



Nichols College

Learn. Lead. Succeed.

FINANCIAL STATEMENT YEAR END REVIEW JUNE 30, 2020

Overview

The June 30, 2020 audited financial statements were reviewed and accepted by the Audit Committee at its meeting on September 14, 2020. 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 FY20 increased by approximately \$1.3M driven primarily by an increase in investments of \$4.5M offset by decreases in contributions receivable of \$1.4M and property, plant and equipment of \$2M. The increase in investments is due to two large gifts totaling \$4.5M and a net investment return of \$368K. The decrease in property, plant and equipment is attributed to depreciation expense exceeding current year additions. The decrease in contributions receivable is due to pledge payments made throughout the year.
- Total liabilities for the period decreased by \$6.9M due to decreases in the line of credit of \$4.1M, in accounts payable of \$1.6M and in long-term debt of \$760K. The decreases in the line of credit and accounts payable are primarily attributed to COVID-19. COVID-19 caused learning and working to be done remotely and halted all construction on campus resulting in lower expenses than originally projected. The decrease in long-term debt was expected due to the College having made principal payments of \$760K on the long-term debt held by People’s United Bank.
- Net assets increased by \$8.2M for the year and growth was shown in the with and without donor restrictions 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. The increase in total net assets for FY20 was \$8.2M which is an approximately 163% increase over the prior year change in net assets of \$3.1M.

Revenue

Total revenues of \$46M increased by \$4.2M from the prior year. The increase is primarily driven by an increase in government grants of \$3.6M, in contributions and

gifts of \$3.2M offset by decreases in auxiliary enterprise revenue of \$2.3M and in net investment return of \$644K. The College received \$2.9M in PPP funds and \$618K in CARES ACT funds due to COVID-19 which comprise the government grants line. The increase in contributions and gifts is attributed to the College receiving two large gifts totaling \$4.5M. Auxiliary enterprise revenue decreased due to the College having to shut down in March 2020 due to COVID-19 and refunding student a pro-rated amount for room and board charges for the remainder of the semester that totaled approximately \$1.9M. The decrease in net investment return is attributed to market conditions.

Expenses

Total expenses decreased by \$792K or 2% over the prior year. The decrease was driven by decreases in the following expense categories due to COVID-19: food services \$329K, vendor services \$522K, utilities \$404K, small equipment \$191K and travel and entertainment \$396. Salaries and wages also decreased \$77K due to position vacancies. These decreases were offset by increases in uncollectible accounts expense of \$575K and in depreciation and amortization expense of \$592K. The increase in uncollectible accounts expense is related to the increase in student accounts receivables. The increase in depreciation and amortization expense is a result of all the work done to Lombard Dining Hall as of June 30, 2020, being placed into service and depreciated.

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 \$6.9M compared to \$5.2M for the prior year.

FY20 Actual to Budget Results:

The total actual change in net assets for FY20 were \$8.2M vs budget of \$3.6M representing a surplus of about \$4.6M. Actual total revenue from all sources of \$46M exceeded the budget target of \$43.9M by \$2.1M driven primarily by an anonymous \$2M gift. Actual total expenses were \$37.9M vs budget of \$40.4M. The decrease is primarily due to COVID-19 forcing the Spring 2020 semester to go online in March and halting all travel.

Revenue items of note include:

- Actual net tuition & fee revenue from all sources of \$23.4M was behind the budget of \$23.9M by \$.5M.
- UG Day tuition & fees revenue of \$19.1M exceeded budgeted figure of \$19.0M by about \$.1M.
- Adult undergraduate program tuition & fees of \$1.3M lagged behind the budgeted figure of \$1.6M
- GPS tuition & fees of \$3.0M fell short of the \$3.4M budget target by \$.4M

- Auxiliary revenues of \$10.4M missed the budget target of \$13.0M by \$2.6M due to actual spring residents having to leave campus in mid-March due to COVID-19.
- Net investment activity of \$369K lagged behind the budget target of \$938K by \$569K.
- Total contributions & gifts of \$7.8M exceeded budget by about \$2.4M.
 - Contributions & gifts from operating activities of \$2.9M exceeded budgeted figure of \$2.1M by \$.8M
 - Contributions & gifts from nonoperating activities of \$4.9M exceeded budgeted figure of \$3.3M by \$1.6M.
- Total actual expenses were \$37.9M vs budget of \$40.4M for savings of about \$2.5M.

FY21 Projections

The FY21 budget has been revised to account for a total change in net assets of \$2.2M with a loss from operations of about \$1.2M expected. The loss from operations was \$2.0M on the original submission in May 2020. The revised budget is based on the following enrollment activity.

<u>Term</u>	<u>FY20 Actual</u>	<u>FY21 Original</u>	<u>FY21 Revised</u>
Fall	1,144	1,035	1,146
Spring	1,063	962	1,063
Fall – Residents	654	369	653
Spring – Resident	640	685	640

NICHOLS COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020
AND
INDEPENDENT AUDITOR'S REPORT

NICHOLS COLLEGE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

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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, which comprise the statement of financial position as of June 30, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Nichols College's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
September 14, 2020

NICHOLS COLLEGE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With summarized comparative information for 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 146,715	\$ 896,561
Student accounts receivable, less allowance for doubtful accounts of \$1,360,747 and \$765,530 in 2020 and 2019, respectively	2,075,715	1,543,526
Contributions receivable, net	2,146,091	3,540,797
Other receivables	411,454	16,184
Investments	29,479,689	24,966,196
Other assets	836,341	691,062
Beneficial interests	1,871,593	2,038,006
Property and equipment, net	<u>67,959,183</u>	<u>69,975,858</u>
	<u>\$ 104,926,781</u>	<u>\$ 103,668,190</u>
Liabilities and Net Assets		
Note payable	\$ 1,378,555	\$ 5,471,138
Accounts payable, trade	151,900	1,748,444
Accrued and other liabilities	889,456	873,072
Deferred tuition and fees	2,660,088	3,027,794
Deferred contract revenue	146,875	246,875
Long-term debt, net	<u>17,316,963</u>	<u>18,077,265</u>
Total liabilities	<u>22,543,837</u>	<u>29,444,588</u>
Net assets		
Without donor restrictions	50,194,417	44,532,173
With donor restrictions	<u>32,188,527</u>	<u>29,691,429</u>
Total net assets	<u>82,382,944</u>	<u>74,223,602</u>
	<u>\$ 104,926,781</u>	<u>\$ 103,668,190</u>

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

NICHOLS COLLEGE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

(With summarized comparative information for 2019)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
Operating activities:				
Revenue and other support				
Tuition and fees, net of financial aid of \$21,341,073 and \$21,070,403 in 2020 and 2019, respectively	\$ 23,356,680	\$ -	\$ 23,356,680	\$ 22,776,054
Auxiliary enterprises	10,437,376	-	10,437,376	12,728,940
Contributions and gifts	1,051,380	1,803,640	2,855,020	3,574,650
Government grants	3,609,200	-	3,609,200	-
Endowment return appropriated for operations	280,223	-	280,223	261,425
Change in value of beneficial interests	-	33,587	33,587	62,486
Other revenue	474,754	-	474,754	581,471
Net assets released from restrictions	797,442	(797,442)	-	-
Total	40,007,055	1,039,785	41,046,840	39,985,026
Expenses				
Instruction	8,030,435	-	8,030,435	7,789,354
Academic support	4,267,381	-	4,267,381	4,521,199
Student services	9,958,208	-	9,958,208	10,712,358
Institutional support	7,236,124	-	7,236,124	6,636,957
Institutional development	1,078,846	-	1,078,846	1,147,489
Auxiliary enterprises	7,312,637	-	7,312,637	7,867,905
Total	37,883,631	-	37,883,631	38,675,262
Change in net assets from operating activities	2,123,424	1,039,785	3,163,209	1,309,764
Non-operating activities:				
Contributions and gifts restricted for capital purposes	-	78,239	78,239	75,095
Contributions and gifts restricted for long-term investment	2,500,000	2,318,861	4,818,861	945,529
Gain on sale of property, plant, and equipment	10,500	-	10,500	22,061
Net investment return	31,893	336,863	368,756	1,013,720
Endowment return appropriated for operations	-	(280,223)	(280,223)	(261,425)
Net assets released from restrictions	996,427	(996,427)	-	-
Change in net assets from non-operating activities	3,538,820	1,457,313	4,996,133	1,794,980
Change in net assets	5,662,244	2,497,098	8,159,342	3,104,744
Net assets, beginning of year	44,532,173	29,691,429	74,223,602	71,118,858
Net assets, end of year	\$ 50,194,417	\$ 32,188,527	\$ 82,382,944	\$ 74,223,602

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

NICHOLS COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
(With summarized comparative information for 2019)

	Instruction	Academic Support	Student Services	Institutional Support	Institutional Development	Auxiliary Enterprises	Totals	
							2020	2019
Salaries and wages	\$ 5,362,566	\$ 1,952,953	\$ 4,188,314	\$ 2,170,009	\$ 567,060	\$ 181,489	\$ 14,422,391	\$ 14,500,072
Employee benefits and payroll taxes	1,083,732	493,762	1,314,300	589,951	135,050	55,345	3,672,140	3,676,619
Food services	-	-	-	-	-	1,774,669	1,774,669	2,103,940
Professional fees	2,755	683	344,961	355,387	25,658	-	729,444	803,353
Vendor services	107,446	100,240	289,571	1,840,479	62,445	194,506	2,594,687	3,116,606
Utilities	2,106	2,097	26,686	116,578	4,491	132,445	284,403	688,454
Supplies	38,586	137,531	171,071	165,213	7,774	64,084	584,259	466,351
Repairs and maintenance	-	16,844	34,542	6,741	2,889	168,753	229,769	282,588
Rent	-	23,888	234,909	-	1,997	405	261,199	320,315
General insurance	-	-	67,101	302,049	-	9,992	379,142	352,653
Small equipment/software	-	4,932	128,289	87,225	-	26,370	246,816	437,329
Advertising	2,038	5,342	375,099	1,200	1,820	-	385,499	387,737
Printing and mailing	-	9,575	78,068	35,707	77,472	5,975	206,797	249,641
Dues and subscriptions	2,701	11,721	65,612	67,341	618	150	148,143	147,588
Travel and entertainment	72,867	94,446	615,540	88,549	131,902	62,921	1,066,225	1,462,205
Scholarships	-	690,416	-	-	-	-	690,416	689,970
Credit card and bank fees	-	-	-	25,838	12,540	673	39,051	45,921
Uncollectible accounts expense	-	-	-	1,065,774	-	-	1,065,774	491,310
Operation and maintenance	530,859	283,125	778,594	123,195	18,367	1,804,922	3,539,062	3,565,292
Interest	112,691	60,102	165,280	26,152	3,899	383,149	751,273	686,525
Depreciation and amortization	711,982	379,724	1,044,240	165,228	24,634	2,420,739	4,746,547	4,155,031
Other	106	-	36,031	3,508	230	26,050	65,925	45,762
	<u>\$ 8,030,435</u>	<u>\$ 4,267,381</u>	<u>\$ 9,958,208</u>	<u>\$ 7,236,124</u>	<u>\$ 1,078,846</u>	<u>\$ 7,312,637</u>	<u>\$ 37,883,631</u>	<u>\$ 38,675,262</u>

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

NICHOLS COLLEGE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020
(With summarized comparative information for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,159,342	\$ 3,104,744
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,746,547	4,155,031
Uncollectible accounts expense	1,065,774	491,310
Gain on sale of property and equipment	(10,500)	(22,061)
Change in value of beneficial interests	(33,587)	(62,486)
Net investment (gains) losses	260,481	(351,653)
Contributions and gifts restricted for capital purposes	(78,239)	(75,095)
Contributions and gifts restricted for long-term investment	(4,818,861)	(945,529)
(Increase) decrease in operating assets:		
Student accounts receivable	(1,597,963)	(586,432)
Contributions receivable	471,630	(608,680)
Other receivables	(395,270)	32,306
Beneficial interests	200,000	200,000
Other assets	(145,279)	5,954
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(472,371)	58,348
Accrued and other liabilities	16,384	202,840
Deferred tuition and fees	(367,706)	(260,442)
Deferred contract revenue	(100,000)	(100,000)
Total adjustments	<u>(1,258,960)</u>	<u>2,133,411</u>
Net cash provided by operating activities	<u>6,900,382</u>	<u>5,238,155</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(3,848,970)	(6,027,972)
Proceeds from sale of property and equipment	12,480	22,061
Proceeds from sales and maturities of investments	544,420	38,492
Purchases of investments	<u>(5,318,395)</u>	<u>(2,240,759)</u>
Net cash used in investing activities	<u>(8,610,465)</u>	<u>(8,208,178)</u>
Cash flows from financing activities:		
Net borrowings (payments) of note payable	(4,092,583)	1,885,321
Repayments of long-term debt	(767,356)	(775,508)
Contributions restricted for capital purposes	751,883	373,068
Contributions restricted for long-term investment	<u>5,068,293</u>	<u>1,121,240</u>
Net cash provided by financing activities	<u>960,237</u>	<u>2,604,121</u>
Net decrease in cash	(749,846)	(365,902)
Cash, beginning of year	<u>896,561</u>	<u>1,262,463</u>
Cash, end of year	<u>\$ 146,715</u>	<u>\$ 896,561</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, 2019, 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 uncollectable 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, 2020.

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 and investment earnings related to the endowment 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.

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 basis on which costs are allocated.

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.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS (Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense recognition and allocation (continued)

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 \$385,499 and \$387,737 in 2020 and 2019, 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.

3 - LIQUIDITY AND AVAILABLE FUNDS

The following table reflects the College's financial assets as of June 30, 2020 and 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>2020</u>	<u>2019</u>
Financial assets		
Cash	\$ 146,715	\$ 896,561
Student accounts receivable, net	2,075,715	1,543,526
Contributions receivable, net	2,146,091	3,540,797
Other receivables	411,454	16,184
Investments	<u>29,479,689</u>	<u>24,966,196</u>
Total financial assets	34,259,664	30,963,264
Less: Financial assets held to meet donor-imposed restrictions		
Purpose-restricted net assets	7,581,226	6,767,652
Contributions receivable unavailable for spending for more than one year, some of which are also subject to purpose restrictions	1,933,091	3,323,797
Donor-restricted endowment funds	20,589,616	17,344,974
Less: Board-designated endowment funds	<u>1,238,436</u>	<u>-</u>
Amount available for general expenditures within one year	<u>\$ 2,917,295</u>	<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. (\$20,589,616, of which \$14,026,672 is the original gift) or from its designated endowment fund (\$1,238,436). 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.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS (Continued)

4 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses, including the College. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the College operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the College, the College expects significant impacts to business operations due to the quarantine and isolation orders in place throughout the geographic area.

In April 2020, the College received proceeds in the amount of \$2,990,800 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for operating needs with an opportunity for such loans to be forgiven as a grant by meeting certain established spending requirements. The College has accounted for these proceeds as a conditional grant in accordance with FASB ASC 958-65, whereby grant revenue is not recognized until certain conditions are substantially met or explicitly waived. The College currently believes that its use of the funds is consistent with the PPP and it has met the conditions for forgiveness of the loan. As a result, these proceeds have been recorded on the statement of activities as contributions and grants.

In May 2020, the College was a recipient of the Higher Education Emergency Relief Fund (“HEERF”) of the CARES Act in the amount of \$1,236,800. Fifty percent of these funds were to be refunded to students and fifty percent of the funds were to cover the institutional costs for any costs associated with significant changes to the delivery of instruction due to the coronavirus.

Additionally, it is possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions, including the allowance for doubtful student accounts receivable, allowance for uncollectible contributions receivable, and valuation of investments and beneficial interests. See footnote 18 for additional risks regarding the College’s investments.

5 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2020 are expected to be received as follows:

2021	\$ 1,683,556
2022	331,593
2023	221,700
2024	<u>201,000</u>
	2,437,849
Less: Allowance for uncollectible contributions receivable	238,455
Unamortized discount	<u>53,303</u>
	<u>\$ 2,146,091</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - INVESTMENTS

Investments are included in the following classes of net assets:

	2020	2019
With donor restrictions		
Donor restricted endowment	\$ 20,589,616	\$ 17,344,974
Purpose restrictions	7,581,226	6,767,652
Without donor restrictions		
Board-designated endowment	1,238,436	-
Undesignated	70,411	853,570
	<u>\$ 29,479,689</u>	<u>\$ 24,966,196</u>

Investments are composed of the following:

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity funds	\$ 96,878	\$ 90,426	\$ -	\$ -
Exchange traded funds	13,117	13,368	-	-
Mutual funds, equities	17,446,581	17,135,884	15,709,841	15,865,255
Mutual funds, bonds	9,848,466	10,160,164	8,993,077	9,090,493
Money market funds	2,079,847	2,079,847	10,448	10,448
	<u>\$ 29,484,889</u>	<u>\$ 29,479,689</u>	<u>\$ 24,713,366</u>	<u>\$ 24,966,196</u>

The net investment return for 2020 and 2019 is composed of the following:

	2020	2019
Interest and dividends	\$ 673,657	\$ 700,559
Net investment gains (losses)	(260,481)	351,653
Investment fees	(44,420)	(38,492)
	<u>\$ 368,756</u>	<u>\$ 1,013,720</u>

7 - 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 (\$1,841,960 as of June 30, 2020) 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 (\$29,633 as of June 30, 2020) 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 as net assets with donor restrictions.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2020	2019
Land, buildings, and improvements	10 - 40 years	\$ 101,919,278	\$ 88,017,568
Vehicles and equipment	3 - 7 years	7,703,072	7,725,043
Furniture and fixtures	5 - 10 years	2,147,835	2,373,876
Construction in progress	-	53,728	11,770,832
		111,823,913	109,887,319
Less: Accumulated depreciation		43,864,730	39,911,461
		<u>\$ 67,959,183</u>	<u>\$ 69,975,858</u>

Depreciation expense was \$4,739,494 and \$4,147,977 in 2020 and 2019, respectively.

9 - 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 (2.75% as of June 30, 2020). There is \$1,378,555 and \$5,471,138 outstanding on this line of credit as of June 30, 2020 and 2019, respectively.

10 - ENDOWMENT ASSETS

Endowment assets includes invested donor restricted and Board-designated funds. Changes in endowment assets for the year ended June 30, 2020 are as follows:

	Without Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ -	\$ 17,344,974	\$ 17,344,974
Net investment return	36,480	389,474	425,954
Additions	2,500,000	3,198,756	5,698,756
Release of donor restriction	-	(63,365)	(63,365)
Appropriation for expenditure	(1,298,044)	(280,223)	(1,578,267)
Endowment assets, end of year	<u>\$ 1,238,436</u>	<u>\$ 20,589,616</u>	<u>\$ 21,828,052</u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS (Continued)

11 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</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.	\$ 17,434,233	\$ 18,201,588
Less: Unamortized debt issuance costs	<u>117,270</u>	<u>124,323</u>
	<u>\$ 17,316,963</u>	<u>\$ 18,077,265</u>

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

Year Ended June 30

2021	\$ 803,404
2022	830,321
2023	858,140
2024	886,891
2025	916,605
Thereafter	<u>13,138,872</u>
	<u>\$ 17,434,233</u>

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

12 - RETIREMENT PLAN

The College offers a retirement plan which covers substantially all employees. Participants in the plan 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 plan 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 \$758,000 and \$774,000 in 2020 and 2019, respectively.

13 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Included in net assets without donor restrictions are board-designated endowment funds reserved for future operations. All spending from this reserve must be approved by the governing board. The balance in the board-designated operating reserve is \$1,238,436 as of June 30, 2020.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020 and 2019, net assets with donor restrictions are available for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Purpose restrictions, available for spending		
Public service programs	\$ 135,508	\$ 122,550
Academic support programs	667,357	643,010
Student services	559,099	580,310
Institutional support	2,882,926	1,643,745
Capital improvements	1,969,054	2,225,456
Scholarships and financial aid	<u>1,367,283</u>	<u>1,552,581</u>
Total purpose restricted net assets	<u>7,581,227</u>	<u>6,767,652</u>
Time restrictions		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	2,146,091	3,540,797
Charitable remainder trusts, which are unavailable for spending until the deaths of the beneficiaries	29,633	44,471
Beneficial interest in charitable lead annuity trust	<u>1,841,960</u>	<u>1,993,535</u>
Total time restricted net assets	<u>4,017,684</u>	<u>5,578,803</u>
Endowment funds, which must be appropriated by the Board of Trustees before use		
Instruction (original gifts of \$2,319,000 in 2020 and 2019)	4,503,844	4,450,364
Academic support programs (original gifts of \$2,486,101 in 2020 and \$981,101 in 2019)	3,940,686	2,171,737
Student services (original gifts of \$203,827 in 2020 and \$189,714 in 2019)	239,261	227,545
Institutional support (original gifts of \$1,000,000 in 2020 and 2019)	1,201,501	1,208,309
Scholarships and financial aid (original gifts of \$8,017,744 in 2020 \$6,861,384 in 2019)	<u>10,704,324</u>	<u>9,287,019</u>
Total endowment funds managed by the College	<u>20,589,616</u>	<u>17,344,974</u>
Total net assets with donor restrictions	<u><u>\$ 32,188,527</u></u>	<u><u>\$ 29,691,429</u></u>

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS (Continued)

14 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

During 2020 and 2019, 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>2020</u>	<u>2019</u>
Purpose restrictions		
Operating		
Instruction	\$ -	\$ 17,843
Public service programs	8,184	8,864
Academic support programs	12,855	142,031
Student services	211,989	278,709
Institutional support	85,300	6,362
Scholarships and financial aid	479,114	702,399
	<u>797,442</u>	<u>1,156,208</u>
Non-operating		
Capital improvements	996,427	851,442
	<u>\$ 1,793,869</u>	<u>\$ 2,007,650</u>

15 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2020</u>	<u>2019</u>
Cash paid during the year for		
Interest	\$ 766,815	\$ 670,931

Included in accounts payable at June 30, 2020 and 2019 are property, plant, and equipment acquisitions of \$3,930 and \$1,128,103, respectively.

16 - 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)

16 - 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, 2020 and 2019.

Equity funds, mutual funds (equities and corporate bond based) and exchange traded funds: 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 securities 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, 2020 as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Equity funds	\$ 90,426	\$ -	\$ -	\$ 90,426
Exchange traded funds	13,368	-	-	13,368
Mutual funds, equities	17,135,884	-	-	17,135,884
Mutual funds, bonds	10,160,164	-	-	10,160,164
Money market funds	2,079,847	-	-	2,079,847
Total investments	29,479,689	-	-	29,479,689
Beneficial interests	-	-	1,871,593	1,871,593
Total	\$ 29,479,689	\$ -	\$ 1,871,593	\$ 31,351,282

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS (Continued)

16 - 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, 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>

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, 2020 and June 30, 2019.

The following is a reconciliation of level 3 assets:

Balance at June 30, 2019	\$ 2,038,006
Payments received	(200,000)
Change in value of beneficial interest	33,587
Balance at June 30, 2020	<u>\$ 1,871,593</u>

17 - COMMITMENTS

The College has entered into various construction contracts for the renovation of Lombard Dining Hall in the amount of \$7,228,995. As of June 30, 2020, approximately \$1,860,323 of such contract commitments had not yet been incurred.

18 - 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.

19 - RELATED-PARTY TRANSACTIONS

At June 30, 2020 and 2019, contributions receivable included \$1,548,849 and \$2,851,163, respectively, from members of the College's Board of Trustees. Total contributions received from board members were \$3,817,437 and \$1,829,399 in 2020 and 2019, respectively.

NICHOLS COLLEGE

NOTES TO FINANCIAL STATEMENTS
(Continued)

20 - RECLASSIFICATIONS

Certain amounts in the 2019 summarized financial statements have been reclassified to conform with the 2020 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

21 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 14, 2020, 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.