

Eastern Nazarene College
Financial Statements for the year ending June 30, 2020
Summary of the Financial Report

Overview

The audited financial statements for the year ending June 30, 2020 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, 2020. 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 \$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.

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

Total assets of the College were \$46.1 million, up \$4.8 million or 11% from \$41.3 million the prior year-end. Unrestricted cash and equivalents increased from \$0.4 million to \$3.5 million.

Total Liabilities were \$21.4 million up \$453,000 or 2% from the prior year. Our line of credit remained at \$1.5 million. Our first Paycheck Protection Program (PPP) loan of \$2 million was forgiven and replaced by a second PPP loan of \$2 million. Long-term debt of \$14.7 million was down \$400,000 from scheduled principal payments as part of annual debt service. Interest payments on debt were \$555,280 down from \$821, 864 the prior year.

Our net assets of \$24.8 million were up \$4.4 million. Endowment assets increased \$635,000 from \$18.6 million to \$19.2 million. At the same time the endowment provided funding of \$1.25 million for student scholarships, instructional, academic and general support in accordance with donor restrictions. In addition, we received donor releases totaling \$640,000 to help with operating needs of the college during this pandemic. Unrestricted net assets increased \$3.8 million from \$1.7 million to \$5.5 million. The increase in unrestricted net assets is primarily attributable to a \$1.5 million operating gain plus \$2 million forgiveness of our first PPP Loan.

Statement of Activities (Operating and Non-operating Results)

We were gratified by a FY21 operating gain of \$1,524,000, which is \$2.35 million better than our original budget and \$5.48 million better than FY20. Operating revenues of \$21.1 million exceeded last year by \$4.3 million due to higher Campus Kinder Haus revenues, donations, government grants and endowment releases partially offset by lower Room & Board revenues of \$1.1 million due to covid-19 impacts. Operating expenses of \$19.6 million were down \$1.2 million from last year. Salary, benefits, outside services, interest and bad debt expenses were down \$2.55 million and partially offset by investment in online education and \$1.2 million of covid-19 testing and cleaning expenses

In addition, we had non-operating income without donor restrictions of \$2.3 million, resulting primarily from forgiveness of our first PPP loan of \$2 million.

EASTERN NAZARENE COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2021

EASTERN NAZARENE COLLEGE

Financial Statements

June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter for a Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for revenue due to the adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers*.

As discussed in Note 3 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated October 18, 2021. Subsequent to the issuance of the financial statements, the College elected to submit for the employee retention credit for the year ended June 30, 2021.

Our opinion is not modified with respect to these matters.

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 34-36 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 18, 2021, 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.

A handwritten signature in cursive script that reads "O'Connor + Drew, P.C.".

**Certified Public Accountants
Braintree, Massachusetts**

October 18, 2021

(except for Note 3, Note 15 Note 17 and Supplemental Information as to which the date is
January 28, 2022)

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30, 2021 and 2020

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30,

Assets

	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and equivalents	\$ 3,488,464	\$ 413,283
Restricted cash and equivalents	139,592	1,718,537
Cash held in escrow	-	994,695
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of \$626,013 and \$817,415 at 2021 and 2020, respectively	1,697,585	1,201,019
Pledges receivable, net	74,681	98,926
Other receivables	2,842,688	210,701
Perkins loans receivable, net of allowance for doubtful accounts of \$225,246 at 2021 and 2020	318,822	472,202
Prepays and other assets	389,571	262,406
Investments	20,449,304	18,427,654
Assets held in trust by others	246,602	207,214
Debt service reserve funds held by bond trustee	925,848	965,535
Property and equipment, net	<u>15,578,954</u>	<u>16,287,646</u>
Total Assets	<u>\$ 46,152,111</u>	<u>\$ 41,259,818</u>

Liabilities and Net Assets

Liabilities:		
Line of credit	\$ 1,500,000	\$ 1,500,000
Accounts payable and accrued expenses	1,991,133	1,483,263
Deferred revenues and student deposits	762,710	264,643
Paycheck Protection Program Loan	2,000,000	2,034,615
Long-term debt	14,736,338	15,135,862
Advances from the United States Department of Education	<u>387,168</u>	<u>505,712</u>
Total Liabilities	<u>21,377,349</u>	<u>20,924,095</u>
Net Assets:		
Without donor restrictions	5,540,343	1,736,219
With donor restrictions	<u>19,234,419</u>	<u>18,599,504</u>
Total Net Assets	<u>24,774,762</u>	<u>20,335,723</u>
Total Liabilities and Net Assets	<u>\$ 46,152,111</u>	<u>\$ 41,259,818</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues:			
Tuition and fees	\$ 16,336,507	\$ -	\$ 16,336,507
Less: financial aid	<u>(8,701,023)</u>	<u>-</u>	<u>(8,701,023)</u>
Net tuition and fees	7,635,484	-	7,635,484
Gifts and grants	1,788,910	284,173	2,073,083
Church gifts	1,439,982	-	1,439,982
Auxiliary enterprises	4,659,981	-	4,659,981
Government grants	3,592,295	-	3,592,295
Other revenues	139,290	-	139,290
Net assets released from restrictions	<u>1,884,467</u>	<u>(1,884,467)</u>	<u>-</u>
Total Revenues and Other Support	<u>21,140,409</u>	<u>(1,600,294)</u>	<u>19,540,115</u>
Expenses:			
Program Expenses:			
Instructional	4,321,735	-	4,321,735
Student services	3,012,174	-	3,012,174
Academic support	443,403	-	443,403
Auxiliary enterprises	<u>1,975,287</u>	<u>-</u>	<u>1,975,287</u>
Total Program Expenses	<u>9,752,599</u>	<u>-</u>	<u>9,752,599</u>
Supporting Services Expenses:			
Management and general	8,412,475	-	8,412,475
Fundraising	892,929	-	892,929
Interest	<u>557,854</u>	<u>-</u>	<u>557,854</u>
Total Supporting Services Expenses	<u>9,863,258</u>	<u>-</u>	<u>9,863,258</u>
Total Operating Expenses	<u>19,615,857</u>	<u>-</u>	<u>19,615,857</u>
Changes in Net Assets from Operating Activities	<u>1,524,552</u>	<u>(1,600,294)</u>	<u>(75,742)</u>
Non-Operating Activities:			
Net investment income	(23,438)	2,195,821	2,172,383
Forgiveness of Paycheck Protection Program loan	2,034,615	-	2,034,615
Changes in the value of assets held in trust by others	-	39,388	39,388
Net rental income	<u>268,395</u>	<u>-</u>	<u>268,395</u>
Changes in Net Assets from Non-Operating Activities	<u>2,279,572</u>	<u>2,235,209</u>	<u>4,514,781</u>
Changes in Net Assets	<u>3,804,124</u>	<u>634,915</u>	<u>4,439,039</u>
Net Assets, Beginning of Year	<u>1,736,219</u>	<u>18,599,504</u>	<u>20,335,723</u>
Net Assets, End of Year	<u>\$ 5,540,343</u>	<u>\$ 19,234,419</u>	<u>\$ 24,774,762</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)
Net Assets, Beginning of Year	5,823,148	19,433,349	25,256,497
Net Assets, End of Year	\$ 1,736,219	\$ 18,599,504	\$ 20,335,723

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

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses

For the Year Ended June 30, 2021

	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	\$ 2,961,140	\$ 1,970,145	\$ 349,763	\$ 1,009,843	\$ 1,941,629	\$ 373,300	\$ 8,605,820
Consulting and other outside services	549,594	45,798	-	684,195	509,756	4,575	1,793,918
Employee benefits	350,239	232,610	43,754	78,392	785,305	45,647	1,535,947
Depreciation and amortization	-	-	-	-	1,387,206	-	1,387,206
Interest	-	-	-	-	557,854	-	557,854
Office	(28,870)	128,748	6,503	16,263	1,766,959	42,381	1,931,984
Occupancy	-	38,373	-	109,316	561,693	-	709,382
Advertising and promotion	182,649	192,740	20,065	1,086	49,018	391,423	836,981
Payroll taxes	217,614	140,534	20,294	45,054	133,675	24,950	582,121
Miscellaneous	88,355	168,573	984	21,772	151,637	9,539	440,860
Retirement	-	-	-	-	2,868	-	2,868
Scholarships	-	-	-	-	90,090	-	90,090
Insurance	-	17,552	-	9,366	353,250	-	380,168
Travel	657	74,918	-	-	29,542	1,114	106,231
Information technology	-	-	-	-	214,991	-	214,991
Professional fees	-	-	-	-	433,717	-	433,717
Conference	357	2,183	2,040	-	1,139	-	5,719
Total	<u>\$ 4,321,735</u>	<u>\$ 3,012,174</u>	<u>\$ 443,403</u>	<u>\$ 1,975,287</u>	<u>\$ 8,970,329</u>	<u>\$ 892,929</u>	<u>\$ 19,615,857</u>

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

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses

For the Year Ended June 30, 2020

	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	\$ 3,016,516	\$ 2,138,564	\$ 280,137	\$ 924,867	\$ 2,376,720	\$ 443,497	\$ 9,180,301
Consulting and other outside services	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 Cash Flows

For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,439,039	\$ (4,920,774)
Adjustments to reconcile changes in net assets to net cash provided by (applied to) operating activities:		
Forgiveness of Paycheck Protection Program loan	(2,034,615)	-
Employee retention credit, net related commissions	(1,742,999)	-
With donor restricted contributions held in perpetuity	(282,370)	(390,190)
Depreciation	1,369,783	1,358,464
Amortization	17,423	17,226
Bad debts	20,000	457,667
Realized and unrealized investment gains, net	(2,141,546)	367,326
Changes in the value of assets held in trust by others	(39,388)	5,493
Changes in operating assets and liabilities:		
Student accounts, pledges, and other receivables	(1,097,565)	(495,376)
Prepays and other assets	(127,165)	72,936
Collections of Perkins loans	153,380	105,233
Change in advances from the United States Department of Education	(118,544)	(218,093)
Accounts payable and accrued expenses	224,126	(489,583)
Deferred revenues and student deposits	498,067	134,486
Net Adjustments	<u>(5,301,413)</u>	<u>925,589</u>
Net Cash Applied to Operating Activities	<u>(862,374)</u>	<u>(3,995,185)</u>
Cash Flows from Investing Activities:		
Advances to debt service reserve fund held by bond trustee, net	-	(7,031)
Payments from debt service reserve fund held by bond trustee, net	39,687	-
Property and equipment acquisitions	(661,091)	(1,029,209)
Proceeds from sale of investments	4,267,757	14,494,048
Purchases of investments	(4,147,861)	(5,063,206)
Net Cash Provided by (Applied to) Investing Activities	<u>(501,508)</u>	<u>8,394,602</u>
Cash Flows from Financing Activities:		
With donor restricted contributions held in perpetuity	282,370	390,190
Advances on (payments to) line of credit, net	-	(1,500,000)
Proceeds from Paycheck Protection Program loan	2,000,000	2,034,615
Principal payments on long-term debt	(416,947)	(3,089,506)
Net Cash Provided by (Applied to) Financing Activities	<u>1,865,423</u>	<u>(2,164,701)</u>
Net Increase in Cash and Equivalents	<u>501,541</u>	<u>2,234,716</u>
Cash and Equivalents, Beginning of Year	<u>3,126,515</u>	<u>891,799</u>
Cash and Equivalents, End of Year	<u>\$ 3,628,056</u>	<u>\$ 3,126,515</u>
Cash and Equivalents Consist of the Following at June 30:		
Cash and equivalents	\$ 3,488,464	\$ 413,283
Restricted cash and equivalents	139,592	1,718,537
Cash held in escrow	<u>-</u>	<u>994,695</u>
Total	<u>\$ 3,628,056</u>	<u>\$ 3,126,515</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 555,280</u>	<u>\$ 821,864</u>

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements

June 30, 2021 and 2020

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 700 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 (“ED”), which facilitates the payment of tuition and other expenses for students.

Operations

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (“COVID-19”) as a pandemic. During the year ended June 30, 2021, COVID-19 had a significant effect on the College’s operations in response to government requirements and observing safety measures.

In response to the pandemic, the Federal government provided to the College Higher Education Emergency Relief Funds (“HEERF”) and funds for the Strengthening Institution Program (“SIP”) under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA”), and American Rescue Plan Act (“ARPA”). The HEERF consisted of the student aid award and the institutional award. Each Act requires a minimum amount to be spent on student aid.

The student aid award is required to be distributed to students as emergency grants for their expenses related to the disruption of campus operations due to coronavirus. The institutional award and the SIP can be used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Unless an extension is approved by the Department of Education, the student aid award and the institutional award must be spent by May 18, 2022, while the SIP funding must be spent by August 3, 2022.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

The College has been awarded the following HEERF and SIP funds as of June 30, 2021:

	Student Aid	Institutional	Strengthening	
	Award	Award	Institution	Total
			Program	
CARES	\$ 380,707	\$ 380,706	\$ 37,643	\$ 799,056
CRRSAA	380,707	845,161	52,125	1,277,993
ARPA	1,079,032	1,079,031	95,435	2,253,498
Total	\$ 1,840,446	\$ 2,304,898	\$ 185,203	\$ 4,330,547

The College has recognized the following funds as Federal grants for the years ended June 30, 2021 and 2020:

For the Year Ended June 30, 2021					For the Year Ended June 30, 2020				
Strengthening					Strengthening				
	Student Aid	Institutional	Institution			Student Aid	Institutional	Institution	
	Award	Award	Program	Total		Award	Award	Program	Total
CARES	\$ 20,057	\$ 348,997	\$ 37,643	\$ 406,697	CARES	\$ 360,650	\$ 31,709	\$ -	\$ 392,359
CRRSAA	380,707	845,161	52,125	1,277,993	CRRSAA	-	-	-	-
ARPA	2,000	2,000	-	4,000	ARPA	-	-	-	-
Total	\$ 402,764	\$1,196,158	\$ 89,768	\$1,688,690	Total	\$ 360,650	\$ 31,709	\$ -	\$ 392,359

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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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.

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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Restricted Cash and Equivalents

Restricted cash and equivalents include 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, 2021 and 2020, management did not deem it necessary to establish an allowance for other receivables.

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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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.

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

Student deposits represent reservation deposits and other advance payments by students on account. Deferred revenue represents the amount of unearned related services that are in progress as of year-end related to net tuition, fees, and auxiliary enterprises, such as room and board. Such amounts are reflected as revenue ratably over time with such amounts generally being recognized on a current basis given the nature and duration of the underlying services being provided.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Substantially all amounts included in deferred revenue at the opening of each period were recognized as revenues during the following fiscal period with very limited amounts not being earned associated with student withdrawal rights that management did not consider material. Contract liabilities represent the amount of the remaining performance obligation which is time driven given the academic calendar that underlies the earnings process for tuition, fees, and auxiliary revenue. Contract liabilities are presented in the statements of financial position as student deposits and deferred revenue, if applicable, and are recognized as income in the period in which the obligation takes place. There were no significant changes to deferred revenue amounts on a quantitative or qualitative basis. Certain enrollment deposits are returned to students who ultimately do not enroll.

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. The College derives revenues primarily through tuition, fees, and auxiliary services, all of which are under arrangements that are aligned to an academic semester, which is less than one year in length.

Tuition, fees, and auxiliary enterprises revenue are recorded at established rates, net of institutional awards provided directly to students. Net transaction price is fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied, which is generally over time as services are rendered, whether relating to educational services or auxiliary services such as room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic or auxiliary activity.

Students may withdraw from programs of study within certain time limits under the College's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund near the start of classes, declining to no refund shortly after the start of classes. Given the normal timing of the College's programs, the exposure to such is limited at year end.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Payments made by third parties such as ED relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the College.

Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as “net assets released from restriction” between the classes of net assets.

The statements of activities report the changes in net assets without donor restrictions from operating and nonoperating activities. Operating revenues consist of those items attributable to the College’s academic programs and auxiliary enterprises. This includes investment return appropriated for operations under the spending policy adopted by the Board. All other amounts are considered nonoperating.

Contributions, including unconditional promises to give, are initially recorded as revenue at fair value when verifiably committed. Unconditional promises to give, that will be paid by the donor’s estate, are recorded when verifiably committed and are discounted using the remaining life expectancy of the donor. Fair value is determined at the original date of record as described in this section using Level 2 fair value inputs.

Conditional contributions and intentions to give are recorded as revenue when the conditions have been met. Pledge intentions are not recorded as revenue or as assets. Contributions are reflected in net assets without donor restrictions or in net assets with donor restrictions based on the existence or absence of donor restrictions. Amounts received with donor-imposed restrictions that are recorded as revenues in net assets with donor restrictions are reclassified to net assets without donor restrictions when the time or purpose restriction has been satisfied. The College had no conditional contributions at June 30, 2021 and 2020.

The College reports gifts of property, plant, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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 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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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.

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% of spending calculated on a trailing three-year average of the fund balances associated with the endowment. Over the past four years the endowment spend from asset earnings has ranged from 6% - 6.6%. This spend is higher than target but is consistent with the College's policy, recognizing the very strong returns over the past eight years along with the financial needs of the College's students and the college, especially during the current pandemic.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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, 2021 and 2020, 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.

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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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, 2021 and 2020. 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

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"). 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. The College adopted the provisions of ASU 2014-09 on a retrospective basis as of July 1, 2019 and did not necessitate an adjustment to net assets in the prior period.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

New Accounting Pronouncements

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 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is effective for periods beginning after June 15, 2021. The pronouncement will require not-for-profit entities to present contributed non-financial assets in the statement of activities as a line that is separate from other contributions. It will also require additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category.

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

Note 3 - Restatement of Previously Issued Financial Statements

Subsequent to the original issuance of these financial statements, management determined the College is eligible for an Employee Retention Credit ("ERC") established by several governmental relief acts. The ERC allows recipients to receive a credit on federal payroll taxes if certain qualifying events are met. The College has elected to amend previously filed Form 941's *Employers Quarterly Federal Tax Return* to receive the ERC for the fiscal year ended June 30, 2021. The table below presents the effects of the correction to the previously issued financial statements.

	As Previously Reported <u>at June 30, 2021</u>	ERC <u>Related</u>	As Restated <u>at June 30, 2021</u>
Statement of Financial Position:			
Other receivables	\$ 815,946	2,026,743	\$ 2,842,689
Accounts payable and accrued expenses	\$ 1,707,389	283,744	\$ 1,991,133
Net assets without donor restrictions	\$ 3,797,345	1,742,999	\$ 5,540,344
Statement of Activities:			
Operating revenues	\$ 17,513,373	2,026,743	\$ 19,540,116
Operating expenses	\$ 19,332,113	283,744	\$ 19,615,857

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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, 2021 and 2020. Pledges receivable consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Due in less than one year	\$ 25,000	\$ 25,000
Due in two to five years	<u>50,000</u>	<u>75,000</u>
	75,000	100,000
Less: discount to net present value	<u>319</u>	<u>1,074</u>
	<u>\$ 74,681</u>	<u>\$ 98,926</u>

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, 2021.

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, 2021 and 2020

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

	<u>June 30, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,297,174	\$ -	\$ -	\$ 1,297,174
Mutual Funds	4,270,651	-	-	4,270,651
Real Estate	-	14,865,742	-	14,865,742
Limited partnerships	-	-	11,737	11,737
	<u>5,567,825</u>	<u>14,865,742</u>	<u>11,737</u>	<u>20,445,304</u>
Non-recurring Basis:				
Privately held securities	-	-	4,000	4,000
Total Investments	<u>\$ 5,567,825</u>	<u>\$ 14,865,742</u>	<u>\$ 15,737</u>	<u>\$ 20,449,304</u>
Assets held in trust by others	<u>\$ 246,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,602</u>

	<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>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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, 2021 and 2020:

	<i>Privately Held Securities</i>	<i>Limited Partnerships</i>
Balances, June 30, 2019	\$ 4,000	\$ 50,985
Net sales	-	(15,427)
Net investment income	-	(4,023)
Distributions of capital	-	-
Balances, June 30, 2020	4,000	31,535
Net sales	-	(21,009)
Net investment income	-	1,211
Distributions of capital	-	-
Balances, June 30, 2021	<u>\$ 4,000</u>	<u>\$ 11,737</u>

Note 6 - Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 704,742	\$ 704,742
Buildings	11,298,211	11,298,211
Improvements	16,706,715	16,510,705
Equipment and furnishings	21,849,381	21,403,113
Construction in progress	<u>567,749</u>	<u>548,936</u>
Total	51,126,798	50,465,707
Less: accumulated depreciation	<u>(35,547,844)</u>	<u>(34,178,061)</u>
Land, Buildings, and Equipment, net	<u><u>\$ 15,578,954</u></u>	<u><u>\$ 16,287,646</u></u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 7 - **Line of Credit**

The College has a revolving line of credit with a financial institution with a maximum borrowing of \$1,500,000. 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, 2021 and 2020 was 3.25%. 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 8. The outstanding balance of the line was \$1,500,000 at June 30, 2021 and 2020, respectively.

Note 8 - **Paycheck Protection Programs**

In April 2020, the College received a Paycheck Protection Program (“PPP”) loan under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in the amount of \$2,034,615. In March 2021, the College received an additional PPP loan in the amount of \$2,000,000 as part of the PPP program’s second draw (“PPP2”). PPP loans are forgiven based upon using the proceeds on eligible expenses over a twenty-four-week period from the time that the loan was obtained. Eligible expenses include payroll and related benefits, utilities, and rent/mortgage interest. The College used the entire funds from the loans in accordance with the provisions of the CARES Act. In June 2021, the Small Business Administration, acting on behalf of the federal government, forgave the initial PPP loan of \$2,034,615.

Should any portion of the PPP2 loan not be forgiven, it will become a five-year term loan with an interest rate of 1% per year. The principal and interest on any unforgiven portion of the loan will be deferred until the earlier of the date in which the amount of loan forgiveness is remitted by the Small Business Administration to the lender or ten months after the covered period concludes. Management intends to reduce the debt in full and reflect that reduction as other non-operating revenue when all or a portion of the loan is forgiven.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Maturities of the PPP2 loan subsequent to June 30, 2021 if no portion of the debt is forgiven for the years ending June 30,:

Fiscal Years	
<u>Ending June 30,</u>	
2022	\$ -
2023	211,799
2024	404,844
2025	425,557
2026	447,329
Thereafter	<u>510,471</u>
	<u>\$ 2,000,000</u>

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, 2021 and 2020, of \$15,028,843 and \$15,445,790, are reported net of issuance costs of approximately \$293,000 and \$310,000, 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, 2021 and 2020 was approximately \$17,000. Annual amortization for the remaining life of the Bonds will be approximately \$17,000.

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, 2021 are as follows:

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Fiscal Years Ending June 30,	
2022	\$ 439,256
2023	454,652
2024	469,270
2025	487,036
2026	504,107
Therafter	<u>12,674,522</u>
	<u>\$15,028,843</u>

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>2021</u>	<u>2020</u>
Board designated funds	\$ 683,903	\$ 643,337
Undesignated	<u>3,113,442</u>	<u>1,092,882</u>
	<u>\$ 3,797,345</u>	<u>\$ 1,736,219</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Net Assets With Restrictions

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

	<u>2021</u>	<u>2020</u>
Endowment (for perpetuity)	\$ 13,446,055	\$ 13,672,261
Scholarships and awards (for purpose)	4,523,555	3,875,971
Capital improvements (for purpose)	295,401	290,402
Instructional and academic support (for purpose)	790,936	589,816
General support (for purpose)	46,082	66,297
Assets held in custody of others (for purpose)	<u>132,390</u>	<u>104,757</u>
	<u>\$ 19,234,419</u>	<u>\$ 18,599,504</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:

Net assets released from restrictions	<u>2021</u>	<u>2020</u>
Scholarships	\$ 1,781,056	\$ 1,123,021
Capital improvements	-	-
Instruction and academic support	68,274	122,826
General support	<u>35,137</u>	<u>189,596</u>
	<u>\$ 1,884,467</u>	<u>\$ 1,435,443</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 11 - Endowment Net Assets

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 643,337	\$ 18,110,069	\$ 18,753,406
Investment return	78,548	2,195,821	2,274,369
Change in the value of assets			
held in trust by others	-	11,755	11,755
Contributions	1,450	282,370	283,820
Amounts appropriated	<u>(39,432)</u>	<u>(1,852,400)</u>	<u>(1,891,832)</u>
Endowment net assets,			
end of year	<u>\$ 683,903</u>	<u>\$ 18,747,615</u>	<u>\$ 19,431,518</u>

	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	<u>(53,061)</u>	<u>(1,242,167)</u>	<u>(1,295,228)</u>
Endowment net assets,			
end of year	<u>\$ 643,337</u>	<u>\$ 18,110,069</u>	<u>\$ 18,753,406</u>

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, 2021 and 2020

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 by the College are at its discretion. Contributions from the College to this plan amounted to \$0 and \$343,357 for the years ended June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Gross rents	\$ 313,818	\$ 401,656
Less:		
Utilities	37,305	66,822
Repairs and Maintenance	<u>8,118</u>	<u>40,784</u>
Net Rental Income	<u>\$ 268,395</u>	<u>\$ 294,050</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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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.

Employee Retention Credit

The federal government has enacted several laws that provide for the Company to claim a credit against the employer portion of federal payroll taxes based upon certain criteria being met. Claims made for the credit are open to review by the IRS. Management believes that the Company has met the criteria for the entire amount claimed.

Operating Leases

The College leases various equipment under operating lease agreements. Rental expense associated with these operating leases amounted to approximately \$87,000 for the years ended June 30, 2021 and 2020.

Subsequent to June 30, 2021, minimum future lease payments under such leases are as follows:

Fiscal Years	
<u>Ending June 30,</u>	
2022	\$ 86,844
2023	86,844
2024	14,160
2025	<u>14,160</u>
	<u>\$ 202,008</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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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.

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 3.0 and 2.0 for the years ended June 30, 2021 and 2020, respectively.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and equivalents	\$ 3,628,056	\$ 3,126,515
Accounts receivable, net	1,697,585	1,201,019
Pledges receivable, net	74,681	98,926
Other receivables	2,842,688	210,701
Investments	<u>20,449,304</u>	<u>18,427,654</u>
	<u>28,692,314</u>	<u>23,064,815</u>
Less: amounts not available to be used within one year:		
Investments held in real estate	(14,865,742)	(15,707,371)
Board designated net assets	(683,903)	(643,337)
Net assets with donor restrictions (net real estate investments)	<u>(5,696,677)</u>	<u>(4,641,133)</u>
	<u>(21,246,322)</u>	<u>(20,991,841)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 7,445,992</u>	<u>\$ 2,072,974</u>

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, 2021 and 2020, management believes that the College has no liquidity issues.

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

Management has evaluated subsequent events through October 18, 2021, 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, 2021, other than the events mentioned below, requiring additional disclosure in these financial statements.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 17 - Subsequent Events

In September 2021, the College entered into a purchase and sale agreement for a residential house at 66 Gould Street for \$780,000. The sale is intended to increase the liquid assets of the College. The anticipated close date for the property is November 15, 2021.

In October 2021, the property at 113 Elm Avenue was released from liens held by financial institutions as part a 2014 mortgage security agreement. With this release the College intends to make the property available for sale to increase the liquid assets of the College.

In July 2021, the College paid off the entire balance of the line of credit balance of \$1,500,000.

In addition to the ERC reflected as part of these statements, management also submitted an additional ERC claim in the amount of \$1,015,586 for the period July 1, 2021 through September 30, 2021.

SUPPLEMENTAL INFORMATION

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Schedule
Year Ended June 30, 2021

Primary Reserve Ratio:		
	Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions 5,540,343
2	SFP	Net assets with donor restrictions 19,234,419
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 15,578,954
6	SD Line 3d	Property, plant and equipment pre-implementation 14,917,863
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 642,278
9	SD Line 5	Construction in progress 18,813
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 14,736,338
16	SD Line 8d	Long- term debt- for long term purpose pre-implementation 14,736,338
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 13,446,055
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 19,615,857
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 5,540,343
32	SFP	Net assets with donor restrictions 19,234,419
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 46,152,111
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 3,804,124
	Total Revenue without Donor Restrictions & Gains without Donor Restrictions	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	Total Revenues and Gains 21,140,409
45	SOA: Investments, Net	Investments, net (operating and non-operating) 2,279,572

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2021

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	\$ 13,446,055
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	<u>\$ -</u>

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, 2020 financial statement)	\$ 16,287,646
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	<u>(1,369,783)</u>
d. Balance Pre-implementation property, plant and equipment, net	<u>14,917,863</u>
4 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2020:	
a. Equipment	-
b. Land Improvements	-
c. Building	<u>-</u>
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	-
5 Construction in progress- acquired subsequent to June 30, 2020	18,813
6 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2020	<u>642,278</u>
7 Total Property, Plant and Equipment, net- June 30, 2021	<u>\$ 15,578,954</u>

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, 2020)	\$ 17,170,477
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	<u>(2,434,139)</u>
d. Balance pre-implementation debt	<u>14,736,338</u>
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	<u>2,000,000</u>

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2021

\$ 16,736,338

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, 2021				\$ -
14 Lease right-of-use assets- Pre-implementation				
Right of use assets as of balance sheet date June 20, 2021 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, 2021 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, 2021				\$ -
17 Lease right-of-use liability- Pre-implementation				
Lease liabilities as of balance sheet dated June 20, 2021 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, 2021 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, 2021, 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 18, 2021.

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.

A handwritten signature in dark ink, reading "O'Connor + Drew, P.C." in a cursive, flowing script.

**Certified Public Accountants
Braintree, Massachusetts**

October 18, 2021

(except for Note 3, Note 15 Note 17 and Supplemental Information as to which the date is
January 28, 2022)