

Eastern Nazarene College
Financial Statements for the year ending June 30, 2023
Summary of the Financial Report

Overview

The audited financial statements for the year ending June 30, 2023 were reviewed and accepted by the Audit Committee of the Board of Trustees. The opinion of our independent audit firm, WithumSmith & Brown P.C. is that the financial statements present fairly, in all material respects, the financial position of Eastern Nazarene College as of June 30, 2023. 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 \$41.8 million down \$2.7 million from \$44.5 million the prior year-end. This was primarily due to the receipt of Employee Retention Credit Receivable. Unrestricted cash and equivalents remained steady at \$3.1M

Total Liabilities were \$19.4M, up \$1M from the prior year. Our line of credit remains at \$1.5 million. The addition of a short term \$1M loan (subsequently paid down) accounts for the change. Long-term debt of \$13.9M was down \$420,000 from scheduled principal payments as part of annual debt service. Interest payments on debt were \$530,000.

Our net assets of \$22.3 million were down \$3.7 million. Endowment assets were down slightly at \$18.7 million, while providing funding of \$1.2 million for student scholarships, instructional, academic and general support in accordance with donor restrictions. Unrestricted net assets decreased \$3.2 million from \$7.7 million to \$4.5 million. The decrease in unrestricted net assets is attributable to the \$3.2 million operating loss

Statement of Activities (Operating and Non-operating Results)

We finished FY23 with a disappointing operating deficit of \$3.1m, compared to a breakeven budget. Key contributors to this gap:

- Net tuition revenues were down \$1.76m from budget (lower than expected fall 2022 enrollment)
- Room & Board was down \$170k (lower than expected fall 2022 enrollment)
- Donation support from end of year campaign was down \$350k
- Salaries were up \$500k due to replacements and retention
- Facility & Dining services overruns by \$500k due to inflation and employee retention

Operating revenues of \$17.3 million were down \$3.1M from the prior year. Unrestricted gifts were down \$600k, mostly due to a temporarily restricted capital campaign focus. Lower net tuition of \$1.7 million offset higher revenues for Campus Kinder Haus and conference services.

Operating expenses of \$20.4 million were on pace with FY22 audited results, despite \$1.5m overage from budget.

EASTERN NAZARENE COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2023

EASTERN NAZARENE COLLEGE

Financial Statements

June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Eastern Nazarene College:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Eastern Nazarene College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statement of financial position as of June 30, 2023, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the College adopted Accounting Standards Update 2016-06, *Leases*, as of July 1, 2021. Prior period amounts have not been adjusted and continue to be reported in accordance with the College's historic accounting under Topic 840. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements and related notes of the College as of and for the year ended June 30, 2022 were audited by O'Connor & Drew, P.C., who joined with WithumSmith+Brown, PC on January 1, 2023 and expressed an unmodified opinion on those statements dated October 17, 2022 (except for Notes 8 and 16, for which the date is November 1, 2022). No additional procedures were conducted after the dates of the financial statements by O'Connor & Drew, P.C or WithumSmith+Brown, PC.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, listed in the accompanying table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2023 on our consideration of the 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.

Withum Smith + Brown, PC

December 13, 2023

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30,

Assets

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash and equivalents	\$ 3,161,859	\$ 3,040,345
Restricted cash and equivalents	67,771	217,285
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of \$622,252 and \$548,405 at 2023 and 2022, respectively	1,025,079	1,133,102
Pledges receivable, net	71,380	106,103
Employee Retention Credit receivable	1,212,167	2,994,700
Other receivables	454,566	401,750
Perkins loans receivable, net of allowance for doubtful accounts of \$225,246 at 2023 and 2022	66,253	254,366
Prepays and other assets	509,380	495,521
Investments	18,507,720	19,130,322
Assets held in trust by others	196,511	196,819
Debt service reserve funds held by bond trustee	929,206	927,350
Right-of-use assets - financing	139,694	-
Property and equipment, net	<u>15,410,222</u>	<u>15,607,536</u>
Total Assets	<u>\$ 41,751,808</u>	<u>\$ 44,505,199</u>

Liabilities and Net Assets

Liabilities:		
Line of credit	\$ 1,500,000	\$ 1,500,000
Accounts payable and accrued expenses	2,510,987	1,930,253
Deferred revenues and student deposits	308,561	299,258
Long-term debt	14,901,875	14,321,994
Lease liability - financing	139,694	-
Advances from the United States Department of Education	<u>70,907</u>	<u>400,403</u>
Total Liabilities	<u>19,432,024</u>	<u>18,451,908</u>
Net Assets:		
Without donor restrictions	4,481,888	7,670,387
With donor restrictions	<u>17,837,896</u>	<u>18,382,904</u>
Total Net Assets	<u>22,319,784</u>	<u>26,053,291</u>
Total Liabilities and Net Assets	<u>\$ 41,751,808</u>	<u>\$ 44,505,199</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues and Other Support:			
Tuition and fees	\$ 12,310,173	\$ -	\$ 12,310,173
Less: financial aid	<u>(6,753,437)</u>	<u>-</u>	<u>(6,753,437)</u>
Net tuition and fees	5,556,736	-	5,556,736
Gifts of cash and financial assets	593,307	589,084	1,182,391
Church gifts of cash and financial assets	1,352,728	-	1,352,728
Auxiliary enterprises	6,037,733	-	6,037,733
Government grants of cash and financial assets	1,035,328	-	1,035,328
Other revenues	313,411	-	313,411
Net assets released from restrictions	<u>2,391,058</u>	<u>(2,391,058)</u>	<u>-</u>
Total Revenues and Other Support	<u>17,280,301</u>	<u>(1,801,974)</u>	<u>15,478,327</u>
Expenses:			
Program Expenses:			
Instructional	3,544,937	-	3,544,937
Student services	4,134,713	-	4,134,713
Academic support	439,849	-	439,849
Auxiliary enterprises	<u>3,019,794</u>	<u>-</u>	<u>3,019,794</u>
Total Program Expenses	<u>11,139,293</u>	<u>-</u>	<u>11,139,293</u>
Supporting Services Expenses:			
Management and general	7,986,166	-	7,986,166
Fundraising	736,297	-	736,297
Interest	<u>553,102</u>	<u>-</u>	<u>553,102</u>
Total Supporting Services Expenses	<u>9,275,565</u>	<u>-</u>	<u>9,275,565</u>
Total Operating Expenses	<u>20,414,858</u>	<u>-</u>	<u>20,414,858</u>
Changes in Net Assets from Operating Activities	<u>(3,134,557)</u>	<u>(1,801,974)</u>	<u>(4,936,531)</u>
Non-Operating Activities:			
Investment return, net	(305,676)	1,257,274	951,598
Changes in the value of assets held in trust by others	-	(308)	(308)
Net lease income	<u>251,734</u>	<u>-</u>	<u>251,734</u>
Changes in Net Assets from Non-Operating Activities	<u>(53,942)</u>	<u>1,256,966</u>	<u>1,203,024</u>
Changes in Net Assets	(3,188,499)	(545,008)	(3,733,507)
Net Assets, Beginning of Year	<u>7,670,387</u>	<u>18,382,904</u>	<u>26,053,291</u>
Net Assets, End of Year	<u>\$ 4,481,888</u>	<u>\$ 17,837,896</u>	<u>\$ 22,319,784</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues and Other Support:			
Tuition and fees	\$ 14,027,452	\$ -	\$ 14,027,452
Less: financial aid	<u>(7,407,044)</u>	<u>-</u>	<u>(7,407,044)</u>
Net tuition and fees	6,620,408	-	6,620,408
Gifts of cash and financial assets	1,231,231	231,138	1,462,369
Church gifts of cash and financial assets	1,472,881	-	1,472,881
Auxiliary enterprises	5,866,677	-	5,866,677
Government grants of cash and financial assets	3,048,899	-	3,048,899
Other revenues	561,149	-	561,149
Net assets released from restrictions	<u>1,676,580</u>	<u>(1,676,580)</u>	<u>-</u>
Total Revenues and Other Support	<u>20,477,825</u>	<u>(1,445,442)</u>	<u>19,032,383</u>
Expenses:			
Program Expenses:			
Instructional	4,064,434	-	4,064,434
Student services	3,821,493	-	3,821,493
Academic support	507,082	-	507,082
Auxiliary enterprises	<u>2,281,941</u>	<u>-</u>	<u>2,281,941</u>
Total Program Expenses	<u>10,674,950</u>	<u>-</u>	<u>10,674,950</u>
Supporting Services Expenses:			
Management and general	8,173,777	-	8,173,777
Fundraising	981,267	-	981,267
Interest	<u>544,986</u>	<u>-</u>	<u>544,986</u>
Total Supporting Services Expenses	<u>9,700,030</u>	<u>-</u>	<u>9,700,030</u>
Total Operating Expenses	<u>20,374,980</u>	<u>-</u>	<u>20,374,980</u>
Changes in Net Assets from Operating Activities	<u>102,845</u>	<u>(1,445,442)</u>	<u>(1,342,597)</u>
Non-Operating Activities:			
Investment return, net	(232,480)	643,710	411,230
Forgiveness of Paycheck Protection Program loan	2,000,000	-	2,000,000
Changes in the value of assets held in trust by others	-	(49,783)	(49,783)
Net lease income	<u>259,679</u>	<u>-</u>	<u>259,679</u>
Changes in Net Assets from Non-Operating Activities	<u>2,027,199</u>	<u>593,927</u>	<u>2,621,126</u>
Changes in Net Assets	2,130,044	(851,515)	1,278,529
Net Assets, Beginning of Year	<u>5,540,343</u>	<u>19,234,419</u>	<u>24,774,762</u>
Net Assets, End of Year	<u>\$ 7,670,387</u>	<u>\$ 18,382,904</u>	<u>\$ 26,053,291</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, 2023

	<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	\$ 2,521,859	\$ 2,298,021	\$ 330,304	\$ 1,307,384	\$ 1,345,901	\$ 326,707	\$ 8,130,176
Consulting and other outside services	409,180	266,503	-	1,371,417	760,729	40,130	2,847,959
Employee benefits	348,597	254,695	48,232	84,384	556,434	29,408	1,321,750
Depreciation and amortization	-	-	-	-	1,489,651	-	1,489,651
Interest	-	-	-	-	553,102	-	553,102
Office	31,447	113,341	3,144	46,732	2,073,570	97,865	2,366,099
Occupancy	410	15,307	-	125,382	554,829	-	695,928
Advertising and promotion	9,167	407,059	785	972	50,996	187,235	656,214
Payroll taxes	194,914	149,904	17,996	59,220	91,360	21,245	534,639
Miscellaneous	25,646	258,813	35,638	14,803	230,340	7,902	573,142
Scholarships	-	-	-	-	88,920	-	88,920
Insurance	-	16,236	-	9,500	275,240	-	300,976
Travel	3,717	347,558	-	-	47,877	23,947	423,099
Information technology	-	-	-	-	120,784	-	120,784
Professional fees	-	-	-	-	137,382	-	137,382
Bad debts	-	-	-	-	148,817	-	148,817
Conference	-	7,276	3,750	-	13,336	1,858	26,220
Total	<u>\$ 3,544,937</u>	<u>\$ 4,134,713</u>	<u>\$ 439,849</u>	<u>\$ 3,019,794</u>	<u>\$ 8,539,268</u>	<u>\$ 736,297</u>	<u>\$ 20,414,858</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, 2022

	<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	\$ 2,682,133	\$ 2,154,330	\$ 401,630	\$ 1,033,457	\$ 2,098,705	\$ 415,259	\$ 8,785,514
Consulting and other outside services	530,413	274,857	-	937,234	863,786	1,493	2,607,783
Employee benefits	321,465	228,729	50,693	80,925	783,113	35,061	1,499,986
Depreciation and amortization	-	-	-	-	1,476,919	-	1,476,919
Interest	-	-	-	-	544,986	-	544,986
Office	106,804	151,553	6,885	28,215	916,101	86,244	1,295,802
Occupancy	2,653	42,725	-	128,998	1,038,658	-	1,213,034
Advertising and promotion	199,492	373,849	18,738	2,315	88,354	389,963	1,072,711
Payroll taxes	203,039	144,892	23,238	46,823	143,143	27,459	588,594
Miscellaneous	14,380	233,014	1,143	14,608	81,956	16,076	361,177
Retirement	-	-	-	-	-	24	24
Scholarships	-	-	-	-	136,829	-	136,829
Insurance	-	17,381	-	9,366	206,081	-	232,828
Travel	4,055	197,145	-	-	60,219	9,688	271,107
Information technology	-	-	-	-	112,562	-	112,562
Professional fees	-	-	-	-	89,279	-	89,279
Bad debts	-	-	-	-	66,695	-	66,695
Conference	-	3,018	4,755	-	11,377	-	19,150
Total	<u>\$ 4,064,434</u>	<u>\$ 3,821,493</u>	<u>\$ 507,082</u>	<u>\$ 2,281,941</u>	<u>\$ 8,718,763</u>	<u>\$ 981,267</u>	<u>\$ 20,374,980</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>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (3,733,507)	\$ 1,278,529
Adjustments to reconcile changes in net assets to net cash applied to operating activities:		
Forgiveness of Paycheck Protection Program loan	-	(2,000,000)
With donor restricted contributions held in perpetuity	(223,143)	(185,338)
Depreciation	1,472,228	1,459,496
Amortization	17,423	17,423
Bad debts	148,817	66,695
Realized and unrealized investment gains, net	(796,816)	(313,877)
Changes in the value of assets held in trust by others	308	49,783
Changes in operating assets and liabilities:		
Student accounts, pledges, and other receivables	(58,887)	880,561
Employee Retention Credit receivable	1,782,533	(967,957)
Prepays and other assets	(13,859)	(105,950)
Change in advances from the United States Department of Education	(329,496)	13,235
Accounts payable and accrued expenses	580,734	(306,070)
Deferred revenues and student deposits	<u>9,303</u>	<u>(463,452)</u>
Net Adjustments	<u>2,589,145</u>	<u>(1,855,451)</u>
Net Cash Applied to Operating Activities	<u>(1,144,362)</u>	<u>(576,922)</u>
Cash Flows from Investing Activities:		
Collections of Perkins loans	188,113	64,456
Payments from debt service reserve fund held by bond trustee, net	(1,856)	(1,502)
Property and equipment acquisitions	(1,274,914)	(1,242,888)
Proceeds from sale of investments	6,725,756	6,576,248
Purchases of investments	<u>(5,306,338)</u>	<u>(4,943,389)</u>
Net Cash Provided by Investing Activities	<u>330,761</u>	<u>452,925</u>
Cash Flows from Financing Activities:		
With donor restricted contributions held in perpetuity	223,143	185,338
Proceeds from promissory note	1,000,000	-
Principal payments on long-term debt	<u>(437,542)</u>	<u>(431,767)</u>
Net Cash Provided by (Applied to) Financing Activities	<u>785,601</u>	<u>(246,429)</u>
Net Change in Cash and Equivalents	<u>(28,000)</u>	<u>(370,426)</u>
Cash and Equivalents, Beginning of Year	<u>3,257,630</u>	<u>3,628,056</u>
Cash and Equivalents, End of Year	<u>\$ 3,229,630</u>	<u>\$ 3,257,630</u>
Cash and Equivalents Consist of the Following at June 30,:		
Cash and equivalents	\$ 3,161,859	\$ 3,040,345
Restricted cash and equivalents	<u>67,771</u>	<u>217,285</u>
Total	<u>\$ 3,229,630</u>	<u>\$ 3,257,630</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 550,540</u>	<u>\$ 548,105</u>
Non-Cash Transaction:		
Lease liability additions	<u>\$ 139,694</u>	<u>\$ -</u>

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements

June 30, 2023 and 2022

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

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.

The College has been awarded the following HEERF and SIP funds as of June 30, 2022:

	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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

The College has recognized the following funds as Federal grants for the year ended June 30, 2022:

For the Year Ended June 30, 2022				
Student Aid	Institutional	Strengthening		
Award	Award	Institution		Total
		Program		
ARPA	\$ 1,079,032	\$ 1,079,031	\$ 95,435	\$ 2,253,498

As of June 30, 2023, the College had expended and recognized all HEERF funds.

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 ("U.S. GAAP") 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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Measure of Operations

The statements of activities and 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, lease income, and other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 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.

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, 2023 and 2022, management did not deem it necessary to establish an allowance for other receivables.

Students accounts receivable as of July 1, 2021 was \$1,697,585.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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.

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.

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.

Debt Service Reserve Funds Held by Bond Trustee

Cash held by a financial institution in a reserve account used to pay interest and principal amounts of debt.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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.

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, 2023 and 2022.

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.

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.

Deferred revenue and student deposits at July 1, 2021 was \$762,710.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Advances from the United States Department of Education

Advances from ED 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, 2023 and 2022

Management establishes 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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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 five years, the endowment spend from asset earnings have averaged 6.5%. This spend is higher than target, but is consistent with the College's policy. It recognizes the strong endowment returns along with the financial needs of the College's students and the College, especially during the current pandemic. Over the past 10 years, the endowment spend has been 70% of earnings with 30% of earnings reserved for growth.

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 has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2023 and 2022, 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 and changes in net assets as net assets released from restrictions.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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.

Employee Retention Credit (ERC)

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

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.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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. 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 and changes in net assets 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, 2023 and 2022.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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.

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.

U.S. GAAP requires 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.

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.

Leases

The College categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow us to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded on the balance sheet. The College had no operating leases during 2022 and 2023.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available to us. Right of use assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease. Finance lease assets are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term.

Adoption of New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) amending the accounting for leases. The Company adopted the new standard effective July 1, 2022, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the Company utilized the practical expedient available under the guidance. Further, the Company elected to implement the package of practical expedients, whereby the Company did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs.

Reclassifications

Certain amounts in the 2023 financial statements have been reclassified to conform to the 2022 presentation.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Note 3 - **Pledges Receivable**

Discount rates of approximately 0.50% have been applied to pledges due in years subsequent to both years ending June 30, 2023 and 2022. Pledges receivable consist of the following at June 30,:

	<u>2023</u>	<u>2022</u>
Due in less than one year	\$ 71,380	\$ 81,423
Due in two to five years	<u>-</u>	<u>25,000</u>
	71,380	106,423
Less: discount to net present value	<u>-</u>	<u>320</u>
	<u>\$ 71,380</u>	<u>\$ 106,103</u>

Note 4 - **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, 2023.

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, 2023 and 2022

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

	<u>June 30, 2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,270,212	\$ -	\$ -	\$ 1,270,212
Mutual Funds	3,194,364	-	-	3,194,364
Real Estate	-	14,035,563	-	14,035,563
Limited Partnerships	-	-	3,581	3,581
	<u>4,464,576</u>	<u>14,035,563</u>	<u>3,581</u>	<u>18,503,720</u>
Non-recurring Basis:				
Privately Held securities	-	-	4,000	4,000
Total Investments	<u>\$ 4,464,576</u>	<u>\$ 14,035,563</u>	<u>\$ 7,581</u>	<u>\$ 18,507,720</u>
Assets Held in Trust by Others	<u>\$ 196,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,511</u>
	<u>June 30, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,120,246	\$ -	\$ -	\$ 1,120,246
Mutual Funds	3,695,757	-	-	3,695,757
Real Estate	-	14,298,582	-	14,298,582
Limited Partnerships	-	-	11,737	11,737
	<u>4,816,003</u>	<u>14,298,582</u>	<u>11,737</u>	<u>19,126,322</u>
Non-recurring Basis:				
Privately Held Securities	-	-	4,000	4,000
Total Investments	<u>\$ 4,816,003</u>	<u>\$ 14,298,582</u>	<u>\$ 15,737</u>	<u>\$ 19,130,322</u>
Assets Held in Trust by Others	<u>\$ 196,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,819</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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, 2023 and 2022:

	<i>Privately Held Securities</i>	<i>Limited Partnerships</i>
Balances, June 30, 2021	\$ 4,000	\$ 11,737
Net investment return	<u>-</u>	<u>104</u>
Balances, June 30, 2022	4,000	11,841
Net investment return	-	(1,788)
Distributions of capital	<u>-</u>	<u>(6,472)</u>
Balances, June 30, 2023	<u>\$ 4,000</u>	<u>\$ 3,581</u>

Note 5 - **Property and Equipment**

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

	<u>2023</u>	<u>2022</u>
Land	\$ 704,742	\$ 704,742
Buildings	11,298,211	11,298,211
Improvements	17,718,049	17,318,229
Equipment and furnishings	23,352,707	22,851,977
Construction in progress	<u>867,600</u>	<u>493,236</u>
Total	53,941,309	52,666,395
Less: accumulated depreciation	<u>(38,531,087)</u>	<u>(37,058,859)</u>
Land, Buildings, and Equipment, net	<u>\$ 15,410,222</u>	<u>\$ 15,607,536</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Note 6 - **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, 2023 and 2022 was 8.25% and 4.75%, respectively. 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, 2023 and 2022.

Note 7 - **Paycheck Protection Program**

In April 2020, the College received Paycheck Protection Program (“PPP”) loan under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in the amounts of \$2,034,615. The loan was forgiven based upon the College using the proceeds on eligible expenses over a twenty-four-week period from the time that the loans were obtained. Eligible expenses include payroll and related benefits, utilities, and rent/mortgage interest. In February 2022, the Small Business Administration, acting on behalf of the federal government, forgave the entirety of the loan and as such, recognized it as non-operating revenue on the statement of activities and changes in net assets.

Note 8 - **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, 2023 and 2022, of \$14,159,533 and \$14,597,076, are reported net of issuance costs of approximately \$258,000 and \$275,000, 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, 2023 and 2022 was approximately \$17,000. Annual amortization for the remaining life of the Bonds will be approximately \$17,000.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Promissory Note

During the fiscal year 2023, the College entered into a promissory note for \$1,000,000. The loan bears a fixed interest of 5.75% payable in-full within 90 days of receipt of the final ERC payment from the Internal Revenue Service. Subsequent to year-end, the entire promissory note was paid off.

Future principal maturities of long-term debt subsequent to June 30, 2023 are as follows:

Fiscal Years <u>Ending June 30,</u>	
2024	\$ 1,469,270
2025	487,036
2026	504,107
2027	521,776
2028	538,941
Thereafter	<u>11,638,403</u>
	15,159,533
Less: debt issuance costs, net of amortization of \$446,866	<u>(257,658)</u>
	<u>\$ 14,901,875</u>

The College is in technical default of the liquidity ratio and minimum debt service coverage ratio covenants as of June 30, 2023. Subsequent to year end, the lending institution granted the College a waiver for these debt covenant breaches.

Note 9 - Leases

During 2023, the College entered into a long-term non-cancelable finance lease agreement for copiers and printers. The leases expire in June 2028 with monthly lease payments of \$2,558, includes no renewal options, and requires additional payments based on usage. There are no renewal options included in the lease and no lease payments for the year ended June 30, 2023.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

The College recorded a right-of-use asset for the finance lease of \$139,694 with no amortization for the year ended June 30, 2023.

Because the rates implicit in the leases are generally not available, the College utilizes the risk-free rate as the discount rate.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2023:

Fiscal Years	
<u>Ending June 30,</u>	
2024	\$ 30,690
2025	30,690
2026	30,690
2027	30,690
2028	<u>30,691</u>
	153,451
Less: Imputed interest	<u>(13,757)</u>
Total lease liability	<u>\$ 139,694</u>

The weighted average discount rate associated with this finance lease as of June 30, 2023 is 3.81%. The weighted average remaining lease term of this finance lease as of June 30, 2023 is 5 years.

The College receives lease income through operating agreements 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 and have a carrying value of \$14,035,563 and \$14,298,582 for the years ended June 30, 2023 and 2022, respectively. The properties are included in investments within the statements of financial position. Lease income is included within the statements of activities and changes in net assets under the caption net lease income. Total lease income for these short-term agreements was \$251,734 and \$259,679 for the years ended June 30, 2023 and 2022, respectively.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Gross lease income	\$ 305,555	\$ 333,483
Less:		
Repairs and Maintenance	22,449	48,017
Utilities	<u>31,372</u>	<u>25,787</u>
Net Lease Income	<u>\$ 251,734</u>	<u>\$ 259,679</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>2023</u>	<u>2022</u>
Board designated funds	\$ 864,919	\$ 858,148
Undesignated	<u>3,616,969</u>	<u>6,812,239</u>
	<u>\$ 4,481,888</u>	<u>\$ 7,670,387</u>

Net Assets With Restrictions

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

	<u>2023</u>	<u>2022</u>
Endowment (for perpetuity)	\$ 12,987,583	\$ 13,434,751
Scholarships and awards (for purpose)	3,891,378	3,951,773
Capital improvements (for purpose)	67,884	137,570
Instructional and academic support (for purpose)	696,013	682,205
General support (for purpose)	93,478	75,558
Assets held in custody of others (for purpose)	<u>101,560</u>	<u>101,047</u>
	<u>\$ 17,837,896</u>	<u>\$ 18,382,904</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

The donors of certain endowment funds previously held in perpetuity released the funds to the College to be used for scholarships at the donor's discretion. The amount released from restriction during the years ended June 30, 2023 and 2022 was approximately \$670,000 and \$200,200, respectively.

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>2023</u>	<u>2022</u>
Scholarships	\$ 1,811,154	\$ 1,309,346
Capital improvements	389,858	125,230
Instruction and academic support	182,177	228,729
General support	<u>7,869</u>	<u>13,275</u>
	<u>\$ 2,391,058</u>	<u>\$ 1,676,580</u>

Note 11 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets,			
beginning of year	\$ 858,148	\$ 18,242,114	\$ 19,100,262
Investment return	3,436	1,256,761	1,260,197
Change in the value of assets			
held in trust by others	-	(816)	(816)
Contributions	3,335	223,143	226,478
Amounts appropriated	<u>-</u>	<u>(1,916,295)</u>	<u>(1,916,295)</u>
Endowment net assets,			
end of year	<u>\$ 864,919</u>	<u>\$ 17,804,907</u>	<u>\$ 18,669,826</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

	2022		
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 683,903	\$ 18,747,615	\$ 19,431,518
Investment return	24,440	682,210	706,650
Change in the value of assets held in trust by others	-	(16,260)	(16,260)
Contributions	1,250	346,810	348,060
Amounts appropriated	<u>148,555</u>	<u>(1,518,261)</u>	<u>(1,369,706)</u>
Endowment net assets, end of year	<u>\$ 858,148</u>	<u>\$ 18,242,114</u>	<u>\$ 19,100,262</u>

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

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. The College did not contribute to this plan for the years ended June 30, 2023 and 2022.

Note 13 - **Commitments, Contingencies, and Uncertainties**

Third-Party Agreements

The College has a contract with a third-party vendor expiring in fiscal year 2033 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, 2023 and 2022

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.

Cash

The College maintains cash balances at financial institutions, which throughout the year, exceed the federal incurred limited of \$250,000. Any loss incurred or lack of access to such funds could have a significant adverse impact on the College's financial condition, results of operations, and cash flows.

Investments

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. The College's holdings of equities, and money markets, are held in brokerage accounts with national brokerage firms. These accounts are protected by the Securities Investor Protection Corporation ("SIPC"). In the event of broker-dealer failure, up to \$500,000 in these accounts will be protected from loss. The SIPC insurance does not protect against market losses on investments. The College's investments in common pooled funds is not covered under SIPC insurance.

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 2.2 and 3.0 for the years ended June 30, 2023 and 2022, respectively.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2023 and 2022

Note 14 - **Availability and Liquidity**

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and equivalents	\$ 3,161,859	\$ 3,040,345
Accounts receivable, net	1,025,079	1,133,102
Pledges receivable due within one year	71,380	81,423
Employee Retention Credit receivable	1,212,167	2,994,700
Other receivables	<u>454,566</u>	<u>401,750</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,925,051</u>	<u>\$ 7,651,320</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 undesignate previously designated assets, as disclosed in Note 10, or sell investment property. At June 30, 2023 and 2022, management believes that the College has no liquidity issues.

Note 15 - **Subsequent Events**

Management has evaluated subsequent events through December 13, 2023, the date for which the financial statements were available for issuance and did not identify any other events subsequent to June 30, 2023, other than the events mentioned below, requiring additional disclosure in these financial statements.

In July 2023, the College entered into an agreement with the Commonwealth of Massachusetts to provide qualified displaced families with basic needs, including temporary emergency shelter and healthcare services.

In August 2023, the College collected on all receivables and interest pertaining to the filling of the Employee Retention Credit.

In September 2023, the College paid off the entire balance of the \$1,500,000 line of credit.

SUPPLEMENTAL INFORMATION

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Schedule
Year Ended June 30, 2023

Primary Reserve Ratio:			
		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 4,481,888
2	SFP	Net assets with donor restrictions	17,837,896
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	15,410,222
6	SD Line 3d	Property, plant and equipment pre-implementation	14,135,308
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	1,274,914
9	SD Line 5	Construction in progress	-
10		Lease right-of-use asset, net - Total	139,694
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	139,694
13	Not applicable	Intangible assets	-
14	Not applicable	Post-employment and pension liabilities	-
15		Long-term debt- for long term purposes - Total	13,901,875
16	SD Line 8d	Long- term debt- for long term purpose pre-implementation	13,901,875
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	139,694
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	139,694
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	12,987,583
		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	20,414,858
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	4,481,888
32	SFP	Net assets with donor restrictions	17,837,896
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	41,751,808
38	Not applicable	Lease right-of-use asset pre-implementation	139,694
39	Not applicable	Pre-implementation right-of-use asset liability	-
40	Not applicable	Intangible Assets	-
41	Not applicable	Secured and unsecured related party 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	(3,188,499)
		Total Revenue without Donor Restrictions & Gains without Donor Restrictions	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	Total Revenues and Gains	17,532,035
45	SOA: Investments, Net	Investments, net (operating and non-operating)	-

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2023

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	\$ 12,987,583
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, 2022 financial statement)	\$ 15,607,536
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	(1,472,228)
d. Balance Pre-implementation property, plant and equipment, net	14,135,308
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	-
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	-
5 Construction in progress- acquired subsequent to June 30, 2021	-
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	1,274,914
	-
7 Total Property, Plant and Equipment, net- June 30, 2023	\$ 15,410,222

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)	\$ 14,321,994
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	(420,119)
d. Balance pre-implementation debt	13,901,875
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	1,000,000

EASTERN NAZARENE COLLEGE
Financial Responsibility Supplemental Disclosure
Year Ended June 30, 2023

\$ 14,901,875

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			\$ 139,694
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			\$ 139,694
16 Lease right-of-use liability			
Lease liabilities as of balance sheet dated June 20, 2021			\$ 139,694
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			\$ 139,694

Unsecured related party receivables

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

**INDEPENDENT AUDITOR'S 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 AUDITOR'S 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:

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, 2023, and the related statements of activities and 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 December 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit 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 audit 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.

Report on 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 audit 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.

Withum Smith + Brown, PC

December 13, 2023