



Nichols College

Learn. Lead. Succeed.

FINANCIAL STATEMENT YEAR END REVIEW JUNE 30, 2019

Overview

The June 30, 2019 audited financial statements were reviewed and accepted by the audit committee at its meeting on September 16, 2019. Our audit firm of Bollus Lynch, LLC gave an unmodified or “clean” audit opinion with no material weaknesses in controls identified and there were no significant audit or financial reporting items noted.

Statement of Financial Position:

- Total assets for FY19 increased by approximately \$4.4M driven primarily by increases in property, plant and equipment of \$2.1M and in investments of \$2.5M offset by a decrease in cash of \$.4M.
- Total liabilities for the period increased by \$1.3M due to increases in the line of credit of \$1.8M, in accounts payable of \$340K and in accrued and other liabilities of \$202K. The College had predicted the increase in the line due to the construction being done on Lombard Hall without taking on additional debt. The increase in accrued and other liabilities is attributable to an increase in accrued severance and smaller increases in the remaining liability accounts. The increase was offset by the College having made principal payments of \$768K on the long-term debt held by United Bank.
- Net assets increased by \$3.1M for the year and growth was shown in the with and without donor restriction categories. Details of change in net assets are displayed on the Statement of Activities.

Statement of Activities:

The College continues to provide a positive total change in net assets. For FY19, the increase in total net assets was \$3.1M. This represents a 39% increase from the prior year change in net assets of \$2.2M.

Revenue

- Total revenues of \$41.8M increased by \$1.3M from the prior year. The increase is primarily driven by an increase in contributions and gifts of \$1.7M offset by a decrease in auxiliary revenue of \$410K.
- Net tuition revenue decreased about \$13K. Undergraduate day operations decreased \$131K while Undergraduate evening increased \$114K and GPS revenue was up \$4K.
- Institutional financial aid awards increased about \$321K as the blended discount rate increased from 53.2% in FY18 to 55.5% in FY19.
- Revenue from auxiliary operations driven mainly by room & board decreased 3% or \$.4M.
- Contributions increased \$1.7M or 57% over the prior period.
- Net investment gains and losses for the year were about \$.4M with a further \$.7M in interest and dividends received.
- Non-operating revenue for FY19 was \$1.0M versus \$1.3M for FY18 as contributions restricted for capital purposes slowed during the period.

Expenses

Total expenses increased by 405K or 1% over the prior year. The pace of expense growth compares to FY18 as the College continues to monitor discretionary spending tightly. FY19 increased spending was mainly related to Tuition Exchange and Study Abroad expenses of about \$220K with increases & decreases spread amongst the remaining categories. Salaries & benefits increased approximately \$297K primarily due to the 2.25% merit increase and an increase in Faculty salaries totaling \$573K. This was offset by a decrease in tuition remission and reimbursement of \$207K and a decrease in the vacation accrual of \$77K.

Statement of Cash Flows

The College continues to generate sufficient cash flows from operations and uses excess funds generated to reinvest in the physical plant. The net cash provided by operating activities was \$5.2M compared to \$4.8M for the prior year.

FY19 Actual to Budget results

The total actual change in net assets for FY19 were \$3.1M vs budget of \$2.5M representing a surplus of about \$.6M. Actual total revenue from all sources of \$41.8M missed the budget target of \$43.3M by \$1.5M driven primarily by the shortfall in budgeted tuition and fees of \$1.6M. This was offset by savings from reduced spending to budget of \$2M. Actual total expenses were \$38.7M vs budget of \$40.7M.

Revenue items of note include:

- Actual net tuition & fee revenue from all sources of \$22.8M was behind the budget of \$24.4M by \$1.6M.
- UG Day tuition & fees revenue of \$18.5M lagged budgeted figure of \$19.3M by about \$.8M.
- Adult undergraduate program tuition & fees of \$1.2M was exactly on target with the budget of \$1.2M
- GPS tuition & fees of \$3.1M fell short of the \$3.8M budget target by \$.7M
- Auxiliary revenues of \$12.7M missed the budget target of \$13.4M by \$.7M due to actual spring residents of 825 vs 867 budgeted.
- Net investment activity of \$1M exceeded by budget target of \$.8M by \$.2M
- Total contributions & gifts of \$4.6M exceeded budget by about \$.7M.
- Contributions & gifts from operating activities of \$3.6M exceeded budgeted figure of \$1.1M by \$2.5M
- Contributions & gifts from nonoperating activities of \$1M fell short of budget of \$2.8M by \$1.8M.
- Total actual expenses were \$38.7M vs budget of \$40.7 for savings of about \$2M.

FY20 Projections

The FY20 budget has been revised to account for a total change in net assets of \$3.5M with a gain from operations of about \$290K expected. The gain from operations was \$26K on the original submission in May 2019. The revised budget is based on the following enrollment activity.

<u>Term</u>	<u>FY19 Actual</u>	<u>FY20 Original</u>	<u>FY20 Revised</u>
Fall	1,210	1,226	1,188
Spring	1,123	1,143	1,121
Fall – Residents	925	933	882
Spring – Resident	825	864	835

NICHOLS COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019
AND
INDEPENDENT AUDITOR'S REPORT

NICHOLS COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Nichols College

Report on the Financial Statements

We have audited the accompanying financial statements of Nichols College (the "College"), which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nichols College as of June 30, 2019, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of a Matter

As disclosed in Note 2 to the financial statements, the College adopted the provisions of ASU 2016-14 - Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Nichols College's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
September 16, 2019

NICHOLS COLLEGE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With summarized comparative information for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 896,561	\$ 1,262,463
Student accounts receivable, less allowance for doubtful accounts of \$765,530 and \$679,174 in 2019 and 2018, respectively	1,543,526	1,448,404
Contributions receivable, net	3,540,797	3,405,801
Other receivables	16,184	48,490
Investments	24,966,196	22,412,276
Other assets	691,062	697,016
Beneficial interests	2,038,006	2,175,520
Property and equipment, net	<u>69,975,858</u>	<u>67,813,699</u>
	<u>\$ 103,668,190</u>	<u>\$ 99,263,669</u>
Liabilities and Net Assets		
Note payable	\$ 5,471,138	\$ 3,585,817
Accounts payable, trade	1,748,444	1,407,932
Accrued and other liabilities	873,072	670,232
Deferred tuition and fees	3,027,794	3,288,236
Deferred contract revenue	246,875	346,875
Long-term debt, net	<u>18,077,265</u>	<u>18,845,719</u>
Total liabilities	<u>29,444,588</u>	<u>28,144,811</u>
Net assets		
Without donor restrictions	44,532,173	44,402,080
With donor restrictions	<u>29,691,429</u>	<u>26,716,778</u>
Total net assets	<u>74,223,602</u>	<u>71,118,858</u>
	<u>\$ 103,668,190</u>	<u>\$ 99,263,669</u>

See accompanying independent auditor's report and notes to financial statements.

NICHOLS COLLEGE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

(With summarized comparative information for 2018)

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2019	2018
Operating activities:				
Revenue and other support				
Tuition and fees, net of financial aid of \$21,070,403 and \$20,749,589 in 2019 and 2018, respectively	\$ 22,776,054	\$ -	\$ 22,776,054	\$ 22,786,898
Auxiliary enterprises	12,728,940	-	12,728,940	13,139,713
Contributions and gifts	689,502	2,885,148	3,574,650	1,611,084
Interest and dividend income	2,576	659,491	662,067	552,400
Net investment gains (losses)	(2,899)	354,552	351,653	1,741,977
Net losses on written covered call options	-	-	-	(1,250,497)
Change in value of beneficial interests	-	62,486	62,486	57,168
Other revenue	581,471	-	581,471	581,645
Net assets released from restrictions	1,156,208	(1,156,208)	-	-
Imposition of donor restriction	-	-	-	(5,700)
Total	37,931,852	2,805,469	40,737,321	39,214,688
Expenses				
Instruction	7,789,354	-	7,789,354	6,994,070
Academic support	4,521,199	-	4,521,199	4,351,335
Student services	10,712,358	-	10,712,358	10,829,069
Institutional support	6,636,957	-	6,636,957	6,644,112
Institutional development	1,147,489	-	1,147,489	1,169,193
Auxiliary enterprises	7,867,905	-	7,867,905	8,311,420
Total	38,675,262	-	38,675,262	38,299,199
Change in net assets from operating activities	(743,410)	2,805,469	2,062,059	915,489
Non-operating activities:				
Contributions and gifts restricted for capital purposes	-	75,095	75,095	274,298
Contributions and gifts restricted for long-term investment	-	945,529	945,529	1,035,845
Gain on sale of property, plant, and equipment	22,061	-	22,061	-
Net assets released from restrictions	851,442	(851,442)	-	-
Imposition of donor restriction	-	-	-	5,700
Change in net assets from non-operating activities	873,503	169,182	1,042,685	1,315,843
Change in net assets	130,093	2,974,651	3,104,744	2,231,332
Net assets, beginning of year	44,402,080	26,716,778	71,118,858	68,887,526
Net assets, end of year	\$ 44,532,173	\$ 29,691,429	\$ 74,223,602	\$ 71,118,858

See accompanying independent auditor's report and notes to financial statements.

NICHOLS COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

(With summarized comparative information for 2018)

	Instruction	Academic Support	Student Services	Institutional Support	Institutional Development	Auxiliary Enterprises	Totals	
							2019	2018
Salaries and wages	\$ 5,226,952	\$ 2,006,797	\$ 4,276,484	\$ 2,237,635	\$ 561,093	\$ 191,111	\$ 14,500,072	\$ 13,935,265
Employee benefits and payroll taxes	1,144,904	491,214	1,379,015	415,490	164,178	81,818	3,676,619	3,856,132
Food services	-	-	-	-	-	2,103,940	2,103,940	2,016,534
Professional fees	3,981	6,207	466,009	293,012	31,326	2,818	803,353	1,065,928
Vendor services	24,242	224,579	612,687	1,961,053	65,545	228,500	3,116,606	2,726,689
Utilities	2,916	3,205	28,440	135,531	3,797	514,565	688,454	827,309
Supplies	25,601	161,829	124,026	52,133	10,227	92,535	466,351	436,781
Repairs and maintenance	-	21,425	54,437	12,738	5,440	188,548	282,588	255,978
Rent	-	50,760	262,492	-	4,732	2,331	320,315	297,616
General insurance	-	-	76,037	263,661	-	12,955	352,653	377,334
Small equipment / software	1,218	10,253	215,000	170,743	688	39,427	437,329	381,918
Advertising	-	15,016	372,521	200	-	-	387,737	522,430
Printing and mailing	3,437	12,805	87,587	48,732	97,040	40	249,641	268,186
Dues and subscriptions	1,595	9,815	56,055	74,917	2,076	3,130	147,588	144,047
Travel and entertainment	93,473	143,273	838,908	159,206	137,865	89,480	1,462,205	1,433,446
Scholarships	-	689,970	-	-	-	-	689,970	634,950
Credit card and bank fees	-	-	-	31,321	13,827	773	45,921	46,321
Uncollectible accounts expense	-	-	-	491,310	-	-	491,310	541,114
Operation and maintenance	534,794	285,223	784,364	121,590	21,022	1,818,299	3,565,292	3,466,348
Interest	102,979	54,922	151,035	23,413	4,048	350,128	686,525	604,877
Depreciation and amortization	623,255	332,402	914,107	141,702	24,499	2,119,066	4,155,031	4,433,777
Other	7	1,504	13,154	2,570	86	28,441	45,762	26,219
	<u>\$ 7,789,354</u>	<u>\$ 4,521,199</u>	<u>\$ 10,712,358</u>	<u>\$ 6,636,957</u>	<u>\$ 1,147,489</u>	<u>\$ 7,867,905</u>	<u>\$ 38,675,262</u>	<u>\$ 38,299,199</u>

See accompanying independent auditor's report and notes to financial statements.

NICHOLS COLLEGE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

(With summarized comparative information for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,104,744	\$ 2,231,332
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,155,031	4,433,777
Uncollectible accounts expense	491,310	541,114
Gain on sale of property, plant, and equipment	(22,061)	-
Change in value of beneficial interests	(62,486)	(57,168)
Net investment gains	(351,653)	(1,741,977)
Net losses on written covered call options	-	1,250,497
Contributions and gifts restricted for capital purposes	(75,095)	(274,298)
Contributions and gifts restricted for long-term investment	(945,529)	(1,035,845)
(Increase) decrease in operating assets:		
Student accounts receivable	(586,432)	(797,823)
Contributions receivable	(608,680)	(207,769)
Other receivables	32,306	14,953
Beneficial interests	200,000	200,000
Other assets	5,954	114,731
Increase (decrease) in operating liabilities:		
Accounts payable, trade	58,348	(98,824)
Accrued and other liabilities	202,840	42,575
Deferred tuition and fees	(260,442)	300,446
Deferred contract revenue	(100,000)	(100,000)
Total adjustments	<u>2,133,411</u>	<u>2,584,389</u>
Net cash provided by operating activities	<u>5,238,155</u>	<u>4,815,721</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(6,027,972)	(6,320,591)
Proceeds from sale of property and equipment	22,061	-
Proceeds from sales and maturities of investments	38,492	25,172,862
Purchases of investments	(2,240,759)	(25,123,542)
Premiums received for written covered call options	-	4,629
Net cash used in investing activities	<u>(8,208,178)</u>	<u>(6,266,642)</u>
Cash flows from financing activities:		
Net borrowings of note payable	1,885,321	97,771
Repayments of long-term debt	(775,508)	(768,755)
Contributions restricted for capital purposes	373,068	1,311,971
Contributions restricted for long-term investment	1,121,240	1,130,728
Net cash provided by financing activities	<u>2,604,121</u>	<u>1,771,715</u>
Net increase (decrease) in cash	(365,902)	320,794
Cash, beginning of year	<u>1,262,463</u>	<u>941,669</u>
Cash, end of year	<u>\$ 896,561</u>	<u>\$ 1,262,463</u>

See accompanying independent auditor's report and notes to financial statements.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION

Nichols College (the “College”) is a nonprofit, private college, located in Dudley, Massachusetts. The College is governed by a Board of Trustees. The College is empowered to award associate, baccalaureate and masters degrees as well as programs of continuing education.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the College are described subsequently to enhance the usefulness and understandability of the financial statements.

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College’s financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Basis of accounting

The financial statements of the College have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the College obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Accounting estimates

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

Net assets

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

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the College, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. In addition, the governing board of the College may elect to designate such resources for specific purposes. This designation may be removed at the board’s discretion.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the College must continue to use the resources in accordance with the donor’s instructions.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets (continued)

The College's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the College, unless the donor provides more specific directions about the period of its use.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash

The College maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts. The College believes it is not exposed to any significant credit risk on cash.

Student accounts receivable

Student accounts receivable are reported net of any anticipated losses due to uncollectible amounts. The College considers an account to be past due when a student leaves mid-semester with an unpaid account balance or when a student has an account balance after the final payment due date of the semester. Past due accounts are subject to past due letter collection efforts and are subsequently placed with third-party collection agencies. If an account balance still exists at the conclusion of a twelve-month collection period, the account is written off. The collectability of individual accounts is evaluated closely at the close of each fiscal year, and the allowance for uncollectible accounts is adjusted to a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The College does not assess finance charges against student receivables that are past due.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Investments

Investments are reported at fair value. The net investment return is reported in the statement of activities as increases or decreases in net assets without donor restrictions unless its use is restricted by explicit donor stipulations or by law.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds

The College's endowment consists of individual donor restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions.

As required by generally accepted accounting principles, the College classifies as donor restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as non-expendable net assets is classified as expendable net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the College may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the College and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the College; and the investment policies of the College.

The College has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the College's Finance Committee shall seek to invest the endowment funds in such a manner that the investments will provide a spendable return consistent with a long-term goal of preserving the funds in real terms. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College has invested in debt and equity securities that target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution, as needed, amounts for the purpose of scholarships and financial aid, special programs, capital improvements, and academic and athletic support programs. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require the College to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019.

Debt issuance costs

Debt issuance costs represent fees and other costs associated with obtaining long-term financing. Such costs are being amortized on a straight-line basis over the terms of the financing. Long-term financing is presented net of unamortized debt issuance costs on the statement of financial position.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$5,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tuition and fees

Certain deposits and advance payments received for tuition and fees related to the College's Summer Continuing Education and Graduate programs and tuition billed relating to the ensuing academic year are deferred and are recorded as deferred tuition and fees.

Deferred contract revenue

Refundable advances received from the College's food service vendor are recorded as deferred contract revenue and recognized ratably over the life of the contract.

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Measure of operations

In its statement of activities, the College includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Contributions restricted for endowment and capital purposes are recognized as non-operating activities.

Contributions and gifts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The College is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the College has an irrevocable right to the bequest.

Expense recognition and allocation

The cost of providing the College's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Operation and maintenance, depreciation, amortization, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Management periodically evaluates the bases on which costs are allocated.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense recognition and allocation (continued)

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

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The College generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising, academic and institutional support expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising expense was approximately \$387,737 and \$522,430 in 2019 and 2018, respectively.

Tax-exempt status

The College is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the College are tax deductible to donors under Section 170 of the IRC. The College is not classified as a private foundation.

Change in accounting principles

The College implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called “Net Assets with Donor Restrictions”.
- The unrestricted net asset class has been renamed “Net Assets without Donor Restrictions”.
- A Statement of Functional Expenses has been included as a required statement.
- The financial statements include a disclosure about liquidity and availability of resources (note 3).
- Investment fees are recorded as a component of investment return.

The changes have the following effect on net assets at June 30, 2018:

	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Net asset class		
Unrestricted net assets	\$ 44,402,080	\$ -
Temporarily restricted net assets	15,998,526	-
Permanently restricted net assets	10,718,252	-
Net assets without donor restrictions	-	44,402,080
Net assets with donor restrictions	-	26,716,778
Total net assets	<u>\$ 71,118,858</u>	<u>\$ 71,118,858</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - LIQUIDITY AND AVAILABILITY

The following table reflects the College's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of statement of financial position date because of contractual restrictions.

	<u>2019</u>
Financial assets:	
Cash	\$ 896,561
Student accounts receivable, net	1,543,526
Contributions receivable, net	3,540,797
Other receivables	16,184
Investments	<u>24,966,196</u>
Total financial assets	30,963,264
Less: Financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	6,767,652
Contributions receivable unavailable for spending for more than one year, some of which are also subject to purpose restrictions	3,323,797
Donor-restricted endowment funds	<u>17,344,974</u>
Amount available for general expenditures within one year	<u>\$ 3,526,841</u>

The above table reflects donor-restricted endowment funds as unavailable because it is the College's intention to invest those resources for the long-term support of the College. However, in the case of need, the Board of Trustees could appropriate resources from the donor-restricted funds available for general use. (\$17,344,974, of which \$11,351,199 is the original gift). Note 2 provides more information about those funds and about the spending policies for all endowment funds.

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition to the available financial assets summarized above, the College has various sources of liquidity at its disposal, including a line of credit. See note 8 for information about the College's line of credit. Further, the College operates with a balanced budget and anticipates collecting sufficient contributions and revenue to cover general expenditures not covered by donor-restricted resources and endowment appropriations.

4 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2019 are expected to be received as follows:

2020	\$ 2,537,486
2021	660,583
2022	427,677
2023	215,700
2024	<u>201,000</u>
	4,042,446
Less: Allowance for uncollectible contributions receivable	393,422
Unamortized discount	<u>108,227</u>
	<u>\$ 3,540,797</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2019</u>	<u>2018</u>
With donor restrictions:		
Donor restricted endowment	\$ 17,344,974	\$ 15,417,314
Purpose restrictions	6,767,652	5,996,828
Without donor restrictions	<u>853,570</u>	<u>998,134</u>
	<u>\$ 24,966,196</u>	<u>\$ 22,412,276</u>

Investments are composed of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mutual funds, equities	\$ 15,709,841	\$ 15,865,255	\$ 13,827,697	\$ 14,023,499
Mutual funds, bonds	8,993,077	9,090,493	8,418,151	8,356,244
Money market funds	<u>10,448</u>	<u>10,448</u>	<u>32,533</u>	<u>32,533</u>
	<u>\$ 24,713,366</u>	<u>\$ 24,966,196</u>	<u>\$ 22,278,381</u>	<u>\$ 22,412,276</u>

The net investment return for 2019 and 2018 is composed of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 700,559	\$ 561,817
Net investment gains	351,653	1,741,977
Investment fees	<u>(38,492)</u>	<u>(9,417)</u>
	<u>\$ 1,013,720</u>	<u>\$ 2,294,377</u>

6 - BENEFICIAL INTERESTS

The College is the beneficiary of a charitable lead annuity trust restricted for various purposes. Under the terms of the trust agreement, the College is to receive \$50,000 quarterly for twenty years, at which point the trust is to terminate, and the remaining trust assets are to be distributed to others. The present value of the estimated future receipts under the trust agreement (\$1,993,535 as of June 30, 2019) is calculated using a discount rate of 2.5%, and is included in net assets with donor restrictions. Changes in the fair value of the beneficial interest are classified in the statement of activities as net assets with donor restrictions.

The College is the beneficiary of two charitable remainder trusts, where the College is not the trustee. Under the terms of the trust agreements, the donors are to receive quarterly payments starting in December 2015 and June 2020 for their remaining lifetime, after which the College receives the remaining assets in the trusts. The present value of the estimated future receipts under the trust agreements (\$44,471 as of June 30, 2019) is calculated using discount rates of 4.5% and 3.6%, and is included in net assets with donor restrictions. Changes in the fair value of the beneficial interest are classified in the statement of activities net assets with donor restrictions.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - PROPERTY AND EQUIPMENT

Property and equipment, together with estimated useful lives, consists of the following:

	<u>Estimated Useful Lives</u>	<u>2019</u>	<u>2018</u>
Land, buildings, and improvements	10 - 40 years	\$ 88,017,568	\$ 87,613,436
Vehicles and equipment	3 - 7 years	7,725,043	8,178,341
Furniture and fixtures	5 - 10 years	2,373,876	2,725,190
Construction in progress	-	<u>11,770,832</u>	<u>6,884,581</u>
		109,887,319	105,401,548
Less: Accumulated depreciation		<u>39,911,461</u>	<u>37,587,849</u>
		<u>\$ 69,975,858</u>	<u>\$ 67,813,699</u>

Depreciation expense was \$4,147,977 and \$4,426,723 in 2019 and 2018, respectively.

8 - NOTE PAYABLE

The College has a \$9,000,000 revolving line of credit with its bank, secured by significant assets of the College. The note bears interest at an adjustable annual rate equal to the Wall Street Journal Prime Rate, less one-half of one percent (5.00% as of June 30, 2019), and is due in November 2019. There is \$5,471,138 and \$3,585,817 outstanding on this line of credit as of June 30, 2019 and 2018, respectively.

9 - ENDOWMENT ASSETS

Endowment assets includes invested donor restricted funds. Changes in endowment assets for the year ended June 30, 2019 are as follows:

	<u>Without Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, beginning of year	\$ -	\$ 15,417,314	\$ 15,417,314
Investment return:			
Interest and dividend income	-	457,263	457,263
Net investment gains and losses	-	203,498	203,498
Total investment return	-	660,761	660,761
Additions	-	1,557,516	1,557,516
Release of donor restriction	-	(29,192)	(29,192)
Appropriation for expenditure	-	(261,425)	(261,425)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 17,344,974</u>	<u>\$ 17,344,974</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Bonds payable, secured by significant assets of the College, at an annual rate equal to 3.30% through February 2024, and increased every five years thereafter, up to 4.70%. Payments were interest only through March 2017, at which time the outstanding principal is amortized over the remaining 20-year life of the bonds.	\$ 18,201,588	\$ 18,977,096
Less: Unamortized debt issuance costs	<u>124,323</u>	<u>131,377</u>
	<u>\$ 18,077,265</u>	<u>\$ 18,845,719</u>

Maturities of long-term debt in subsequent years are as follows:

Year Ended June 30

2020	\$ 777,360
2021	803,404
2022	830,321
2023	858,140
2024	886,891
Thereafter	<u>14,045,472</u>
	<u>\$ 18,201,588</u>

The bonds payable requires, among other considerations, the maintenance of certain financial covenants.

11 - RETIREMENT PLANS

The College offers a retirement plans which covers substantially all employees. Participants in the plans may direct investments to the Teachers Insurance Annuity Association - College Retirement Equities Fund (TIAA-CREF) as custodians of the plan. In general, contributions to this defined contribution plans is made by the College and its employees on a matching basis, with the College and employees contributing 7% and 5%, respectively. Contributions provided by the College amounted to approximately \$774,000 and \$773,000 in 2019 and 2018, respectively.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019 and 2018, net assets with donor restrictions are available for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Purpose restrictions, available for spending:		
Public service programs	\$ 122,550	\$ 105,484
Academic support programs	643,010	633,192
Student services	580,310	569,902
Institutional support	1,643,745	652,872
Capital improvements	2,225,456	2,768,838
Scholarships and financial aid	<u>1,552,581</u>	<u>1,251,977</u>
Total purpose restricted net assets	<u>6,767,652</u>	<u>5,982,265</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	3,540,797	3,144,346
Charitable remainder trusts, which are unavailable for spending until the deaths of the beneficiaries	44,471	34,141
Beneficial interest in charitable lead annuity trust	<u>1,993,535</u>	<u>2,141,379</u>
Total time restricted net assets	<u>5,578,803</u>	<u>5,319,866</u>
Endowment funds, which must be appropriated by the Board of Trustees before use:		
Instruction (original gifts of \$ \$2,319,000 in 2019 and 2018)	4,450,364	4,294,510
Academic support programs (original gifts of \$981,101 in 2019 and \$956,100 in 2018)	2,171,737	1,880,088
Student services (original gifts of \$189,714 in 2019 and \$184,739 in 2018)	227,545	220,226
Institutional support (original gifts of \$1,000,000 in 2019 and 2018)	1,208,309	1,187,913
Scholarships and financial aid (original gifts of \$6,861,384 in 2019 and \$6,258,413 in 2018)	<u>9,287,019</u>	<u>7,831,910</u>
Total endowment funds managed by the College	<u>17,344,974</u>	<u>15,414,647</u>
Total net assets with donor restrictions	<u>\$ 29,691,429</u>	<u>\$ 26,716,778</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Purpose restrictions		
Operating:		
Instruction	\$ 17,843	\$ 25,027
Public service programs	8,864	16,292
Academic support programs	142,031	163,442
Student services	278,709	149,596
Institutional support	6,362	6,077
Scholarships and financial aid	<u>702,399</u>	<u>648,593</u>
	1,156,208	1,009,027
Non-operating:		
Capital improvements	<u>851,442</u>	<u>2,033,730</u>
	<u>\$ 2,007,650</u>	<u>\$ 3,042,757</u>

13 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2019</u>	<u>2018</u>
Cash paid during the year for		
Interest	\$ 670,931	\$ 601,838

Included in accounts payable at June 30, 2019 and 2018 are property, plant, and equipment acquisitions of \$1,128,103 and \$845,939, respectively.

14 - FAIR VALUE MEASUREMENTS

The College reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - FAIR VALUE MEASUREMENTS (Continued)

When available, the College measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the College is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the College’s financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and long-term investments.
- recurring measurement of beneficial interests in trusts.

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the years ended June 30, 2019 and 2018.

Mutual funds (equities and corporate bond based): Valued at the closing price reported on the active market in which the individual securities are traded. These funds held by the College are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (“NAV”) and to transact at that price. The mutual funds held by the College are deemed to be actively traded.

Money market funds: Valued at the closing price reported in the market in which the individual securities are traded. Fair value hierarchy for each is based on the level of active trading within the respective markets for each asset or liability.

Beneficial interests: Valued at the present value of the estimated future receipts.

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.

The College’s assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2019 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 15,865,255	\$ -	\$ -	\$ 15,865,255
Mutual funds, bonds	9,090,493	-	-	9,090,493
Money market funds	10,448	-	-	10,448
Total investments	24,966,196	-	-	24,966,196
Beneficial interests	-	-	2,038,006	2,038,006
Total	<u>\$ 24,966,196</u>	<u>\$ -</u>	<u>\$ 2,038,006</u>	<u>\$ 27,004,202</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value (continued)

The College's assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2018 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 14,023,499	\$ -	\$ -	\$ 14,023,499
Mutual funds, bonds	8,356,244	-	-	8,356,244
Money market funds	32,533	-	-	32,533
Total investments	<u>22,412,276</u>	<u>-</u>	<u>-</u>	<u>22,412,276</u>
Beneficial interests	<u>-</u>	<u>-</u>	<u>2,175,520</u>	<u>2,175,520</u>
Total	<u>\$ 22,412,276</u>	<u>\$ -</u>	<u>\$ 2,175,520</u>	<u>\$ 24,587,796</u>

There were no significant transfers between the levels during the year. The College's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

The College did not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position as of June 30, 2019 and June 30, 2018.

The following is a reconciliation of level 3 assets:

Balance at June 30, 2018	\$ 2,175,520
Payments received	(200,000)
Change in value of beneficial interest	<u>62,486</u>
Balance at June 30, 2019	<u>\$ 2,038,006</u>

15 - RISKS AND UNCERTAINTIES

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes to the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's financial statements.

16 - COMMITMENTS

The College has entered into various construction contracts for the renovation of Shamie Hall and Lombard Dining Hall in the amount of \$13,332,659. As of June 30, 2019, approximately \$3,120,140 of such contract commitments had not yet been incurred.

17 - CONCENTRATIONS OF RISK

The College's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the College's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

18 - RELATED-PARTY TRANSACTIONS

At June 30, 2019 and 2018, contributions receivable included \$2,851,163 and \$3,336,312, respectively, from members of the College's Board of Trustees. Total contributions received from board members were \$1,829,399 and \$1,441,652 in 2019 and 2018, respectively.

19 - RECLASSIFICATIONS

Certain amounts in the 2018 summarized financial statements have been reclassified to conform with the 2019 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 16, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.