictions & Gains without Donor Restrictions	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	Total Revenues and Gains	16,834,586
45	SOA: Investments, Net	Investments, net (operating and non-operating)	-

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2020

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate ratios for determining sufficient financial responsibility under Title IV.

Net Assets

1 Net assets with donor restrictions: restricted in perpetuity	\$ 13,672,261
2 Other net assets with donor restrictions (not perpetually restricted):	
a. Annuities with donor restrictions	-
b. Term Endowments	-
c. Life income funds (trusts)	-
d. Total annuities, term endowment and life income funds with donor restrictions	\$ -

Property, Plant and Equipment, net

3 Pre-implementation property, plant and equipment, net (PP&E, net)	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019 financial statement)	\$ 16,616,901
b. Reclassify capital lease assets previously included in PP&E, net prior to the implementation of ASU 2016-02 leases standards	-
c. Less subsequent depreciation and disposals	(1,358,464)
d. Balance Pre-implementation property, plant and equipment, net	15,258,437
4 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2019:	
a. Equipment	-
b. Land Improvements	-
c. Building	-
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	-
5 Construction in progress- acquired subsequent to June 30, 2019	61,200
6 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2019	968,009
7 Total Property, Plant and Equipment, net- June 30, 2020	\$ 16,287,646

Debt to be excluded from expendable net assets

8 Pre-implementation debt:	
a. Ending balance of last financial statement submitted to the Department of Education (June 30, 2019)	\$ 18,208,142
b. Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standards.	-
c. Less subsequent debt repayments	(3,072,280)
d. Balance pre-implementation debt	15,135,862
9 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	-
b. Land Improvements	-
c. Buildings	-
10 Construction in progress (CIP) financed with short term debt	-
11 Long-term debt not for the purchase of property, plant and equipment or liability greater than assets value	-
	\$ 15,135,862

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2020

12 Term of current year debt additions:

Issue Date	Maturity Date	Nature of Capitalized Amounts	Amount Capitalized
a.			

Lease right-of-use assets and liabilities

13 Lease right-of-use assets			
Right of use assets as of balance sheet date June 20, 2020			\$ -
14 Lease right-of-use assets- Pre-implementation			
Right of use assets as of balance sheet date June 20, 2020 excluding leases entered into before Dec 15, 2018 (grandfather option of leases not chosen)			\$ -
15 Lease right-of-use assets- Post-Implementation			
Right of use assets as of balance sheet date June 20, 2020 excluding leases entered into on or after Dec 15, 2018			\$ -
16 Lease right-of-use liability			
Lease liabilities as of balance sheet dated June 20, 2020			\$ -
17 Lease right-of-use liability- Pre-implementation			
Lease liabilities as of balance sheet dated June 20, 2020 excluding leases entered into before Dec 15, 2018 (grandfathering leases not chosen)			\$ -
18 Lease right-of-use liability- Post-implementation			
Lease liability as of balance sheet dated June 20, 2020 excluding leases entered into on or after Dec 15, 2018			\$ -

Unsecured related party receivables

19 Secured and unsecured related party receivables			\$ -
20 Unsecured related party receivables			\$ -

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



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

To the Board of Trustees of
Eastern Nazarene College
Quincy, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Eastern Nazarene College (the "College"), which comprise the statements of financial position as of June 30, 2020, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2020 (except for Notes 9 and 17, for which the date is December 22, 2020).

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Certified Public Accountants
Braintree, Massachusetts

October 19, 2020

(except for Notes 9 and 17, for which the date is December 22, 2020)