

**New England Law | Boston**

**Financial Statements**

**June 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
New England Law | Boston  
Boston, Massachusetts

### Report on the Financial Statements

We have audited the accompanying financial statements of New England Law | Boston (the School), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, we consider internal control relevant to the School'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 School'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 New England Law | Boston as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*O'Brien Riley ; Ryan PC*

Braintree, Massachusetts

December 17, 2021

**NEW ENGLAND LAW | BOSTON**

Statements of Financial Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets		
Cash and cash equivalents	\$ 1,560,404	\$ 4,004,095
Accounts receivable (net of allowance for doubtful accounts of \$240,000 for 2021 and \$250,000 for 2020)	349,736	544,715
Pledge receivable, current	300,000	250,000
Prepaid expenses	419,067	410,444
Investments	5,492,372	4,373,559
Total current assets	8,121,579	9,582,813
Property, plant and equipment, net	15,311,217	16,430,649
Noncurrent assets:		
Student loans (net of allowance of \$50,000 for 2021 and 2020)	342,252	405,690
Pledge receivable, net of current	99,758	248,935
Investments	87,960,946	81,702,607
Total noncurrent assets	88,402,956	82,357,232
Total assets	\$ 111,835,752	\$ 108,370,694
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,088,856	\$ 1,093,548
Student deposits	363,700	324,517
Deferred income	192,595	258,115
Excise tax payable	791,874	-
Deferred compensation	300,000	4,348,570
Total current liabilities	2,737,025	6,024,750
Long-term liabilities		
Deferred compensation	850,000	1,100,000
Deferred excise tax	-	766,200
Refundable U.S. government student loans	376,017	470,109
Total long-term liabilities	1,226,017	2,336,309
Total liabilities	3,963,042	8,361,059
Net assets		
Without donor restrictions	104,335,300	96,740,506
With donor restrictions	3,537,410	3,269,129
Total net assets	107,872,710	100,009,635
Total liabilities and net assets	\$ 111,835,752	\$ 108,370,694

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

**NEW ENGLAND LAW | BOSTON**

Statements of Activities

For the Year Ended June 30, 2021

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenues				
Tuition and fees	\$ 43,343,269	\$ -	\$ 43,343,269	\$ 33,718,351
Less: institutional scholarships and grants	(27,071,632)	-	(27,071,632)	(18,634,967)
Net tuition and fees	16,271,637	-	16,271,637	15,083,384
Government agency grants	818,456	-	818,456	106,010
Private gifts and grants	180,921	283,676	464,597	458,802
Endowment spending in accordance with School's spending policy (note G)	4,250,000	-	4,250,000	4,300,000
Other income	621,665	-	621,665	628,198
Net assets released from restrictions	16,290	(16,290)	-	-
Total operating revenues	<u>22,158,969</u>	<u>267,386</u>	<u>22,426,355</u>	<u>20,576,394</u>
Operating expenses				
Instructional	12,576,133	-	12,576,133	12,166,559
Student services	3,192,998	-	3,192,998	3,360,104
Institutional support	4,664,696	-	4,664,696	3,632,904
Fundraising	380,803	-	380,803	432,434
Total operating expenses	<u>20,814,630</u>	<u>-</u>	<u>20,814,630</u>	<u>19,592,001</u>
Increase in net assets from operating activities	<u>1,344,339</u>	<u>267,386</u>	<u>1,611,725</u>	<u>984,393</u>
Nonoperating income and expense				
Investment return	10,526,129	895	10,527,024	3,074,402
Excise tax	(25,674)	-	(25,674)	(64,200)
Endowment spending in accordance with School's spending policy (note G)	(4,250,000)	-	(4,250,000)	(4,300,000)
	<u>6,250,455</u>	<u>895</u>	<u>6,251,350</u>	<u>(1,289,798)</u>
Increase (decrease) in net assets	7,594,794	268,281	7,863,075	(305,405)
Net assets, beginning of year	<u>96,740,506</u>	<u>3,269,129</u>	<u>100,009,635</u>	<u>100,315,040</u>
Net assets, end of year	<u>\$ 104,335,300</u>	<u>\$ 3,537,410</u>	<u>\$ 107,872,710</u>	<u>\$ 100,009,635</u>

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

**NEW ENGLAND LAW | BOSTON**

## Statement of Activities

For the Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Tuition and fees	\$ 33,718,351	\$ -	\$ 33,718,351
Less: institutional scholarships and grants	(18,634,967)	-	(18,634,967)
Net tuition and fees	15,083,384		15,083,384
Government agency grants	106,010	-	106,010
Private gifts and grants	354,179	104,623	458,802
Endowment spending in accordance with School's spending policy (note G)	4,300,000	-	4,300,000
Other income	628,198	-	628,198
Net assets released from restrictions	5,000	(5,000)	-
Total operating revenues	20,476,771	99,623	20,576,394
Operating expenses			
Instructional	12,166,559	-	12,166,559
Student services	3,360,104	-	3,360,104
Institutional support	3,632,904	-	3,632,904
Fundraising	432,434	-	432,434
Total operating expenses	19,592,001	-	19,592,001
Increase in net assets from operating activities	884,770	99,623	984,393
Nonoperating income and expense			
Investment return	3,027,322	47,080	3,074,402
Deferred excise tax	(64,200)	-	(64,200)
Endowment spending in accordance with School's spending policy (note G)	(4,300,000)	-	(4,300,000)
	(1,336,878)	47,080	(1,289,798)
Increase (decrease) in net assets	(452,108)	146,703	(305,405)
Net assets, beginning of year	97,192,614	3,122,426	100,315,040
Net assets, end of year	\$ 96,740,506	\$ 3,269,129	\$ 100,009,635

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

**NEW ENGLAND LAW | BOSTON**

## Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 7,863,075	\$ (305,405)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation expense	1,172,420	1,260,336
Realized and unrealized (gain)/loss on investments	(8,807,033)	(1,267,424)
Loss on property, plant and equipment disposal	421,994	14,002
Excise tax payable	25,674	64,200
(Increase) decrease in operating assets:		
Accounts receivable, net	194,979	(261,342)
Prepaid expenses	(8,623)	58,654
Pledge receivable	99,177	225,258
Note receivable - related party	-	139,100
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(4,692)	159,214
Deferred compensation	(4,298,570)	353,878
Student deposits	39,183	(4,333)
Deferred income	(65,520)	96,460
Net cash provided by (used for) operating activities	<u>(3,367,936)</u>	<u>532,598</u>
Cash flows from investing activities		
Student loans collected	63,438	108,664
Purchases of property, plant and equipment	(474,982)	(388,187)
Purchases of investments	(96,710,476)	(152,325,502)
Proceeds from the sale of investments	<u>98,140,357</u>	<u>154,745,979</u>
Net cash provided by investing activities	<u>1,018,337</u>	<u>2,140,954</u>
Cash flows from financing activities		
Refundable U.S. government student loans	<u>(94,092)</u>	<u>(201,967)</u>
Net cash used for financing activities	<u>(94,092)</u>	<u>(201,967)</u>
Net increase (decrease) in cash and cash equivalents	(2,443,691)	2,471,585
Cash and cash equivalents at beginning of year	<u>4,004,095</u>	<u>1,532,510</u>
Cash and cash equivalents at end of year	<u>\$ 1,560,404</u>	<u>\$ 4,004,095</u>

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

## NOTE A – NATURE OF OPERATIONS

New England Law | Boston (the School) is an independent, non-profit, law school located in Boston, Massachusetts. Founded in 1908 as the only law school in the world exclusively for women and coeducational since 1938, the School has always held its doors open to highly motivated students, without regard to race, creed, or national origin. The School is fully accredited by the American Bar Association and is a member of the American Association of Law Schools. The School is supported primarily by tuition, contributions from alumni, and earnings on its endowment.

The School dedicates itself to preparing students to be successful lawyers and leaders in the public and private sectors through integrated practical, theoretical, and ethical education of the highest caliber, and to contributing to the improvement of American, foreign and international legal systems through participation in the debate over the fairness and efficacy of those systems, research and publication, public service, and other work that furthers the interests of justice.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) in accordance with not-for-profit entities. GAAP requires the School to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the School's management and the board of directors.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

### **Operations**

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the School's primary mission of providing education. Investment income and gains/losses on investments are classified as non-operating activities. Any release of the restrictions to operating activities or transfers to endowment are also classified as non-operating activities.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash equivalents represent money market funds and highly liquid investments purchased with a maturity of three months or less and are carried at cost, which management believes approximates fair values.

**Accounts Receivable**

Accounts receivable include student accounts receivable and other receivables. Student accounts receivable represent amounts due for tuition and fees from currently enrolled and former students. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance based on its assessment of the current status of individual accounts.

**Promise to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met. The School uses the allowance method to determine uncollectible promises receivable. The allowance is based on historical experience, an assessment of economic conditions and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At June 30, 2021 and 2020 the allowance is zero.

**Student Loans**

Student loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. The allowance for uncollectible loans is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on Perkins Loan Program requirements and the School's past loan loss experience. Loans are considered impaired if full principal or interest payments are not anticipated to be received in accordance with the contractual terms. The School's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued****Investments**

The School carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. The School believes that the carrying value of its investments is reasonable at June 30, 2021 and 2020. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School's management determines the School's valuation policies utilizing information provided by the investment advisers. See Note N for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends, if any, are recorded on the ex-dividend date. Net appreciation (depreciation) includes capital gain distributions as well as the gains and losses on investments bought and sold as well as held during the year. Investment management fees and investment transactions fees, if any, are offset against investment income.

**Property, Plant and Equipment**

Physical property, plant and equipment are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts, less accumulated depreciation. Equipment disposals are removed from the records at the time of disposal. Expenditures for major renewals and betterments that extend the useful lives of property, plant and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Buildings	15-40 years
Furniture and equipment	5-7 years
Library books	20 years

**Tuition Revenue and Other Revenue**

Tuition and fees are recognized ratably over the academic period of the course or program offered based on time elapsed and aid awarded to students reduces the amount of revenue recognized. The majority of the School's programs are designed to be completed with the fiscal year. Discounts in the form of scholarships and financial aid grants, including those funded by the endowment, restricted specific-purpose gifts and government grants, are reported as a reduction of tuition and fees. The academic programs are delivered in the Fall, Spring and Summer.

Revenues associated with various government grants are recognized when related costs are incurred. Private gifts and grants are recorded when received. Lease income is included in other income and is recognized in the period that the property is leased.

**Functional Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes, employee benefits, deferred compensation, alumni relations, conferences, conventions and meetings, information technology, occupancy, office expenses, professional fees, travel, and depreciation, which are allocated using various methods such as direct allocation, square footage and time and effort.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued**

**Refundable U.S. Government Student Loans**

Student loans include funds advanced to the School by the U.S. government under the Federal Perkins Loan Program (the Program). Student loans under the Program are subject to significant restrictions. Such funds are re-loaned by the School after collection, but in the event that the School no longer participates in the Program, the amounts are generally refundable to the U.S. government and are reported as refundable advances. Accordingly, it is not practicable to determine the fair value of such amounts. The Program expired on September 30, 2017 and no funds were re-loaned by the School. A portion of funds were returned to the U.S. Government during the years ended June 30, 2021 and 2020.

**Contributions**

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

**Advertising Costs**

Advertising costs are expensed as incurred. Total advertising expense amounted to \$485,701 and \$486,433 for the years ended June 30, 2021 and 2020, respectively.

**Income Taxes and Uncertain Tax Positions**

The School qualifies as a tax-exempt non-profit organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes pursuant to Section 501 (a) of the Code. The School may be liable for federal and state taxes on any unrelated business income, as defined by the Code and certain excise taxes discussed below. The School accounts for taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. See Note L with regard to excise taxes.

The School is subject to routine audits by taxing jurisdictions. During the year ended June 30, 2015 the Internal Revenue Service (IRS) commenced an audit of the year ended June 30, 2013. The examination for that period disclosed that the return filed was completely acceptable. Accordingly, the IRS accepted the School's return as filed. The School's information returns generally remain open for the most recent three years.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the School in several ways, including a new excise tax on executive compensation, increases to unrelated business taxable income ("UBTI") by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued**

**Subsequent Events**

Subsequent events were evaluated through December 17, 2021, which is the date the financial statements were available to be issued.

**Recent Accounting Pronouncement**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contract with Customers (Subtopic 340-40)*. The ASU introduces a single framework for revenue recognition under which revenue recognized is reflective of the consideration to which the entity expects to be entitled in exchange for goods and services. The ASU is effective for fiscal years beginning after December 15, 2019 or fiscal year 2021 for the School. The School adopted the standard as of July 1, 2020 using the modified retrospective transition method. The guidance did not have a significant impact on the School's financial statements.

In June 2018, the FASB issued No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU amends the new revenue recognition standard and long-standing contribution accounting guidance and is expected to shift the majority of grants from an exchange to a nonexchange recognition model. The ASU is effective for fiscal years beginning after December 15, 2019 or fiscal year 2021 for the School. Effective July 1, 2020, the School adopted ASU 2018-08 simultaneously with adoption of the new revenue standard, using the modified retrospective transition method. The guidance did not have a significant impact on the School's financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new lease guidance establishes a model under which lessees record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. The ASU is effective for the School's 2022 fiscal year. The School is evaluating the impact of this standard on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which simplifies fair value measurement disclosures through the removal and modification of a number of investment related disclosure requirements. Certain disclosures are no longer required including amount of and reasons for transfers between Level 1 and 2; policy for timing of transfers between levels; valuation processes for Level 3 investments and a Level 3 investment rollforward. The ASU is effective for fiscal years beginning after December 15, 2019 or fiscal year 2021 for the School. Effective July 1, 2020, the School adopted ASU 2018-13.

**NOTE C – RISKS AND UNCERTAINTIES**

The School is exposed to credit and market risk on its cash and cash equivalents, and accounts receivable. The School maintains cash and cash equivalents at certain financial institutions in amounts which exceed federally insured limits. The financial stability of these institutions is continually reviewed by management to evaluate credit risk. The School has not experienced any losses in such accounts and believes that its cash and cash equivalents are not exposed to significant credit risks.

**NOTE C – RISKS AND UNCERTAINTIES-Continued**

The School invests in various investment securities that are exposed to various risks such as interest rates, market and credit risks. Market values of investments may decline for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that some changes could materially affect the assets reported in the statement of financial position.

The outbreak of the COVID-19 pandemic has caused domestic and global disruptions in operations for institutions of higher education. The long-term effect on the School of the COVID-19 pandemic depends on various factors, including, but not limited to, the effect on student enrollment, the effect on demand for programs that involve travel or that have international connections, and the long-term effect on financial markets and consequently the returns on and value of the School's investments, which cannot be fully quantified at this time. As of June 30, 2021, and through the date of these financial statements, the School has evaluated its accounting estimates for any potential future impacts of the pandemic. While this evaluation did not result in a material effect to the financial statements as of June 30, 2021, future evaluations could result in a material effect depending on the eventual impact to the School of the pandemic.

In response to the pandemic, the Federal government provided to the School, Higher Education Emergency Relief Funds (HEERF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA). These grants consisted of student aid awards and institutional awards. Each Act requires a minimum amount to be spent on student aid.

The student aid award is required to be distributed to students as emergency grants for their expenses related to the disruption of campus operations due to coronavirus. The institutional award can be used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Unless an extension is approved by the Department of Education, the student aid award and the institutional award must be spent by May 24, 2022.

The School has been awarded the following HEERF funds as of June 30, 2021:

	Student Aid Award	Institutional Award	Total
CARES	\$ 74,489	\$ 425,511	\$ 500,000
CRRSAA	74,489	114,353	188,842
ARPA	174,870	174,869	349,739
Total	<u>\$ 323,848</u>	<u>\$ 714,733</u>	<u>\$ 1,038,581</u>

**NEW ENGLAND LAW | BOSTON**

Notes to Financial Statements

June 30, 2021

**NOTE C – RISKS AND UNCERTAINTIES-Continued**

The School has recognized the following funds as Federal grants for the year ended June 30, 2021:

	For the Year Ended June 30, 2021		
	Student Aid	Institutional	Total
	Award	Award	
CARES	\$ 74,489	\$ 425,511	\$ 500,000
CRRSAA	74,489	114,353	188,842
ARPA	13,692	-	13,692
Total	<u>\$ 162,670</u>	<u>\$ 539,864</u>	<u>\$ 702,534</u>

**NOTE D – LIQUIDITY AND AVAILABILITY**

The School regularly monitors the availability of resources required to meet its general operating expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 1,560,404	\$ 4,004,095
Accounts receivable	349,736	544,715
Investments	93,453,318	86,076,166
	<u>95,363,458</u>	<u>90,624,976</u>
Less: Amounts unavailable for general expenditures within one year due to:		
Deferred compensation	(300,000)	(4,348,570)
Excise tax payable	(791,874)	-
Restricted by donors with purpose restrictions	(3,290,013)	(3,021,732)
Restricted by donors in perpetuity	(247,397)	(247,397)
	<u>(4,629,284)</u>	<u>(7,617,699)</u>
Amounts unavailable to management without board's approval:		
Board designated endowment	<u>(87,713,549)</u>	<u>(81,455,210)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,020,625</u>	<u>\$ 1,552,067</u>

**NOTE D – LIQUIDITY AND AVAILABILITY-Continued*****Liquidity Management***

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the School invests cash in excess of weekly requirements in short-term investments. To help manage unanticipated liquidity needs the School has board designated net assets without donor restrictions that, while the School does not intend to spend these for purposes other than those identified, could be made available for current operations.

**NOTE E – PLEDGE RECEIVABLE**

Pledge receivable as of June 30, 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 300,000	\$ 250,000
Receivable in one to five years	<u>100,000</u>	<u>250,000</u>
	400,000	500,000
Less discount for present value	<u>(242)</u>	<u>(1,065)</u>
Pledges receivable, net	<u><u>\$ 399,758</u></u>	<u><u>\$ 498,935</u></u>

Future pledge receipts are discounted using an average risk adjusted discount rate of 0.07% and of 0.16% at June 30, 2021 and June 30, 2020, respectively.

**NOTE F – PROPERTY, PLANT AND EQUIPMENT**

Net property, plant and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 23,255,246	\$ 23,189,277
Furniture and equipment	10,918,595	10,567,714
Library books	<u>12,169,528</u>	<u>13,236,713</u>
	46,343,369	46,993,704
Less accumulated depreciation	<u>31,032,152</u>	<u>30,563,055</u>
	<u><u>\$ 15,311,217</u></u>	<u><u>\$ 16,430,649</u></u>

Included in furniture and equipment is artwork stated at cost with a carrying value of \$185,123 and \$185,123 at June 30, 2021 and 2020, respectively.

Depreciation expense was \$1,172,420 and \$1,260,336 for the years ended June 30, 2021 and 2020, respectively.

## NOTE G – ENDOWMENT AND OTHER NET ASSETS

### ENDOWMENT:

The net assets associated with the School’s endowment funds are classified in accordance with relevant state law which is reviewed and interpreted by the Board of Trustees. Net asset classifications are (1) without donor restrictions and, (2) with donor restrictions, based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions include board designated funds and any accumulated income and appreciation thereon. Net assets with donor restrictions include contributions designated by donors to be invested in perpetuity to produce income for general or specific purposes, as well as accumulated income and appreciation on those funds.

The Board of Trustees of the School has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School retains in perpetuity (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity are subject to appropriation for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the school and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the School, and (7) the School's investment policies.

### *Return Objectives and Risk Parameters*

The long-term performance objective of the endowment portfolio is to attain a reasonable “market” return based on a balanced portfolio of debt and equities, not to exceed moderate risk.

### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the School 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 principal objective is to generate a total return over a full market cycle.

### *Spending Policy*

State law allows the Board of Trustees to appropriate a percentage of net appreciation on endowment funds as is prudent considering the School’s long- and short-term needs, present and anticipated financial requirements and expected total return on its investments, price level trends and general economic conditions. The Board of Trustees established a spending policy for its endowment effective July 1, 2017. The policy is intended to preserve the purchasing power of endowment assets while providing a predictable stream of annual operating support. The spending rate is up to 5% of the rolling prior 36-month average market value of the endowment investments as of the calculation date (typically December 31), subject to Board approval each year. The School appropriated \$4,250,000 and 4,300,000 under this policy to support operations for the years ended June 30, 2021 and 2020, respectively.

**NOTE G – ENDOWMENT AND OTHER NET ASSETS-Continued****Underwater Endowment Funds**

The School has not spent from funds with market values less than historical value. To the extent that the fair value of a donor restricted endowment fund falls below its historic dollar value, it is reported as a reduction of net assets with donor restrictions. As of June 30, 2021 and 2020, there are no endowment funds with a market value less than historical value.

**Net Asset Classifications of Endowment Funds:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2021			
Board designated funds			
General operating support	\$ 87,713,549	\$ -	\$ 87,713,549
Total board designated endowment funds	<u>87,713,549</u>	<u>-</u>	<u>87,713,549</u>
Donor-restricted funds			
Original donor restricted gift amount	-	262,647	262,647
Accumulated investment gains	-	72,324	72,324
Total donor restricted endowment funds	<u>-</u>	<u>334,971</u>	<u>334,971</u>
Endowment funds, end of year	<u>\$ 87,713,549</u>	<u>\$ 334,971</u>	<u>\$ 88,048,520</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2020			
Board designated funds			
General operating support	\$ 81,455,210	\$ -	\$ 81,455,210
Total board designated endowment funds	<u>81,455,210</u>	<u>-</u>	<u>81,455,210</u>
Donor-restricted funds			
Original donor restricted gift amount	-	247,397	247,397
Accumulated investment gains	-	72,237	72,237
Total donor restricted endowment funds	<u>-</u>	<u>319,634</u>	<u>319,634</u>
Endowment funds, end of year	<u>\$ 81,455,210</u>	<u>\$ 319,634</u>	<u>\$ 81,774,844</u>

**NOTE G – ENDOWMENT AND OTHER NET ASSETS-Continued****Changes in Endowment Funds and Net Assets Reconciliations:**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Year Ended June 30, 2021</u>			
Endowment funds, beginning of year	\$ 81,455,210	\$ 319,634	\$ 81,774,844
Contributions		15,250	15,250
Investment return, net	10,508,339	87	10,508,426
Appropriated for expenditure	(4,250,000)	-	(4,250,000)
Endowment funds, end of year	<u>87,713,549</u>	<u>334,971</u>	<u>88,048,520</u>
Operating funds	1,071,441	-	1,071,441
Net investment in plant	15,311,217	-	15,311,217
Scholarships	239,093	2,131,036	2,370,129
Student loans	-	106,082	106,082
Contributions for plant assets	-	627,408	627,408
Student programs		199,905	199,905
Academic programs	-	138,008	138,008
Total net assets	<u>\$ 104,335,300</u>	<u>\$ 3,537,410</u>	<u>\$ 107,872,710</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Year Ended June 30, 2020</u>			
Endowment funds, beginning of year	\$ 82,774,956	\$ 309,873	\$ 83,084,829
Contributions	-	5,100	5,100
Investment return, net	2,980,254	4,661	2,984,915
Appropriated for expenditure	(4,300,000)	-	(4,300,000)
Endowment funds, end of year	<u>81,455,210</u>	<u>319,634</u>	<u>81,774,844</u>
Operating funds	(1,384,381)	-	(1,384,381)
Net investment in plant	16,430,649	-	16,430,649
Scholarships	239,028	2,106,840	2,345,868
Student loans	-	106,054	106,054
Contributions for plant assets	-	606,559	606,559
Academic programs	-	130,042	130,042
Total net assets	<u>\$ 96,740,506</u>	<u>\$ 3,269,129</u>	<u>\$ 100,009,635</u>

**NOTE H – FUNCTIONAL EXPENSES**

The financial statements report certain categories of expenses that are attributable to one or more program or support functions of the School. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, institutional support, depreciation and amortization, and information technology. The School applies various methods to allocate costs amount the program and support functions, including direct allocation, square footage, and time and effort.

Expenses by functional and natural classification for the years ended June 30, 2021 and 2020 are as follows:

	2021				
	<u>Instructional</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 7,164,618	\$ 1,833,368	\$ 1,492,561	\$ 194,946	\$ 10,685,493
Payroll taxes	485,019	132,170	117,399	17,429	752,017
Benefits	1,323,523	408,489	357,886	37,530	2,127,428
Supplies, services and other	2,676,761	701,729	2,591,332	107,450	6,077,272
Depreciation	926,212	117,242	105,518	23,448	1,172,420
	<u>\$ 12,576,133</u>	<u>\$ 3,192,998</u>	<u>\$ 4,664,696</u>	<u>\$ 380,803</u>	<u>\$ 20,814,630</u>

  

	2020				
	<u>Instructional</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 7,080,352	\$ 2,085,108	\$ 1,652,715	\$ 241,440	\$ 11,059,615
Payroll taxes	434,661	123,490	87,437	12,114	657,702
Benefits	1,388,987	351,725	355,542	46,842	2,143,096
Supplies, services and other	2,266,894	673,747	1,423,780	106,831	4,471,252
Depreciation	995,665	126,034	113,430	25,207	1,260,336
	<u>\$ 12,166,559</u>	<u>\$ 3,360,104</u>	<u>\$ 3,632,904</u>	<u>\$ 432,434</u>	<u>\$ 19,592,001</u>

**NOTE I – RELATED PARTY TRANSACTIONS**

The note receivable-related party consisted of a loan to a former executive, the Dean and President, of the School. The note required ten annual installments beginning in March of 2010. Prior to July 1, 2017, as long as the Dean and President remained in his current position, the yearly installments of principal and interest were added to his taxable compensation. The interest rate was 3%. Under a new agreement, these payments of principal and interest were required to be paid rather than added to compensation. All principal and interest was due and was paid on June 30, 2020. The interest income recognized for the year ended June 30, 2020 was \$3,900.

**NOTE J – BENEFIT PLANS****Defined Contribution Plan**

The School sponsors a 403(b) defined contribution retirement plan for academic and nonacademic personnel. For the benefit of participants the School contributes 10% of eligible compensation to TIAA, provided the employee contributes 5%. Contributions amounted to \$908,478 and \$880,190 for the years ended June 30, 2021 and 2020, respectively.

**NOTE J – BENEFIT PLANS-Continued**

**Target Benefit Replacement and Supplemental Executive Retirement Plan (Plan)**

Effective July 1, 2017, the School had established an unfunded, non-qualified deferred compensation Plan under Section 457(f) of the Internal Revenue Code of 1986, as amended from time to time (Code), maintained for a single highly compensated employee within the meaning of the “top hat plan” provisions of the Employee Retirement Income Security Act of 1974, as amended from time to time (ERISA). The benefits vesting schedule was the date that is the earliest to occur of the following (Vesting Date); (a) employee’s death, (b) disability as defined by the employee’s employment agreement, (c) on June 30, 2020, if the employee has been employed by the School continuously since July 1, 2017, or (d) involuntary termination of employment by the School without cause. The benefits became fully vested on June 30, 2020.

The Plan had two accounts, the Target Benefit Account (TBA) and the 457(f) Account (457).

The account value of the TBA shall equal the sum of the Target Benefit Credits (Credits), \$38,002 per year until vested, and the investment return, 6.5% per year until vested. The projected years of service for the employee was thirty-two years as of June 30, 2020. Based on twenty-nine years of service and the investment return during those years, the Target Benefit Credit was \$3,244,416 as of July 1, 2017. The balance of the account as of June 30, 2021 and 2020 is \$0 and \$4,048,570, respectively. For the years ended June 30, 2021 and 2020 the credit and investment return amounted to \$0 and \$285,098, respectively.

The account value of the 457 account shall equal the sum of the 457(f) credits and the investment return credits. The 457(f) credits equal \$90,000 per year and shall be credited on each June 30 beginning June 30, 2018 until June 30, 2020, provided the employee was employed on such date. The investment return began on June 30, 2019 and on each June 30 thereafter until and including the Vesting Date. The investment return was calculated using the Ten-Year Average Return for All Institutions under the NACUBO-Common Fund Study of Endowments. The balance of the account as of June 30, 2021 and 2020 was \$0 and \$270,000, respectively.

The amount distributed, the value of the 457 account plus the value of the TBA account after deducting the amount distributed from the 457 account, was distributed in August 2020, according to the Plan.

**NOTE K – EMPLOYEE AGREEMENT**

The School has entered into an agreement with an employee whereby, in addition to an annual fixed salary, the employee is entitled to two payments for services rendered through July 1, 2017 and for future years. The first payment of \$600,000 was payable ratably during the year ended June 30, 2021, during which the employee does not receive an annual salary and is not required to perform services on behalf of the School. The employment agreement was amended effective June 30, 2020. The amendment changed the payment period from July 1, 2020 through June 30, 2021 to January 1, 2021 through December 31, 2021. The second payment of \$900,000 is payable July 1, 2022 and requires no additional services. These payments are subject to forfeiture if certain conditions are not met. In connection with these payments the School has accrued \$1,150,000 and \$1,400,000 as of June 30, 2021 and 2020, respectively. The services of the employee, as specified in the agreement, terminate no later than June 30, 2022.

**NOTE L – EXCISE TAX**

The School will have an excise tax due with regard to the payout of the TBA and 457 plans referenced in Note J. The excise tax is 21% of the present value of the expected compensation which was paid during 2020. The deferred liability as of June 30, 2021 and June 30, 2020 is approximately \$791,900 and \$766,200, respectively.

**NOTE M – OPERATING LEASES**

The School leases a number of copiers throughout the campus. The leases expire at various dates, with the latest expiring March of 2023. Rent expense for these leases approximate \$42,000 and \$44,000 for the years ended June 30, 2021 and 2020, respectively.

The future minimum lease payments under leases as of June 30, 2021 are:

Year Ended June 30,	<u>Amount</u>
2022	\$ 30,909
2023	1,942
	<u>\$ 32,851</u>

**NOTE N – FAIR VALUE MEASUREMENTS AND INVESTMENTS**

GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and require significant management judgement or estimate for the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NOTE N – FAIR VALUE MEASUREMENTS AND INVESTMENTS– Continued**

The fair values of the underlying investments of the School are determined as follows:

Cash and cash equivalents are primarily invested in various money market funds. The fair value is determined by obtaining quoted prices on nationally recognized securities exchanges.

U.S. government securities are direct obligations of the U.S. government or its agencies. These securities are generally priced using the most recent bid prices or potentially the mean of the latest bid and ask prices.

Registered investment companies (including mutual funds) are valued at the closing price as reported by fund. Registered investment companies held by the School are registered with the Securities and Exchange Commission. These companies are required to publish their daily net asset value and to transact at that price. The registered investment companies held by the School are deemed to be actively traded.

Banking loan fund (BL Fund) was valued at the member's capital account consisting of the member's initial capital contribution to the BL Fund, increased by any additional capital contributions made by such member, and any net profit (including both realized and unrealized gains) allocated to the capital account of such member and decreased by any distributions to such member and any net losses (both realized and unrealized losses) allocated to the capital account of such member and any amounts withdrawn by such member. Net investment income, realized and unrealized gains/losses of the BL Fund are allocated to the members in proportion to their respective opening capital accounts at the beginning of each accounting period, adjusted for contributions and withdrawals.

Fixed income trust (FI Trust) was valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the FI Trust less its liabilities. The NAV is determined as of the close of the New York Stock Exchange each business day. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School 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 following table sets forth, by level within the fair value hierarchy, the School's investments at fair value on a recurring basis as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Registered investment companies				
Equities	\$ 56,168,709	\$ -	\$ -	\$ 56,168,709
Fixed income	31,087,289	-	-	31,087,289
Cash and cash equivalents	6,197,320	-	-	6,197,320
Total investments	<u>\$ 93,453,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,453,318</u>

**NOTE N – FAIR VALUE MEASUREMENTS AND INVESTMENTS– Continued**

The following table sets forth, by level within the fair value hierarchy, the School's investments at fair value on a recurring basis as of June 30, 2020 :

	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ 23,135,106	\$ -	\$ -	\$ 23,135,106
Registered investment companies				
Equities	15,377,820	-	-	15,377,820
Fixed income	17,641,564	-	-	17,641,564
Banking loan fund	-	-	5,137,916	5,137,916
Investments measured at net asset value*	-	-	-	5,729,315
Cash and cash equivalents	19,054,445	-	-	19,054,445
Total investments	<u>\$ 75,208,935</u>	<u>\$ -</u>	<u>\$ 5,137,916</u>	<u>\$ 86,076,166</u>

\*Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following sets forth the summary of changes in the fair value of the Plan's Level 3 investments for the year ended June 30, 2021:

	<u>BL Fund</u>
Distribution/sales	\$ (5,137,916)

**Fair Value of Investments that Calculate Net Asset Value**

The fair market value of the FI Trust as of June 30, 2021 and 2020 was \$0 and \$5,729,315, respectively. There were no unfunded commitments, redemption frequency was daily and there is no redemption notice necessary as of June 30, 2020 or prior to the School selling this investment during the year ended June 30, 2021. The trust's investment objective was total return and to outperform the Bloomberg Barclays Capital Intermediate U.S Government/Credit Index.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

**NOTE O – CONTINGENCIES**

In conducting its activities, the School will, on occasion, be the subject of a claim or threatened lawsuit. Under such circumstances, management will review the merits of the claim with its attorneys and its insurers to develop an appropriate response. Management believes that the ultimate resolution of any such claim would not have a material adverse effect on the financial position of the School at June 30, 2021.

**NOTE P – PROPERTY HELD FOR LEASE**

The School leases a building to an unrelated party. The current term of the lease is from June 1, 2017 through May 31, 2022. The School and the current unrelated party are in negotiations to sign the first five year extension which was included in the 2021 Lease Amendment. The annual basic rent is payable in equal monthly installments as of the first day of each month. The School received rental income of \$550,000 and \$540,833 for the years ended June 30, 2021 and 2020, respectively. The book value of the building as of June 30, 2021 and 2020 was \$3,262,645 and the associated accumulated depreciation as of June 30, 2021 and 2020 was \$998,423 and \$944,455, respectively.

The future minimum rent payments to be received are as follows:

Year Ended June 30,	<u>Amount</u>
2022	\$ 504,167
	<u>\$ 504,167</u>